MODERN BUSINESS

THE PRINCIPLES AND PRACTICE OF COMMERCE, ACCOUNTS AND FINANCE

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BANKING PRACTICE
AND
FOREIGN EXCHANGE

PART I: BANKING PRACTICE

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EDITOR'S PREFACE.

In the United States the subjects of banking practice and Foreign Exchange are not so well systematized or generally understood as in some of the older countries of Europe. In the different states of the Union there are different laws and usages, and these differences will doubtless continue to exist for many years. Gradually, however, experience will prove beyond question what banking practices are best suited to the needs and conditions of our people, and there will finally be evolved a national system of banking practice.

The authors of this volume have aimed to describe and explain the best practices that American banking experience has yet produced. The chapters on "Banking Practice," written by an educated and experienced banker, represent the fruits of personal experience as well as of study and observation. This part of the volume, it is hoped, will be found to contain suggestions for which men who have been long in the banking business will be grateful, and should also prove a most valuable aid to any young man desiring to fit himself either for a banking career or for general business.

The chapters on Foreign Exchange contain in brief compass what has not been hitherto given, so far as the writer knows, in any single volume—namely, a clear statement of both the theory and practice of the subject. Americans are less at home in this difficult field than are Europeans, because, in the past, international transactions in finance, on account of our relative isolation and commercial independence, have been less important here than in Europe. Every year, however, is bringing us into closer financial and commercial contact with foreign nations, and foreign exchange has become a subject which every banker, if he wishes to satisfy his customers, must thoroughly understand. Mr. Escher's chapters will give any banker a scientific and practical grasp of this difficult subject.

This book, it hardly need be said, will yield the best results if it is read in connection with the volumes in this series entitled CORPORATION FINANCE, MONEY AND BANKING, and INVESTMENT AND SPECULATION. All these treat of subjects of vital importance to the banker.

Mr. Jefferson desires me to acknowledge for him the courtesy of The Bankers' Publishing Company and Mr. Alfred R. Barrett, C. P. A., with whose permission he has reproduced from Mr. Barrett's excellent manual on "Modern Banking Methods," forms 76, 77, 78, 88, 118 and 120 in this volume. He is also under obligation to the following authorities: George M. Coffin, "The A B C of Banks and Banking"; George Rae, "The Country Banker"; Fiske's "The Modern Bank"; L. J. Tompkins, "Law of Promissory Notes, Etc."; A. S. Bolles, "Money, Banking and Finance"; Horace White, "Money and Banking"; Kirkbride and Sterrett, "The Modern Trust Company"; Pratt's "Digest."

JOSEPH FRENCH JOHNSON.

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BANKING PRACTICE AND FOREIGN EXCHANGE

PART I: BANKING PRACTICE

CHAPTER I

KINDS OF BANKS

1. *General definition of a bank.*—The functions of a bank or trust company have been defined in many different ways, but all arrive at the same general conclusions. Charles F. Dunbar, in his "Chapters in the Theory and History of Banking," gives the following definition of a bank:

> A bank may be described, in general terms, as an establishment which makes to individuals such advances of money or other means of payment as may be required and safely made, and to which individuals entrust money or the means of payment, when not required by them for use. In other words, the business of a bank is said to be to lend or discount, and to hold deposits. With these two functions is often combined a third, that of issuing bank notes, or the bank's own promises to pay, for use in general circulation as a substitute for money.

Horace White, in his "Money and Banking," thus defines a bank:

> An institution where deposits of money are received and paid, where credit is manufactured and extended to borrowers, and

where the exchange of property is facilitated. Having first acquired the confidence of the community, the bank extends its credit by purchasing interest-bearing securities, mainly business men's notes, payable at a fixed time and giving the sellers the right to draw checks upon itself payable at sight. The amounts thus authorized to be drawn are termed deposits, the bank being liable for them in the same way as for actual money deposited. . . . Bank notes are the bank's promises to pay money to the bearer on demand.

Gilbart says:

A banker is a dealer in capital, or, more properly, a dealer in money. He is an intermediary between the borrower and the lender. By this means he draws into active operations those small sums of money which were previously unproductive in the hands of private individuals, and at the same time furnishes accommodation to those who have need of additional capital to carry on their business.

The matter is summed up most explicitly in the Banking Law of the State of New York as follows:

The term bank, when used in this chapter means any monied corporation authorized by law to issue bills, notes or other evidences of debt for circulation as money, or to receive deposits of money and commercial paper and to make loans thereon, and to discount bills, notes or other commercial paper, and to buy and sell gold and silver bullion or foreign coins or bills of exchange.

2. *Individual or private banker.*—An individual or private banker is one who receives the funds of individuals or corporations and invests them for their account. Private bankers usually underwrite or purchase outright new issues of bonds or stock and dispose of them to their clients. They frequently allow the owners of

money deposited with them to draw against the funds on deposit. This is never a very important part of their business, the money entrusted to their care usually being left for investment.

There is a distinction between an individual banker and a private banker which has been clearly established by the courts. An individual banker is one who has received authority from the banking department to engage in business subject to its inspection and supervision. A private banker is one engaged in banking, without having secured any special privileges or authority from the state.

3. *Bank of discount.*—The bank of discount has been defined at the beginning of this chapter. The national banks are the best examples of this class of financial institution. The National Bank Act authorizes the board of directors

> to exercise all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title.

4. *Trust company.*—The usual functions of a trust company, according to Kirkbride and Sterrett, are

> Banking in a more or less limited form, execution of corporate trusts, execution of individual trusts, care of securities and valuables. In addition, other functions are sometimes exercised, such as life, title, and fidelity insurance, and the business of becoming surety. The earlier companies in the United States were chartered to manage individual estates only and to act in certain fiduciary capacities; the recent development of the trust

company has been in the direction of banking functions and corporate trust business.

Banking and the trust business are combined under one corporation in some states, and in others the trust companies have encroached upon the legitimate field of the bank of discount by bidding strongly for demand deposits and investing a large percentage of their funds in bills receivable under the guise of bills purchased.

Said a speaker at the convention of the American Bankers' Association at Milwaukee in 1901:

> One of the most conspicuous functions of our trust companies, apart from such as are technically fiduciary, is to gather together, whether through interest-bearing accounts, certificates of deposit, debentures, or otherwise, the long-time funds of the community, and those which are not regularly needed in the quick turn-over of daily commerce, and to lend them, on the pledge of securities, on mortgage, or in some equally safe manner, to those who require cash for legitimate speculation, or who, in construction or development, or with a view to family settlements, must expend an amount of money which cannot be prudently withdrawn from business operations or obtained, without inconvenience or disadvantage, from the outright sale of real property or of special investments.

A combination of the legitimate operations of commercial and savings banks, together with other kinds of business not allowed to either, constitutes a trust company business. The trust company should enter into the field of the commercial banks only as far as is necessary to transact its business. The further it is removed from the commercial bank, the more dignified will be its trust business. Ultimately it will be more profitable.

5. *Savings bank.*—A savings bank is a banking in-

stitution, organized for the purpose of gathering together the small savings of the community in which it is located and investing them in such interest-bearing obligations as are prescribed by law; the interest so earned to be divided among the depositors, after payment of expenses, providing for amortization of premiums on bonds and reserving reasonable amounts for accumulation of a surplus. In New York State, the savings banks have no capital, the depositors being the owners of all the assets of the association.

6. *Building and loan association.*—Several kinds of building and loan associations are defined in the New York State banking law as follows:

The term, building and mutual loan corporations or associations, . . . means a corporation formed for the purpose of accumulating a fund for the purchase of real property, the erection of buildings, or the making of other improvements on lands, or to pay off incumbrances thereon, or to aid its members in acquiring real property, making improvements thereon or removing incumbrances therefrom, or of accumulating a fund to be returned to its members in specified cases.

The term, coöperative loan association, when so used means a corporation formed for the purpose of encouraging industry, frugality, home-building and the saving of money by its members, the accumulation of savings, the loaning of such accumulations to its members, and the repayment to each member of his savings when they have accumulated to a certain sum, or at any time when he shall desire the same, or association shall desire to repay the same.

The term, building and mutual loan corporations or associations, and, coöperative loan associations, shall include every corporation, company or association doing business in this state and having for a part of its title or name the words building association, building and loan association, savings and loan association, savings association or coöperative bank, and every corporation, company or association whose stock is wholly or in part payable by a cumulative fund in regular or periodical installments.

The best building and loan associations are those which loan their money to local borrowers.

7. *Mortgage, loan and investment corporation.*—The New York State law defines this class of financial corporation as follows:

The term, mortgage, loan or investment corporation, . . . means any corporation other than an insurance corporation formed . . . for the purpose of selling, offering for sale, or negotiating bonds or notes secured by deed of trust or mortgages on real property or choses in action, owned, issued, negotiated or guaranteed by it, or for the purpose of receiving any money or property, either from its own members or from other persons, and entering into any contract, engagement or undertaking with them for the withdrawal of such money or property at any time with any increase thereof, or for the payment to them or to any person of any sum of money at any time, either fixed or uncertain.

8. *Safe deposit company.*—The New York State law defines a safe deposit company as follows:

A safe deposit company is a corporation organized for the purpose of receiving upon deposit as bailee for safekeeping and storage, jewelry, plate, money, specie, bullion, stocks, bonds, securities and valuable papers of any kind, and other valuable personal property, and guaranteeing their safety upon such terms and for such compensation as may be agreed upon by the company and the respective bailors thereof, and to rent vaults and safes and other receptacles for the purpose of safekeeping and storage.

A safe deposit company is a valuable adjunct to the business of a trust company and if properly located and managed may be made a valuable advertisement. Very frequently, the vaults of the trust company are rented from the safe deposit company. Many banks in small cities and towns are beginning to realize the benefit that may be derived from leasing vault space and when erecting new buildings or remodeling, are building much larger vaults than their present needs require and equipping a portion of the vault space with boxes to be leased to their customers and others. One bank with which the writer is acquainted nets 15 per cent on its vault investment without any annoyance to its own business, and has a vault which will accommodate its business for the present generation at least.

CHAPTER II

ORGANIZATION OF A BANK

9. *Capital of national banks.*—The required capital of a national bank depends on the population of the town or city in which it is located.

$ 25,000	where	the	population	does	not	exceed	3,000
50,000	"	"	"	"	"	"	6,000
100,000	"	"	"	"	"	"	50,000
200,000	"	"	"	exceeds			50,000

The Comptroller of the Currency should be promptly notified of the intention to organize a national bank. The notification must be signed by not less than five prospective owners of stock, and state the name of the association, the location, the capital and the population of the city or town where the bank is to be located.

When the title selected by the organizers has been approved by the Comptroller, he forwards blank organization papers for execution. The forms required are as follows:

Articles of association.
Organization certificate.
Oaths of directors.
Certificate as to payment on capital stock.
Order for circulation.
Signatures of officers.

10. *Form of articles of association.*—The Comptroller furnishes the following form, which may be varied to

suit the views of the organizers, provided the alteration or amendment does not conflict with the National Bank Act:

ARTICLES OF ASSOCIATION.

For the purpose of organizing an association to carry on the business of banking, under the laws of the United States, the undersigned subscribers for the stock of the association hereinafter named do enter into the following articles of association:

First. The name and title of this association shall be "The................................"

Second. The place where its banking house or office shall be located and its operations of discount and deposit carried on and its general business conducted shall be..................

Third. The board of directors shall consist of......shareholders. The first meeting of the shareholders for the election of directors shall be held at........, on the........, or at such other place and time as a majority of the undersigned shareholders may direct.

Fourth. The regular annual meetings of the shareholders for the election of directors shall be held at the banking house of this association on the second Tuesday of January of each year; but if no election shall be held on that day it may be held on any other day, according to the provisions of section 5149 of the Revised Statutes of the United States; and all elections shall be held according to such regulations as may be prescribed by the board of directors, and not inconsistent with the provisions of the National Banking Law and of these articles.

Fifth. The capital stock of this association shall be....... thousand dollars, to be divided into shares of one hundred dollars each; but the capital may, with the approval of the Comptroller of the Currency, be increased at any time by shareholders owning two-thirds of the stock, according to the provisions of an act of Congress approved May 1, 1886; and in case of the increase of the capital of the association, each shareholder shall have the privilege of subscribing for such number of shares of the proposed increase of the capital stock as he may be entitled to according to the number of shares owned by him before the stock is increased.

Sixth. The board of directors, a majority of whom shall be a quorum to do business, shall elect one of its members president of this association, who shall hold his office (unless he shall be disqualified, or be sooner removed by a two-thirds vote of all the members of the board), for the term for which he was elected a director; the directors shall have power to elect a vice-president, who shall also be a member of the board of directors, and who shall be authorized, in the absence or inability of the president from any cause to perform all acts and duties pertaining to the office of president except such as the president only is authorized by law to perform; and to elect or appoint a cashier and such other officers and clerks as may be required to transact the business of the association, to fix the salaries to be paid to them, and continue them in office, or to dismiss them, as in the opinion of a majority of the board the interests of the association may demand.

The directors shall have power to define the duties of the officers and clerks of the association, to require bonds from them and to fix the penalty thereof; to regulate the manner in which elections of directors shall be held, and to appoint judges of the election; to make all by-laws that it may be proper for them to make, not inconsistent with the law, for the general regulation of the business of the association and the management of its affairs; and, generally, to do and perform all acts that it may be legal for a board of directors to do and perform, under the Revised Statutes aforesaid.

Seventh. This association shall continue for the period of twenty years from the date of the execution of its organization certificate, unless sooner placed in voluntary liquidation by the act of the shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law.

Eighth. These articles of association may be changed or amended at any time by shareholders owning a majority of the stock of the association in any manner not inconsistent with law;

and the board of directors, or any three shareholders, may call a meeting of the shareholders for this or any other purpose, not inconsistent with law, by publishing notice thereof for thirty days in a newspaper published in the town, city or county where the bank is located, or by mailing to each shareholder notice in writing thirty days before the time fixed for the meeting.

IN WITNESS WHEREOF we have hereunto set our hands this......day of.........., nineteen hundred and.....

(Signatures of corporators, and there must be at least five.)

11. *Form of organization certificate.*—The information required in the organization certificate is set forth in the law, and the certificate should contain only the information desired. The form is as follows:

FORM OF ORGANIZATION CERTIFICATE.

We, the undersigned, whose names are specified in article fourth of this certificate, having associated ourselves for the purpose of organizing an association for carrying on the business of banking under the laws of the United States, do make and execute the following organization certificate:

First. The name of the association shall be "The......"

Second. The said association shall be located in the...... of.............county of.................and State of ...., where its operations of discount and deposit are to be carried on.

Third. The capital stock of this association shall be...... dollars ($........), and the same shall be divided into...... shares of one hundred dollars each.

Fourth. The name and residence of each of the shareholders of this association, with the number of shares held by each, are as follows:

Name	Residence	Number of Shares
....	....	....

Fifth. This certificate is made in order that we may avail ourselves of the advantages of the aforesaid laws of the United States.

IN WITNESS WHEREOF, we have hereunto set our hands this ......day of..........190...

(Signatures of incorporators.)

State of............)
County of..............)ss.
On this.........day of............., A. D. 190..,
before me, a................, personally came..............
...................to me well known, who severally acknowledged that they executed the foregoing certificate for the purposes therein mentioned.

Witness my hand and seal of office the day and year aforesaid.

....

(Seal of notary or judge of court.)

12. *The board of directors.*—The general public has a right to expect that directors of banks and trust companies shall direct their affairs. The panic of 1907 concentrated attention on this feature of banking in a peculiar way and has encouraged a wholesome interest, on the part of many directors, in the institutions under their charge. Directors are entitled, under the law, to commit the banking business, as defined, to their duly authorized officers, but this does not absolve them from the duty of reasonable supervision, and they will not be permitted to be shielded from liability because of ignorance or wrongdoing, if such ignorance is the result of gross inattention.

The board of directors is composed of not less than five members under the National Bank Act, five under the New York State law for banks, and thirteen for trust companies. Under the national law each director must own ten shares of stock in his own right if the capital is in excess of $25,000, and five if it is $25,000

The number of shares which a director must own varies in the different states. The directors are elected by the stockholders, usually for terms of one year. In the case of trust companies, the nature of the business demands a continuity in the board, and the directors are chosen for longer terms. Vacancies caused by resignation or death are usually filled by vote of the remaining members of the board. The language of the federal law seems to make it obligatory for the board to do so. The president of the bank must be a director.

The oath required of each director should serve as a guide to him in the performance of his duties. The National Bank Act, section thirty-one, provides as follows:

> Each director, when appointed or elected, shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association, and will not knowingly violate, or willingly permit to be violated, any of the provisions of this title, and that he is the owner in good faith, and in his own right, of the number of shares of stock required by this title, subscribed by him or standing in his name on the books of the association, and that the same is not hypothecated, or in any way pledged, as security for any loan or debt. Such oath, subscribed by the director making it, and certified by the officer before whom it is taken, shall be immediately transmitted to the Comptroller of the Currency, and shall be filed and preserved in his office.

In the New York law the following clause appears in addition to the above:

> In case of reëlection or reappointment, that such (stock) was not hypothecated, or in any way pledged as security for any loan or debt during his previous term.

The New York law provides that a committee of not less than three of the members of the board shall make a thorough examination of the books and affairs of the institution under their charge and report their findings to the superintendent of banks within ten days after the completion of the examination.

13. *Executive or loan committee.*—Many institutions have assumed that a large board of directors, whose names are well known, is the best advertisement a bank or trust company can have. Such a list of names is a good advertisement and draws deposits, but it does not guarantee the loans and investments into which the deposits are converted. It is customary when the board is large to appoint a sub-committee of five or more directors, called an executive, loan or discount committee. This committee holds frequent meetings, usually weekly, but often daily, and authorizes or refuses loans or discounts offered. The minutes of this committee are read to and frequently approved by the full board, which usually meets monthly. In very many companies this committee does all the work and their acts are approved by the board to make their actions legal. For a commercial bank a small active board gives better results than an inactive large one.

14. *Conduct of meetings.*—A quorum usually consists of a majority of the whole board. When the majority is referred to in the laws, the majority of the full board is meant and not a majority of those who have qualified, or of the quorum or more present at the meeting.

A very simple device for conduct of meetings is to have a number of sheets mimeographed or printed, showing the names of the directors and the routine business that must be transacted. This should be placed in front of the president, who should check off the names of those present and make memoranda in regard to regular motions. The meetings will then be conducted in regular order and nothing omitted that should be approved.

The board of directors must act as a body. No director has authority to bind the bank unless he has special authority to act as its agent.

15. *Loans to directors and officers.*—Loans to directors, officers or employés should be presented specially to the board, and should be approved by a majority of them before the loan is made. A record of such approval should appear on the minute book. Some institutions absolutely prohibit any such loans. In large cities this is possible, and makes one of the best advertising sentences that can be used. In small cities, it is impossible and inadvisable to make such a rule, because the best men for directors are the business men of the town, and if they are prohibited from borrowing because directors, they will refuse to become directors. Their loans are usually the best in the portfolio.

16. *General form of by-laws.*—Under the National Bank Act, the power to adopt by-laws is conferred upon the board of directors. Every by-law and every alteration thereof must be consistent with the National Bank Act and with the articles of association. In general, the by-laws should provide for the election of directors; they should state what officers there shall be and define their duties. An impression of the seal of the bank should be made on the form sent to the Comptroller, and a statement made that it is the official seal. The by-laws should provide for the manner of making conveyances of real estate and for increase of capital stock. They should regulate, in a general way, the business of the bank, the date of meetings of board of directors, sub-committees, etc., and should regulate transfers of stock, signing of contracts and amendments, and determine

how many members of the board shall constitute a quorum. A very complete sample copy of by-laws for national banks will be found in "Pratt's Digest." [1] The interested reader is referred thereto for more complete information. The form of by-laws varies somewhat in different states and institutions, but the general form is as indicated above.

17. *Payments on capital stock.*—The state laws are more salutary in regard to payment of capital stock before commencing business than the national law, as the following quotations from the statutes will prove:

National Bank Act, Section 20: At least fifty per centum of the capital stock of every association shall be paid in before it shall be authorized to commence business; and the remainder of the capital stock of such association shall be paid in installments of at least ten per centum each, on the whole amount of the capital as frequently as one installment at the end of each succeeding month from the time it shall be authorized by the Comptroller of the Currency to commence business; and the payment of each installment shall be certified to the Comptroller, under oath, by the president or cashier of the association.

New York State Law, Section 68; re banks: All of the capital stock of every bank shall be paid in before it shall commence business.

New York law, Section 184, re trust companies: The superintendent of banks shall, before issuing a certificate of authorization to any such corporation, examine, or cause an examination to be made, in order to ascertain whether the requisite capital of such corporation has been paid in in cash and if it appears from such examination that such capital has not been fully paid in in cash, a certificate of authorization shall not be granted; and no such corporation shall commence business until such certificate of authorization has been granted.

[1] Pratt's Digest of the National Banking Laws.—A. S. Pratt & Sons, Washington, D. C.

Massachusetts law, re trust companies, Section 5: And no business shall be transacted by the corporation until the whole amount of its capital stock is subscribed for and actually paid in.

Illinois law, re trust companies, Section 6: When the directors have organized . . . and the capital stock of such association shall have been all fully paid in and record of the same laid before the Auditor, he shall by himself, or some competent person of his appointment, make a thorough examination into the affairs of such association and if satisfied the authorized capital has been paid in and that the association has the full amount dedicated to the business, including proposed surplus, if any, and when they pay into the auditor's office the reasonable expenses of such examination, he shall give them a written or printed certificate, under seal authorizing them to commence the business designated in Section 1 of this act.

18. *Deposit of bonds.*—The National Bank Act requires that every association having a capital of $150,000 or less, shall deposit United States bonds equal to one-fourth of the capital stock, with the Treasurer of the United States. These bonds must be registered certificates and assigned to "The Treasurer of the United States" in trust for the bank to be chartered.

The various state laws contain similar stipulations regarding deposits of bonds with the state officer in charge. The amount to be deposited is usually larger for a trust company than for a bank.

19. *Circulating notes.*—The laws of the State of New York contain elaborate provisions for the issue and redemption of circulating notes, but owing to the federal tax of 10 per cent on all issues except those authorized under the national law, the notes of national banks are the only bank notes in circulation. A national bank is not compelled to take out circulating notes, but since the law requires each bank to buy bonds for deposit, most of

them make use of the privilege. The bank is entitled to notes equal in amount to the face value of the bonds deposited as security therefor, unless the market value is below par. The bank may issue notes equal to the capital paid in and certified to the Comptroller.

20. *State banks.*—The method of organizing a state bank or trust company is, in general, the same as that employed in organizing a national bank. The laws governing the institution under organization should be carefully studied and such forms used in preparing the papers as are furnished by the officer in charge.

CHAPTER III

ORGANIZATION OF STAFF

21. *General organization.*—The organization of a bank or a trust company depends largely on the volume and kind of business handled. In all financial institutions, except purely mutual associations, such as an incorporated savings bank, the stockholders are the proprietors of the business. They are represented by directors of their own choosing and cannot act except through them. The directors have more or less direct control of the business, depending on whether the board is small or large. If the board is a large one, the actual management is usually left to a few of the directors. The guiding spirits in these small committees are usually the officers of the institution; thus the board of directors may be merely nominal heads. The directors appoint the officers to whom they delegate the actual operation of the bank. The officers usually employ the clerks, referring appointments of heads of departments and tellers to the board for approval.

In a country bank of discount, the president does not generally devote the whole of his time to the institution. He spends a portion of each day at his desk and passes on the offerings made during the previous day if he calls at the bank in the morning, or those of the current day if he calls in the afternoon. He usually plans how the funds shall be invested and submits his suggestions to the board for approval. The president receives little or no remuneration, but depends upon the dividends from his large holdings of stock.

The vice-president, if there is one, is rarely more than a figurehead.

The cashier is the executive officer of the bank. His duties are referred to in detail in section 64.

The paying and receiving is usually done by a single teller. The teller should have an enclosed cage, with a door having a spring lock. He should not have access to the individual ledger, nor to the pass books left for balancing. He should be relieved by the cashier, if at all. An individual bookkeeper, an assistant and a porter will complete the staff.

22. *A large city bank of discount.*—The division of the work in a large city bank of discount into departments simplifies the management very much. See Figure 1 on page 21. Responsible men are placed in charge of each department, who have entire control of the men assigned to them, subject to the approval of the cashier. It would be a hard proposition to assign the work of a bank to certain officers, and say that one class of work shall be attended to by the president, that another class shall be handled by the cashier, and so on. Local conditions, personal characteristics, adaptability and previous training determine largely what class of work an officer is fitted for; but they do not always determine whether the title shall be vice-president, cashier or assistant cashier. If the officer has had a wide experience in loan department work, it is natural to suppose that he will be the man to settle the knotty problems that arise in that department and if capable of managing it, given direct supervision. If another has specialized in accounting methods and systems and is capable, he should be given general supervision of the auditing

- Stockholders
  - Directors
    - President (a)
    - Vice-President (b)
    - Cashier
    - Assistant Cashier
    - Assistant Cashier
      - Credit Department (a)
      - Loan Department (a)
      - Bond Department (a) (b)
      - Paying Teller's Department
      - Receiving Teller's Department
      - Note Teller's Department
      - Mail Department
      - Collection Department
      - Auditor
      - General Bookkeeper
      - Individual Bookkeepers
      - Check Department
      - Correspondence, General
      - Correspondence, Special
      - Check Files
      - Letter Files
      - Porters
      - Watchmen

FIGURE 1.

ORGANIZATION OF STAFF.

and bookkeeping departments and should be consulted in regard to any changes in the accounting system. Generally speaking, all departments are responsible to all the officers, but directly to the cashier, except the loan, credit and bond departments, which will be under the direct control of either the president or vice-president or both.

The general correspondence, such as advising customers of receipt of remittances, forwarding items for collection and other regular correspondence, is left to the departments directly interested, and is conducted on regular printed forms or postal cards.

The special correspondence is conducted by the officers, or by the men in charge of special work such as credits, soliciting new business, loans, discounts, safe deposit business, purchase and sale of bonds or transferring of same. These letters should receive special attention, should be typewritten and signed by an officer, who is familiar with the particular branch of the work covered by the letter.

The assistant bookkeepers are often organized into a separate department called the check department. If these clerks keep duplicate records of the ledger accounts the department may be made a very valuable one to the bank. Figure 1 on page 21 shows the necessary departments of a large bank with some slight attempt at subdivision of work. The departments other than those noted are supervised by the cashier and his assistants.

23. *A large city bank of discount having branches.*— Branch banking has not developed very much in this country except in the city of New York, where trust companies and banks organized under the state laws are allowed to have branches. There is much to be said in favor of branch banking. It is the common-sense appli-

cation of the modern idea of concentration. We may expect an extension of the principle rather than any curtailment. It is not our purpose to discuss branch banking as a system, but to explain some of the methods of accomplishing the work. Branch managers are held to varying degrees of responsibility. In some cases the manager is simply an agent to receive deposits and cash checks, having no books or records and making no loans. The degree of responsibility increases from this stage to one where he is a vice-president and director of the bank and is given as wide a latitude in his loans as the president exercises in the main office. It is unusual for a branch manager to be responsible for capital investment, though capital investment is sometimes divided among the branches. Where the responsibilities imposed on managers are small, the expense of maintaining the branch is correspondingly low. As a natural result, the worries of the officers at the main office are increased. Where the managers are held responsible for the success of their branch they should be allowed as much interest on the excess funds on deposit at the main office as they could realize on good investments if they had absolute control of these funds. On the contrary, if a branch manager can loan more than he has on deposit, and draws on the main office, he should pay the main office an equal rate.

The usual branch manager is expected to do four things:

1st. To attract and accumulate deposits.

2nd. To master the credits of his own customers.

3rd. To build up an efficient clerical staff.

4th. To keep expenses at a minimum.

Whatever degree of authority is given to the branch managers, the accounting methods should be alike in every particular in all branches. No material change should be permitted in one branch unless it is adopted in all.

Each branch should keep a general ledger and send a daily statement to the main office. These statements should then be summarized by the auditor. From this summary, he prepares the general statement for the officers. A sample summary book is shown in Figure 2 on page 25. The deposits owing between branches and main office will cancel each other if every item credited on the books of the main office to the branches has been charged to the account of the main office on the books of the branches and vice versa. This is not possible, however, and the differences must be accounted for as items in transit from or to branches. The main office usually has a large credit on its books in favor of the branches. This should be entered as "Items in transit to branches" under the liabilities, in black. The statements from the branches will show amounts due from the main office as an asset. These should be entered opposite this liability in red ink and the net amount only, carried to the total column. If the black figures exceed the red it will appear as a liability. If the red figures exceed the black the net amount should be shown on the asset side.

One distinct advantage of branch banking is in the collection of foreign and local non-clearing items. All foreign items should be sent to the main office and by them sent to the various correspondent banks for collection and remittance or credit. If there are many branches, well distributed, the collection of local items will be facilitated by establishing zones and sending all items in a certain zone to the branch in that zone for collection.

SUMMARY OF DAILY STATEMENTS

Assets	Main Office	Branch A	Branch B	Branch C	Branch D	Branch E	Total
Demand Loans							
Time Loans....							
Discounts......							
Furniture and Fixtures.....							
Cash..........							
Exchanges.....							
Cash Items....							
Overdrafts.....							
Salaries.......							
Rent..........							
Interest Paid..							
Miscellaneous Expense....							
Items in Transit From Branches							
Total Assets...							
Liabilities							
Profit and Loss							
Interest Paid..							
Discount......							
Commissions...							
Exchange.....							
Individual Deposits.......							
Certified Checks							
Certificates of Deposit.....							
Items in Transit To Branches...	*a* 500,000	*b* 120,000	*b* 80,000	*b* 170,000	*b* 50,000	*b* 50,000	*a* 30,000
Total Liabilities							

Note:—*a*, black ink; *b*, red ink.

Figure 2.

SUMMARY OF DAILY STATEMENTS

The organization of the staff will need to be much more clearly defined than in a bank without branches. Some one officer should have control of the branches and all questions of importance should be referred to him. The paying teller at the head office should be entrusted with sufficient authority to order transfers of money so that each branch may always be sufficiently supplied.

24. *Large city savings bank.*—The savings bank is a more highly developed institution in the State of New York than in any other state in the Union. The field of operation, both as to deposits that may be received and investments the trustees may make, is so limited and clearly defined that the organization of the staff is a very simple matter. They are purely mutual institutions having no capital and issuing no stock. The law provides that there shall be a board of not less than thirteen trustees, who shall have the entire management and control of all the affairs of the institution. The law further provides that the trustees shall elect from their number, or otherwise, a president and two vice-presidents, and such other officers as they may deem fit. A secretary is usually appointed by the board. The president devotes his time to the loaning of the deposits and leaves the management of the clerical staff to the under officers, usually the secretary. One of the clerks is designated as paying teller and another as receiving teller. Each may have assistants. The rest of the staff may be classed as bookkeepers. All clerks are directly responsible to the officers.

A worthy comment on savings banks made by John J. Pulleyn, comptroller of the Emigrant Industrial Savings Bank, in an address delivered before the New York Chapter, American Institute of Banking, and appearing in the May 1909 Bulletin of that institute, may be of interest:

Savings institutions, if confined to their legitimate function, are in no sense banking institutions, and are not permitted to do a banking business. Their funds are not used in any of the general banking operations, consequently they should be kept wholly apart from the control, direction or influence of commercial banks, and their management should be in the hands of independent trustees, who are responsible for the safe investment of their funds. In many states commercial banks are permitted to have their savings department, or to control separately organized savings institutions, and make use of their deposits. This is a bad plan, and ought to be prohibited in the national bank system. Some confusion of mind is caused by the use of the term "bank" as applied to institutions for savings. It is historically as accurate in its application to these as to the loan and deposit institutions, but in modern differentiation proper, a savings institution has no relation to what has come to be termed the business of banking. Savings banks are for the safe-keeping and secure investment of the savings of the people, and the care of these is a trust that should be specially guarded. In New York State and in the New England States generally savings banks are not incorporated institutions with a stockholding interest, and the trustees who have charge of them are not permitted to have any pecuniary interest in the use of their funds. Their funds are not to be used in commercial liens secured or unsecured, but must be invested in a class of securities that is strictly prescribed by law. These investments include real estate mortgages, first liens on improved properties, on a basis of 60 per cent of the value as ascertained by a competent appraiser, or committee of the Board of Trustees, who are able to value the security offered, and to regulate the amount of loan that is amply secured.

It were better to maintain and extend this kind of savings institution all over the United States, than to encourage the tendency to attach their functions to banks now engaged in keeping funds in active employment, and making the utmost use of credit in business operations. It ought to be adopted in all states, and apart from the consideration of uniformity, it is best to keep the administration in regulation of savings institutions within state jurisdiction.

The special argument to permit banks to have a savings department is that it affords facilities for making such deposits in communities where a separate institution for the special purpose could not be maintained; but by a properly regulated and supervised system of branches and agencies for savings institutions in central places, these facilities might be provided without having them attached to banks where they would be subject to more or less risk.

25. *Country trust company.*—The field for the successful trust company is in the city; so we find very few in the country towns. A trust company may not be organized in New York State with less than $100,000 capital and this alone is sufficient to prevent their organization. The small companies that are organized do not vary a great deal from the small banks except that there is no cashier. The secretary and the treasurer do the work assigned to the cashier of a bank. Very frequently, the office of treasurer is left vacant.

26. *Large city trust company.*—Following the stockholders and directors are the president, the vice-president, the secretary and the treasurer. All officers have supervision over the various departments which follow, but the treasurer is usually charged with the responsibility of managing the banking department and the secretary, the trust department. The other officers, however, work with them in managing these departments. For example, the president makes all loans, though it is distinctly a banking function; the treasurer

is responsible for the payments made by the company, but the function is banking.

Under the officers are the following departments with duties as outlined:

Banking department: Receipt of deposits, payment of drafts and other disbursements of deposits, loans on collateral, bond and mortgage, purchased paper, securities owned, letters of credit, foreign and domestic exchange, dividends, expense accounts and the various records appertaining thereto.

Corporate trust department: Trustee, fiscal agent, transfer agent, registrar, syndicate manager, depositary, assignee, receiver and agent.

Individual trust department: Executor, administrator, trustee, agent, committee, etc. Care of stocks and bonds, mortgages, jewelry and other valuables and real estate.

Safe deposit: Usually separate company but controlled by officers.

Auditor's department: General accounting and books, examinations of various departments.

Date	Memoranda		Debits	Date	Memoranda		Credits

FIGURE 3

GENERAL LEDGER

Date	Memo-randa	Totals	Debits	Date	Memo-randa	Totals	Credits

FIGURE 4

GENERAL LEDGER

CHAPTER IV

BOOKS AND RECORDS

27. *General ledger; old style.*—Although bank bookkeeping is supposed to be very simple, there are many ways of doing the same thing and therefore every bank may find something in the methods of some other bank, which would be worth its while to adopt.

The general ledger most often found is the old-fashioned ledger, shown in Figure 3 on page 30. This ledger needs no explanation. It is sometimes ruled with two columns on each side, as shown in Figure 4 on page 30, the inside columns being used to bring down the totals from day to day, instead of directly under the day's work, as in Figure 3. These additional columns prove a blessing, when an analysis of previous work is desired. The footings are usually made in a hurry and are often so large and heavy that it is hard to tell them from the actual debits and credits. It should be borne in mind that the general ledger is continually used to prepare statements of all kinds. Every item of unusual nature should be properly explained on the ledger. For example, the profit and loss account frequently contains debits representing loans, discounts, or overdrafts charged off. Money subsequently recovered from these losses is credited to this account. The record on each side should be so plain that any item may be traced back, in order to show both debit and credit without referring to tickets or journal of any kind. It is worth while to itemize the expense account in the same way unless a detailed expense account is kept separately. Do not debit expense with "Hargood & Co.'s bill, $122.30," but "Stationery, $122.30." A few years hence the bank may be dealing with another stationer.

28. *Three column ledger.*—Another form of ledger has the money columns together, as shown in Figure 5 on page 33, making it much easier to strike the balance. The debit balances should be struck in red and the credit balances in black ink when using this form.

29. *Boston ledger.*—A ledger on the style of the Boston ledger, a thorough explanation of which will follow later, is used in many banks and found satisfactory. In this ledger the names of the accounts are written or printed down the middle or side of the page. The days are placed side by side, across the page. See Figure 6 on page 34. A small column may be left for remarks beside each of the debit and credit columns as noted in the figure. It is preferable to arrange the asset accounts in proper order on the upper part of the page and the liabilities on the lower part. When the postings have been made and the balances struck and proved, a complete daily statement will be made on the ledger itself.

The objection to this style of general ledger is that an analysis of any account is a very trying task because of the meager explanations of debits and credits. A large New York bank has adopted a form which does away with this objection. The front part of the ledger is a two column Boston. See Figure 7 on page 36. (This will also be enlarged upon later.) The back part of the ledger is ruled like the old style ledger shown in Figure 3 or 4. The postings are all made first in one section and then in the other. The bookkeeper takes off a trial balance of the old style section at frequent in-

	Date	Memoranda	Debit	Credit	Balance	

Figure 5

BALANCE LEDGER

Assets	Monday, July 12, 1909					Tuesday, July 13, 1909					Wednesday, July 14, 1909				
	Memo.	Debits	Memo.	Credits	Balance	Memo.	Debits	Memo.	Credits	Balance	Memo.	Debits	Memo.	Credits	Balance

Figure 6

BOSTON LEDGER

tervals and compares the balances in each account with the balances in his skeleton section. If this duplication of the ledger should seem useless, the desired results can be obtained by keeping a skeleton ledger and an analytical account for such accounts as "profit and loss," "expense," etc. The Boston ledger and the old style each have their advantages as a general ledger. A union of the two combines all the good points of both, and when bound in the same cover furnishes, with a very small amount of extra work, as comprehensive a volume as one could wish.

A very simple point overlooked by most general ledger keepers using a Boston ledger may prove valuable. When closing the books at the end of a fiscal period, enter a trial balance of the ledger in the statement book before any closing entries are made, and another after closing the earning and expense accounts into profit and loss. If a statement of earnings and charges is desired, covering a period dating from before the closing of the books to a period after the closing, it may be very easily prepared by simply deducting the balances in the accounts chargeable to profit and loss on the first day of the period from the balances shown as of the closing date, and adding to the differences obtained, the balances in the same accounts on the last day of the period. Proper addition must be made to each side of the resulting statement for charges and credits made directly to profit and loss account.

30. *Accounts to be found on the general ledger.*— The accounts to be found on a general ledger ought to be such as will enable the bookkeeper to draw off the various statements required by the federal or state officials, the clearing house, and the officers. In a national bank the following accounts should appear as nearly in the order named as convenient:

Monday		Tuesday		Wednesday		Assets	Thursday		Friday		Saturday	
Debits	Credits	Debits	Credits	Debits	Credits		Debits	Credits	Debits	Credits	Debits	Credits

Figure 7

TWO-COLUMN BOSTON LEDGER

Resources.

Demand loans.
Time loans.
Discounts.
United States bonds to secure circulation.
United States bonds to secure United States deposits.
United States bonds on hand.
Bonds and stocks.
Banking house and lot.
Furniture and fixtures.
Due from approved reserve agents.
Due from other banks, bankers and trust companies.
Cash.
Redemption fund with United States Treasurer.
Expense account.
Taxes.
Rent (if building not owned).
Salary (if desired).
Interest paid.
Exchange paid.

Liabilities.

Capital.
Surplus.
Undivided profits or profit and loss.
National bank notes outstanding.
Due to banks, bankers and trust companies.
Dividends.
Individual deposits.
Demand certificates of deposit.
Time certificates of deposit.
Certified checks.
Cashier's checks.
United States deposits.
Interest received on loans.

Interest received on investments.
Discount received.
Exchange received.

It is a very good idea to keep a separate account for each kind of bond owned, if the list is not too long, in which case it is better to have a single account and subsidiary records to show complete information regarding the bonds owned.[1]

The paying teller's record will furnish an analysis of the cash showing amount of gold certificates, legal tender notes, silver certificates, treasury notes, notes of other national banks, gold, silver, minor coin, items for exchanges and other items carried as cash. One account "cash" will therefore be all that is necessary to carry on the general ledger.

Many banks carry but one interest account, crediting it with all interest received, whether from loans, bonds or whatever source, and charging the account with all interest paid. It will be found worth while to keep separate accounts for "interest paid," "interest received on loans," and "interest received on investments."

A separate account should be kept for each dividend.

If there are several individual ledgers, an account should be maintained for each one on the general ledger.

Not quite so many accounts are necessary in the general ledgers of a state bank in New York. The following will be found sufficient:

Resources.

Demand loans.
Time loans.
Discounts.

[1] See section 65 for a full description of such a subsidiary record.

Bonds and stocks.
Mortgages owned.
Banking house and lot.
Furniture and fixtures.
Other real estate.
Due from approved reserve agents.
Due from other banks, bankers and trust companies.
Cash.
Expense account.
Taxes.
Rent (if building not owned).
Interest paid.
Exchange paid.

Liabilities.

Capital.
Surplus.
Profit and loss.
Due to banks, bankers and trust companies.
Individual deposits.
Certificates of deposits.
Certified checks.
Cashier's checks.
Interest received on loans.
Interest received on investments.
Interest received on mortgages.
Discount received.
Exchange received.

31. *Accounts of a trust company.*—The necessary accounts for a New York trust company are quite similar to those needed on the general ledger of a New York bank with the following modifications: "Bills purchased" will take the place of "discounts" and "interest received from bills purchased" that of "discount re-

ceived." "Court and trust funds" will appear as a liability in addition to those mentioned for a bank. A "commission account" will be an essential credit account. "Certificates of deposit" should be separated into demand and time and a suitable subsidiary record kept to show the time certificates not payable within thirty days. The total of these thirty-day certificates may be deducted from the gross deposits when figuring required reserve, provided the due date is duly mentioned on the certificate.

32. *Daily statement.*—Whatever style of ledger is used, it will be found worth while to have a daily statement book for ready reference. There are many forms in use. A favorite form is shown in Figure 8 on page 41. Note the grouping of earning and expense accounts. Another form is shown in Figure 9 on page 42. The advantage of this record is that its compactness makes it possible to have a record for many years in a volume of small dimensions. If the accounts are well arranged on the daily statement the officers will be able to tell at a glance what the answer ought to be to some of the numerous questions regarding loans, investments, reserves, etc.

33. *Accounts with banks.*—A bank or trust company which has but few accounts with other banks on each side of its ledger will find it convenient to carry these accounts on the general ledger. If they are numerous it will be found much better to carry them in a subsidiary ledger and only the debit and credit controlling accounts on the general ledger.

34. *Controlling accounts.*—A controlling account is an account on a ledger representing the total of a number of accounts in a subsidiary ledger. It is charged with the summary of all the debits made to the various accounts on its subsidiary ledger and credited with the

BLANK TRUST COMPANY

Daily Statement, Close of Business, 190

RESOURCES:				LIABILITIES:			
Loans-Demand,				Capital,			
Loans-Time,				Surplus,			
Bills Purchased,				Undivided Profits,			
Rents Receivable,							
INVESTMENTS:				Profit and Loss,			
Bonds and Mortgages,				Interest,			
N.Y.City Bds.Cap.Invst.				Commissions,			
N. Y. City Bonds,				Exchange,			
Sundry Bonds,							
" Stocks,							
N. Y. State Bonds							
EXPENSE ACCTS:							
Advertising,				DEPOSITS:			
Rent,				Individual Ledgers,			
Expense,				Trust Ledger,			
Salaries,				Certificates of Deposit			
Taxes,							
Furniture & Fixtures,							
Building Improvement,							
CASH:							
Merchants' Nat. Bank,							
New York Trust Co.,							
Greenwich Bank,							
1st National Bank,							
Currency,							
Treasurer U. S.,							
Collection Banks,							
Cash Items,							
Collection Items,							

FIGURE 8

DAILY STATEMENT

COMPARATIVE DAILY STATEMENT

Assets	June 1, 1909	June 2, 1909					
Total							

Liabilities	June 1, 1909	June 2, 1909					
Total							

Figure 9—COMPARATIVE DAILY STATEMENT

summary of all the credits. For example—individual deposits, on the general ledger, is the controlling account for the individual ledger.

35. *General journal.*—The old style journal is very popular as a book of original entry from which postings are made to the general ledger. See Figures 10 and 11 on page 44. The work of keeping up this journal may be simplified considerably if the entries occurring every day are printed. It is then only necessary to fill in the amounts for a very large part of the day's work.

The journal may be omitted entirely by using a species of charge and credit tickets large enough to be bound together securely, after the postings are made. These tickets should be about ten and three quarter inches wide and eight and a half inches long and be ruled as per Figure 12 on page 45. This form may be improved by making it a little wider and adding columns enough on each side to distribute entries between general ledger and individual ledgers. They should be in different colors for the different departments and lettered so as to indicate the general character of the item to be found thereon. In Figure 13 on page 46 will be seen sundry credits to customers for demand loans and while each customer is credited with the loan made, the debit is but one amount. In the same way, several accounts are charged with discounts due, but there is but one credit to "bills discounted." If the business is of such a nature that discounts may be charged to the customer's account as they mature, these tickets may be bound in a book and used as a discount tickler, the process being simply to tear out the leaf and put it through the work on the day the loan is due. The ticket will contain all the discounts maturing on that

Date	Accounts and Memoranda	Debit	Credit

Figure 10
GENERAL JOURNAL

Dr.								Cr.
Individual Ledger	General Ledger	Banks	Posted	Account	Posted	Banks	General Ledger	Individual Ledger

Figure 11
GENERAL JOURNAL

D CHARGE PAYING TELLER'S PAYMENTS BLANK NATIONAL BANK

	SUNDRIES	*Post'g*	190		*CASH*	
			.... PAYING TELLER			

FIGURE 12
JOURNAL

DR. LOAN DEPARTMENT CR.

A-K	L-Z	General Ledger	Posting	Date	Posting	General Ledger	A-K	L-Z
		$15,500		Demand Loans				
				Henry Brush			$10,000	
				Charles Simpson				$5,500
$3,825.32				H. A. Atkinson				
				Demand Loans		$3,800		
				Interest		25.32		
235				Abel & Co.				
730				Downing & Smith				
	$375			Smith & Hoskin				
	400			A. R. Rothenberg				
				Discounts		1,740		
				For discounts maturing this day				
$4,790.32	$775	$15,500		JOHN BROWN Loan Clerk		$5,565.32	$10,000	$5,500

FIGURE 13

JOURNAL

day, the entries having been made when the discount was made.

36. *Expense account.*—The expense account is generally a simple account by that name to which is charged all items of expense. It is sometimes necessary to credit this account with rebates, cash received unexpectedly from customers for telegrams previously charged, for check books, etc. It is frequently necessary to analyze the expense account, and if some method of daily analysis is kept up, the figures will always be ready for use when called for. If any style of the Boston ledger is used as a general ledger it will be found absolutely necessary to keep a separate record. The petty items are the most annoying. To simplify this feature most banks allow the paying teller to carry expense items in his cash until the end of the month and then put through one entry for the total. This is objectionable even if the teller be not allowed to hold an item unless initialed by an officer. A better plan is to set aside a sum as a petty cash fund and make small cash disbursements from this fund. The petty cashbook should start each month with its debit of the round sum set aside and if the funds run out during the month, should be replenished from the paying teller's cash. The credit side of the petty cashbook should be ruled with a sufficient number of columns to provide such analysis of the expense as is desired. A good form is shown in Figure 14 on page 48. By using such a record as this, but one entry is necessary in the expense account for these numerous items. If desired, the totals of the several columns may be posted. Carrying this idea a little further, it would be possible to include salaries, rent, taxes and heavy expense items in the columnarized book by providing columns. Then, when a check is issued or

PETTY CASH

Receipts		Balance	Disbursements						
Date	Amount		Total	Carfares	Lunches	Telegrams			

Figure 14

PETTY CASH

a large payment is made from funds outside the petty cash, it should be charged to the petty cash like a receipt and immediately credited out, distributing the payment to the proper columns. At the end of the month, the journal entry covering petty cash would be very much larger than the petty cash fund, but the amount of money handled through the account would be no larger than if the payments were made and charged outside the record.

37. *Overdrafts.*—It is the custom to deduct overdrafts on the individual ledger from the gross credits and show net deposits only on the general statement. It is not practical to carry an account to represent daily overdrafts, although the statement demanded by the Comptroller of the Currency requires overdrafts to be shown.

38. *Trust company accounting.*—An address delivered at the convention of the American Bankers' Association in October, 1901, by Mr. Arthur Heurtley on "Trust Company Forms" is the best short discussion the writer has seen on this subject and is quoted in part, as follows:

> There is no particular mystery about accounts or bookkeeping generally. Given a good practical system of accounting with simple forms handled by clerks of reasonable intelligence, whose work is carefully watched by the officers, and whose efforts to improve the forms they use are met by proper encouragement, the result will be very satisfactory. Perhaps it will be of interest if I attempt to briefly discuss the principal forms to be used by a trust company.
>
> The first book required is a register of trusts. When a trust is accepted by the company it should be entered upon this book, which should show the name of the trust, the filing number given it, the date of acceptance, source of appointment, the total

amount of the estate or trust fund, the attorneys connected with the trust, etc., also the date it is finally closed. In short, the register should give a brief history of the trust, and it is of great utility as a book of ready reference. This book should have an index. At this point I desire to say, that in my opinion the plan of giving every trust a number by which it is known all through the records is a good one. It renders the correct filing of papers, etc., much more certain, and from practical experience I can safely recommend it. All papers referring to the trust should be filed under the number assigned it, and all securities belonging to the trust, and filed in the cash vault, should be placed under a similar number.

Next to the register of trusts comes the cash book, the general journal and the general ledger. The entries should be made first in these books, then from the same tickets the proper entries should be made in the trust journal and posted in the trust ledger. It is from the trust ledger that all statements of account should be made, and the pages should be so ruled and arranged that the stenographer can take the book and copy the entries as made, the result being an account in proper form for filing in court or to send to the beneficiaries in the trust estate.

A stock and bond ledger should be kept, in which all the stocks and bonds owned by the company, or held by it in any trust capacity, should be entered, showing the amount of each kind of security in the possession of the company. This book is not only an additional check upon the trust and general ledger entries referring to stocks and bonds, but it is also a ready reference book to turn to in case an officer of the company desires at any time to know the amount of any particular security under the control of the company.

One of the important books that should be kept is a register of securities containing not only bonds and stocks, but notes as well, with full data regarding each class of security. The securities held by each trust should be entered by themselves. The book should provide for a record of interest or dividend payments, so that from time to time when the book is examined the information as to such payments can be readily obtained.

A daily balance sheet should be kept, in which all the totals should be brought together for the information of the officers; also a tickler showing the due dates of notes, etc., to be collected from time to time.

A daily memorandum tickler is also a useful book to have, in which should be entered sundry memoranda relating to the various trusts that might otherwise be forgotten at the time when most needed.

The real estate loan records should be very complete, as these books are being constantly referred to, and entries when made should be carefully checked by another clerk than the one making them. This rule should apply to all books kept by the company. Full and complete records should be kept of all matters relating to rentals collected, insurance, etc., also of any securities that are past due or of doubtful value.

The expense account should be abstracted in a book kept for that purpose, and carefully compared and checked with the general ledger. It is also advisable to keep for future reference, in a book prepared for that purpose, memoranda of all conversations had with prospective clients. All tickets from which the original entries are made should be clear and concise in form, giving in themselves all the information necessary from which to make perfect entries on the books.

I have not attempted to deal with the many special forms of books and blanks relating to bond trusteeships or to the registration and transfer of stocks. The large majority of trust companies handle very little of this class of business, as it naturally goes to larger financial centers. But I have endeavored to treat of those forms which would prove useful to almost every company in the country doing a trust business.

I am aware that the loose leaf system of bookkeeping is receiving much attention in these days. And I am prepared to admit that there are many minor books in which it can be used to advantage. But I have had, and still have, a prejudice against its use for books of original entry, as it is not a difficult matter to take out a leaf from a book made on this principle, while it is almost impossible to detach a leaf from a book properly made and bound in the regular manner. The book of trust company forms referred to a short time since contains the ideas of the committee upon the subject.

In closing let me suggest that it would be well for every trust company to have one man in their service whose duty it shall be not only to keep books in touch with its system of accounting, but constantly to endeavor to improve and simplify its forms. Again I repeat, make the forms as simple as is consistent with full and complete entries. See that every account on the general ledger is checked by entries made on another book or other books. For example, the stock and bond account in the general ledger should agree with the balance sheet of the stock and bond ledger, and also with the totals of stocks and bonds shown in the register of securities. Then the officers of the company will seldom be troubled over their system of accounting. The business is eminently one of details, which demand constant watchfulness and attention, and the system that renders this work easy to the officers and employees is the one to follow.

39. *Savings bank accounting.*—When a new depositor enters a savings bank to open an account he will usually be shown to a special counter on which is a swivel desk with a signature book upon it. This book has several columns with headings as follows: Account number, name, residence, post-office address, birthplace, date of birth, father's name, mother's name, name of husband or wife, occupation and signature of depositor. The teller fills in all the data and turns the book around for the prospective depositor to sign in the last column. If he is unable to write, the teller signs for him, and he makes his mark. The heading of the signature column contains the legend:

I hereby agree to the by-laws of the.................... Savings Institution.

No..........................

BLANK SAVINGS BANK *in account with* HORACE M. JONES

DR.							CR.
	Carried forward				Carried forward		

FIGURE 15
DEPOSITOR'S PASS BOOK

No..............................

BLANK SAVINGS BANK
in account with
HORACE M. JONES

Date	Withdrawals	Deposits	Balance	Date	Withdrawals	Deposits	Balance

FIGURE 16
DEPOSITOR'S PASS BOOK

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

No.

Name

Date	Withdrawn	Deposited	Balance

Figure 17

PAGE OF SAVINGS BANK LEDGER

After these formalities have been completed, the teller writes the name of the depositor on a pass book, and gives it a number corresponding to the number in the signature book. He then accepts the cash to open the account, makes out a deposit ticket and hands the cash, ticket and pass book to the receiving teller. The teller checks the cash with the slip, records the deposit in the pass book and passes the book out to the depositor. The ruling of a simple pass book is shown in Figure 15 on page 53. Some institutions prefer to use the form shown in Figure 16 on page 53. The latter is an exact copy of the ledger account, a page of which is shown in Figure 17 on page 54. The depositor goes to the receiving teller's window when making subsequent deposits. If he wishes to withdraw money he presents his pass book at the paying teller's window and states the amount he wishes to withdraw. The teller writes the number of his account and the amount he wishes to withdraw on a withdrawal slip and hands it to him to sign. If the teller is not familiar with the signature he turns to the corresponding number in the signature book, where the depositor signed when opening the account, and then if not fully satisfied as to the identity of the person at his window, asks several of the questions the answers to which are found in this book. Many depositors in savings banks are illiterate. Signatures may be and very frequently are mere crosses. When written they are often unrecognizable. The correct answering of the questions is accepted as identification, if the signature is not clearly a forgery. The deposit and withdrawal slips are prepared by the tellers or their assistants in order to insure legibility and regularity. Before making the payment, the withdrawal slip and the pass book are passed to a bookkeeper and the amount withdrawn entered on the ledger. Some institutions do not take the time to enter the withdrawal on the ledger, being satisfied with a careful scrutiny of the depositor's pass book. There is danger in this practice. It would not take a very clever person with a bottle of good erasing fluid to increase an entry in his pass book and withdraw more money than he actually had on deposit.

40. *Checking daily postings.*—It is customary for the receiving and the paying tellers to keep a list of the accounts, by number, in which action has occurred during the day. This record may be kept in a book or on loose sheets to be filed after the close of business. Proofs of the ledgers are taken off quarterly or semi-annually and it is therefore necessary to check the daily postings very carefully. These sheets may be made to serve this very useful purpose. Several methods are in use. Postings to the ledger should always be made from the tellers' tickets. One method of checking is to enter the date in the ledger and strike a new balance just as if the amount of the deposit or withdrawal was actually entered. When this is completed another clerk takes the tellers' sheet which is shown in Figure 18 on page 57. The sheet is perforated at a and b and the figures which were entered by the teller at the time the deposit or withdrawal was made, are turned back out of sight. Each teller enters his transactions on one of these sheets. After turning the figures back out of sight, the clerk looks up the first account on the sheet and finds a new balance but no debit or credit to make it up. He makes the deduction to find out what the entry should be and writes it in the ledger in the proper column, at the same time entering it on his sheet in the proper column. When he has completed this work, he foots the columns he has prepared, turns back the slips previously folded

a b

	Withdrawn	Withdrawn	Account Number	Deposited	Deposited	

a b

FIGURE 18

SLIPS FOR CHECKING DEPOSITS AND WITHDRAWALS

DAILY PROOF

DATE..

Acct. No.	Balance Previous Day	Balance Close To-day	Acct. No.	Balance Previous Day	Balance Close To-day	Acct. No.	Balance Previous Day	Balance Close To-day

FIGURE 19

DAILY PROOF

BALANCES.. 19........

	Account Number	Balance	Six Months' Interest	Three Months' Interest	Total Interest	

FIGURE 20

PROOF SHEET

under and compares the totals. If they agree it is pretty certain that the entries have been correctly posted to the proper account and that all balances have been correctly struck. It would be a very easy matter to glance down the completed columns and compare each account. If deemed wise, the figures entered by the teller may be torn off and retained by the secretary to be matched up with the finished sheets and compared by him.

41. *Daily balance.*—It is possible to balance the books daily. A single columnarized sheet is used, and the columns headed as per Figure 19 on page 57. The numbers of the accounts in which action has occurred during the day are listed in the proper columns. A clerk then goes to the ledger with the numbered sheet, after the postings have all been made and records the balances as indicated in the second and third columns as they appear on the ledger. The difference between the sums of these two columns of balances should agree with the difference between the deposits and withdrawals for the day.

42. *Ledger proving.*—Proving the ledgers is no small task in a large bank and this is done usually at the periods when interest is to be credited, so as to check the interest calculations. The rules of a large New York city savings bank regarding interest are as follows:

On the third Monday of January and July of every year, there shall be paid such interest as the trustees may determine at the stated meeting in December and June; on all sums on deposit for six months previous to January 1st and July 1st, six months interest and no more; on other sums, on deposit for three months or more prior to either of those days, three months interest and no more.

No interest will be allowed on sums drawn between those days;

nor on sums less than five dollars; nor on the fractional parts of a dollar.

The interest accrued and entered to the credit of the depositors on the 1st day of January and July shall be added to the principal from those days respectively, the same as if an original deposit, or will be paid on and after the third Mondays of those months.

The balances as of the close of business December 31 and June 30 are taken off on sheets, similar to the one shown in Figure 20 on page 57. The interest is calculated on these sheets and on the ledgers and the two compared. These sheets should have a convenient number of lines to a page, so that the number of accounts may be determined in order to comply with the law in reporting to the superintendent of banks. The law requires, *inter alia,* that the bank report

The number of accounts opened or re-opened, the number closed during the year and the number of open accounts at the end of the year.

It is customary to carry controlling accounts on the general ledger, or on a memorandum record, for each thousand accounts, or each ledger, so that any differences may be narrowed down to as few accounts as possible.

43. *Semi-annual interest.*—The interest is usually entered in red ink on the ledgers, so that it may be readily distinguished from regular deposits. The entry is usually dated with a small rubber stamp, indicating the period covered by the interest credit. After the interest has been credited to all the accounts on the ledgers and proved with the interest as calculated on the proof sheets, it is ready to be entered on the pass books, as they are presented, or paid to the depositors as demanded. The books are handed to the bookkeepers and by them re-

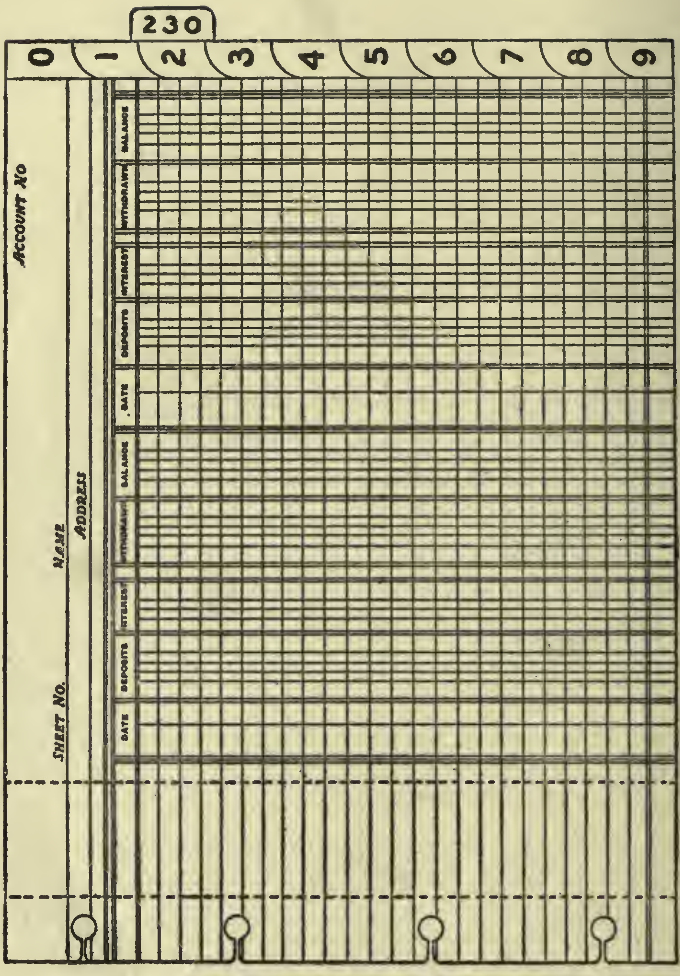


FIGURE 21
SAVINGS BANK LEDGER

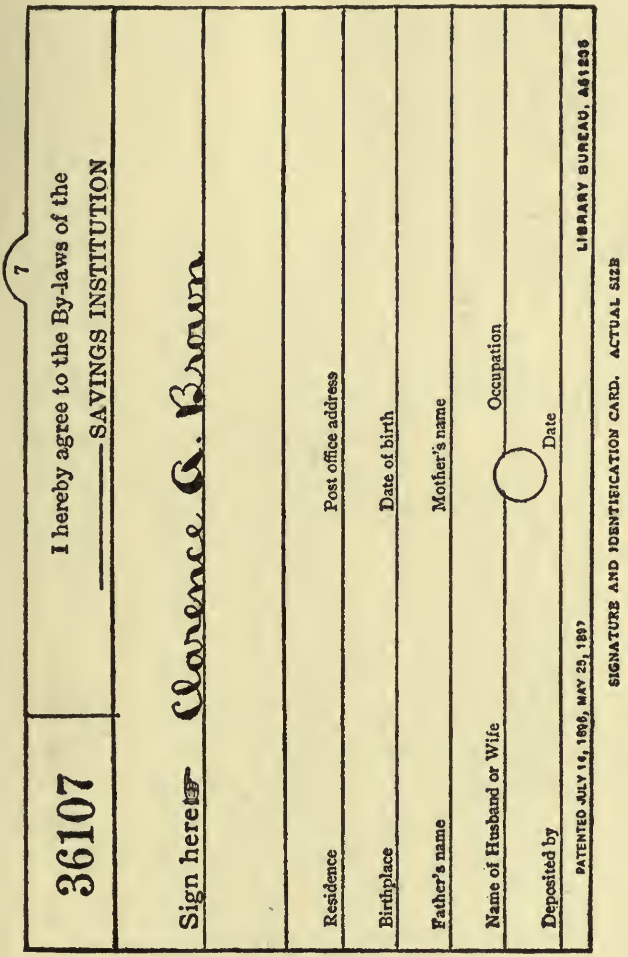
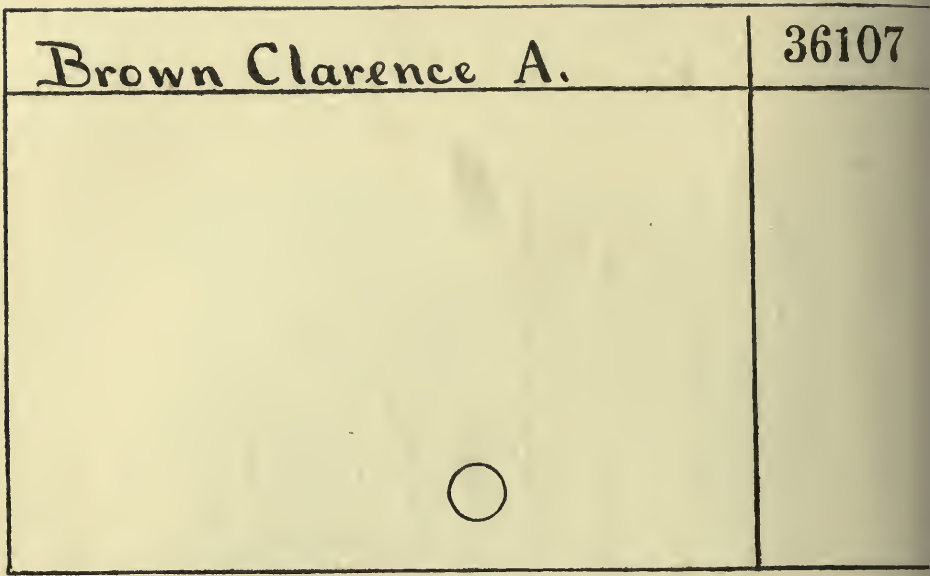

36107
7
I hereby agree to the By-laws of the
SAVINGS INSTITUTION
Sign here Clarence C. Brown
Residence
Post office address
Birthplace
Date of birth
Father's name
Mother's name
Name of Husband or Wife
Occupation
Deposited by
Date
PATENTED JULY 14, 1896, MAY 25, 1897
LIBRARY BUREAU, A61236
SIGNATURE AND IDENTIFICATION CARD. ACTUAL SIZE

FIGURE 22
SIGNATURE CARD



INDEX CARD. ACTUAL SIZE

FIGURE 23.

INDEX TO ACCOUNTS

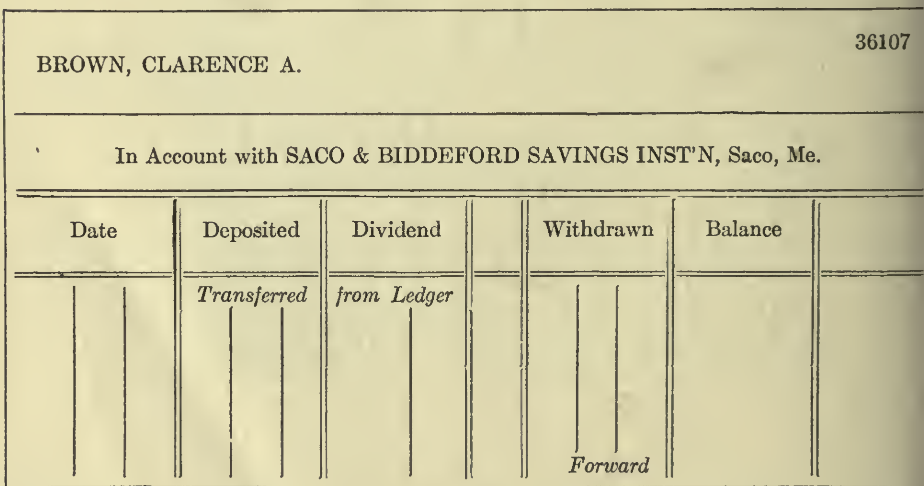


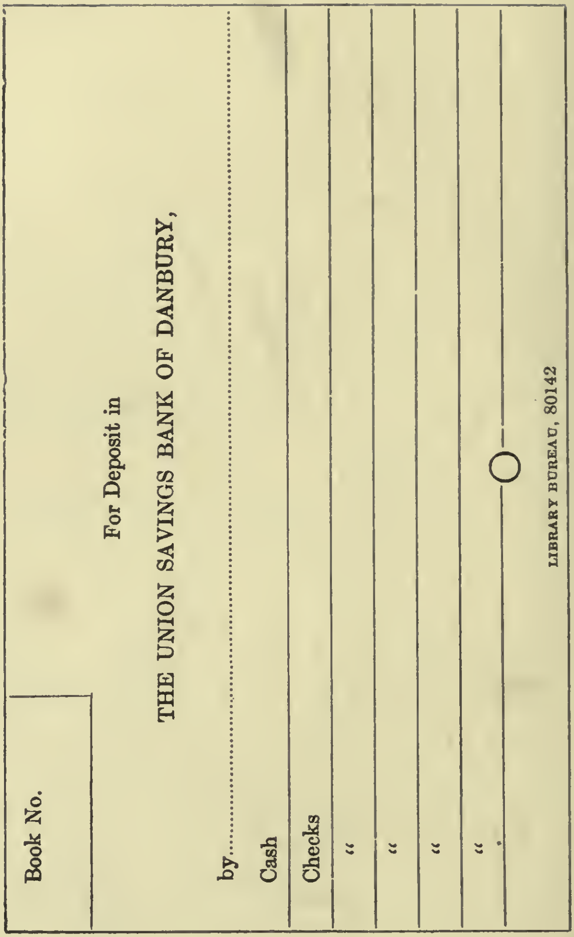
FIGURE 24

CARD LEDGER

turned to the depositors, if no payment is made. If the interest is withdrawn, the books are usually presented to the bookkeepers to have the interest entered and then to the tellers for payment, in the usual way. It is sometimes hard to convince savings bank depositors that the interest credited to their account will accumulate interest as a deposit, and they insist upon withdrawing the interest and re-depositing it. It is better to humor a whim of this kind than to allow so simple-minded a person to get the impression that the bank is trying to get the best of him in interest.

44. *Loose-leaf ledgers.*—Loose-leaf ledgers are often used for savings bank work. Each account is given a full page. The Library Bureau's specialty is shown in Figure 21 on page 60.

45. *Card systems.*—A complete card system, from signature cards to loan records, may be installed. After one has tried the card system for some classes of work, it seems to be indispensable. The wisdom of using them as a substitute for a ledger may be questioned. The Library Bureau has one of the most complete card systems in use. The signature card, which is shown in Figure 22 on page 61 is self-explanatory. The index to depositors' accounts is shown in Figure 23 on page 62. The card ledger is shown in Figure 24 on page 62. The cards are kept in trays fitting into a standing desk. The top of the desk is open, except for sliding posting boards, which may be moved to the most convenient position for getting at the cards. These trays may be removed from the desk and carried to the vault on a truck designed to carry the records into the vault at night. To facilitate taking off a trial balance, one bank has had a special adding machine built which has several extra rows of keys for recording the number of the



Book No.

For Deposit in

THE UNION SAVINGS BANK OF DANBURY,

by..

Cash	
Checks	
"	
"	
"	
"	

LIBRARY BUREAU, 80142

FIGURE 25

DEPOSIT SLIP

Book No.

$..............................

Received of the UNION SAVINGS BANK of DANBURY,

.... $\frac{}{100}$ Dollars.

Sign here ☞ ....

Library Bureau, 80142

Figure 26

WITHDRAWAL SLIP

account in the proper column at the same time the balance is listed. The machine is so constructed that all the figures in a number except the units and tens repeat with every stroke. It is therefore necessary to strike only the last two figures in a number and the balance and both are recorded with a simple touch of the finger to set the machinery going. The footing is struck at the bottom of each page and the ledgers summarized on the last sheet. There are the usual dangers attending the use of these card records.

Deposit and withdrawal slips are shown in Figures 25 and 26 on pages 64 and 65.

46. *General ledger.*—The general ledger is usually an ordinary ledger with controlling accounts for each of the individual ledgers, for bonds and mortgages and bonds, each of which will need a subsidiary record. The ledger also contains the usual asset and liability accounts such as banking house and lot, furniture and fixtures, cash on hand and cash in bank, together with the complement of earning and expense and profit and loss accounts.

47. *Mortgage record.*—The mortgage record will be found very easy to handle, if kept on cards or in a loose-leaf ledger. The Library Bureau cards, which may be modified to suit the individual taste, are shown in Figures 27 and 28 on pages 67 and 68. All improved property should be insured and a careful record kept of the date of expiration of the policies.

MORTGAGE LOAN RECORD.

No. Mortgagor $

Address State of Rate % Basis %

Principal and interest payable at

Description

Sec. Town Range County

Dated 190 . $ or any multiple may be paid interest due date.

Due 190 . $ Insurance required.

Valuation--Land $ Buildings $ Total $ No. acres.

Recorded 190 at a. m. p. m. in Book Page

Assigned by mortgagee to

to to

Bought 190 from Paid 190

W. & G. FORM 524 LIBRARY BUREAU, CHICAGO 43075 C

FRONT OF MORTGAGE LOAN CARD REDUCED. ACTUAL SIZE APPROXIMATELY 4 X 6 INCHES

INTEREST $ Due and

Date due | Amount paid | Date paid

MEMO.

Payments on account of principal

Date paid | Amount | Date paid | Amount

BACK OF MORTGAGE CARD REDUCED. ACTUAL SIZE APPROXIMATELY 4 X 6 INCHES

FIGURE 27

MORTGAGE RECORD

FIRST MORTGAGE LOAN REGISTER

Mortgagor No.

Address

Description

Sec. T N.R. W. County

Patent Yes No Receiver's Receipt Dated 190 In our hands Yes No

Appraised Land $ Buildings $ Acres Improved

Insurance $ Expiration 190 Company

Recorded 190 a.m p.m. Book Page Second Mortg. No.

Dated 190 Amount $ Int.% Before Mat After Mat. Ent'd J.F.

Due 190 Option

Mortgagee Address

Sold date 190 Amount $ Date draft rec'd 190 Ent'd J.F.

Sold to Address

Assigned to Date paid 190

Form 515

FRONT OF FIRST MORTGAGE LOAN CARD REDUCED. ACTUAL SIZE APPROXIMATELY 4 x 6 INCHES

FIRST MORTGAGE LOANS

Date Due | Amount Coupons | Date Paid | Remarks | Totals

Date Due | Amount Principal | Date Paid | Remarks | Totals

STATEMENT OF ACCOUNT

Date | Advances and Expenses Paid | Amount

Check for Bal.

Sent to

Remarks:

BACK OF FIRST MORTGAGE LOAN CARD REDUCED. ACTUAL SIZE APPROXIMATELY 4 x 6 INCHES

FIGURE 28
MORTGAGE RECORD

CHAPTER V

BOOKS AND RECORDS (continued)

48. *How to figure required reserves.*—It would take quite a volume to explain the method of figuring the reserve required by the National Bank Act and by the laws of the states and territories for the various banking institutions. The requirements also vary with the density of the population. If it is not possible to get a chart from the department having supervision, showing just how the reserve should be figured, the law itself should be studied and a chart prepared. Figure 29 on page 70 shows such a chart prepared for figuring reserves for national banks in the city of New York where 25 per cent of the deposits must be kept in cash in the bank's own vault. Notes of national banks may not be counted as part of the reserve. The subject of reserves required for national banks in all parts of the country is fully discussed and illustrated in "Pratt's Digest of the National Bank Act." National bank organizers, directors and officers can hardly get along without a copy of this handy volume. The reader is referred thereto for additional information.

Figure 30 on page 71 shows the reserve requirements for banks operating under the laws of the State of New York and the method of computation. This chart, which was issued by the banking department, is perfectly clear except as to the method of ascertaining the amount due from reserve depositories, excess over amount required to maintain reserve.

CALCULATION OF RESERVE NEW YORK CITY NATIONAL BANK.

ADD
- Individual deposits
- Time certificates of deposit
- Demand certificates of deposit
- Cashier's checks
- Certified checks
- Dividends unpaid
- Deposits due U. S. Disbursing Offices

DEDUCT
- Exchanges for clearing house
- Checks on other national banks in same place
- National bank notes held, exclusive of own

ADD DIFFERENCE BETWEEN
- Due to banks
- Due from banks

(Omit both if due from greater)

DEDUCT
- Four times five per cent fund

Twenty-five per cent of remainder
is reserve required

FIGURE 29.

RESERVE OF NEW YORK STATE BANKS

AND

METHOD OF COMPUTATION.

	Total	Cash	On Deposit
Borough of Manhattan	25	15	10
Borough of Brooklyn without branches in Manhattan	20	10	10
Boroughs other than Manhattan in Greater New York with Branches in Manhattan	25	15	10
Borough of the Bronx, Queens and Richmond without branches in Manhattan	15	7½	7½
Elsewhere	15	6	9

To ascertain the amount of aggregate deposits upon which reserve is to be computed:

Add		
Amount due banks	$	
Amount due bankers		
Amount due trust companies		
Amount due other depositors		
Amount due on certificates of deposit		
Amount due on certified and cashier's checks		
Amount due on unpaid dividends		
Total		$
Deduct	$	
Amount due from banks, bankers and trust companies not reserve depositories		
Amount due from reserve depositories, excess over amount required to maintain reserve		
Amount due on exchanges and checks on other banks and trust companies		
Amount due on deposits secured by outstanding unmatured bonds of the State of New York		
Total		$
Balance upon which reserve is to be computed		$

NOTE: In case reciprocal accounts are kept with reserve depositories, only the excess due from them can be counted as reserve.

FIGURE 30

This is indeed a rather hard problem to solve and we will not attempt to discuss it. The method adopted by those familiar with figuring reserves is to deduct first the sum of the other three deductible items which are definite and determinable, and to say that the gross reserve required is the proper percentage of this balance, 15, 20 or 25 per cent, according to location. The amount actually held in cash is then deducted from this gross reserve to ascertain the amount required from reserve depositories to complete the reserve. Whatever is left is treated as the excess with reserve depositories over amount required to maintain reserve and is deducted from the first net deposits mentioned above in order to find the amount on which to figure the true reserve.

The reserve requirements for New York state trust companies and the method of computation is shown in Figure 31 on page 73. It is obvious that where the reserve must all be in cash there can be no excess with reserve depositories. The whole amount on deposit may be deducted.

49. *Reserve record.*—The reserve should be computed daily and a record kept in book form convenient for ready reference. It may be noted as addenda to the daily statement referred to in Chapter IV, section 16. This reserve record is a very essential feature where drafts on the reserve agents are sold. A suggestion as to the form of a reserve record in a separate volume is shown in Figures 32 on page 74.

Comparative figures are always valuable. A railroad president would feel lost without them. By adding a column or two to the form shown in Figure 9 on page 42, the percentage of reserve may be watched from day to day.

50. *Reports required by Comptroller of the Currency*

RESERVE OF NEW YORK STATE TRUST COMPANIES AND METHOD OF COMPUTATION.

	Total	Cash	Deposit
Borough of Manhattan	15	0	0
Other Boroughs in Greater New York	15	10	5
Other Boroughs in Greater New York having branches in Manhattan	15	0	0
Elsewhere	10	5	5

To ascertain the aggregate deposits upon which reserve is to be computed:

ADD	$	
Amount due banks		
Amount due bankers		
Amount due trust companies		
Amount due savings banks		
Amount due other depositors		
Amount due on certificates of deposit		
Amount due on certified and cashier's checks		
Amount due on unpaid dividends		
Total		$
DEDUCT	$	
Amount due from banks and trust companies not reserve depositories		
Amount due from reserve depositories, excess over amount required to maintain reserve		
Amount due on exchanges and checks on other banks and trust companies		
Amount due moneys held in trust not payable under the conditions of the trust within thirty days		
Amount due on time deposits not payable within thirty days represented by certificates showing the amount of the deposit, date of issue and date when due		
Amounts due deposits secured by outstanding unmatured bonds of the State of New York		
Total		$
Balance upon which reserve is to be computed		$

NOTE: In case reciprocal accounts are kept with reserve depositories, only the excess due you can be counted as reserve.

FIGURE 31

DAILY RESERVE

Deposits				
Certified Checks				
Trust Fund Checks				
Unpaid Dividends				
DEDUCT:—				
Exchanges for C. H.				
Checks on other Banks				
Time Certificates				
Trust Funds				
Amount on which reserve should be kept				
RESERVE REQUIRED				15%
RESERVE				
Manhattan Co.				
Metropolitan Bank				
Nat'l City Bank of Bklyn.				
Deduct Offset				
Deposited in Banks				%
Cash on hand				%

FIGURE 32

DAILY RESERVE RECORD

and state superintendents on call.—All financial institutions are required by law to furnish reports at stated intervals or on call to the chief of the department having supervision. These reports are inspected, summarized, etc., and it is therefore essential that they be prepared in the same manner by all institutions reporting to a given head. It is the custom for the Comptroller of the Currency and the different banking superintendents to send blank forms with the call for the report, on which the statements must be prepared. The reports to the Comptroller of the Currency and the Superintendent of Banks of the State of New York must be verified by the oath or affirmation of the president or cashier and attested by three directors.

51. *Reports required by New York Clearing House and state superintendent of banks, weekly.*—The New York Clearing House and New York State Superintendent of Banks require weekly reports from the banks in their respective systems. These reports are prepared as of the close of business on Friday of each week, and must be delivered at the proper offices before nine-thirty Saturday morning. The reports required vary slightly for the different kinds of institutions, owing to different reserve requirements, but in general are all prepared on the same basis. The first item is "Average amount of loans, discounts and investments." All investments except real estate should be included. The second is "Average amount of specie." This includes gold and silver coin, United States and clearing house gold certificates and United States silver certificates. The third item is "Average amount of legal tenders and bank notes." The fourth is "Average amount due from reserve depositories in New York city, less offsets"; the fifth, "due from reserve depositories outside of New

CLEARING HOUSE BANKS' ACTUAL CONDITION.

	1909	Increase	1908
Loans	$1,349,370,200	*$8,185,800	$1,261,470,400
Specie	310,179,300	2,528,700	305,701,600
Legal tender	81,056,500	3,207,700	79,041,000
Net deposits	1,428,824,000	*4,368,000	1,327,663,200
Surplus, new	34,587,900	6,820,800	52,826,800

*Decrease.

The following statement, issued by the Superintendent of Banking, independently of the Clearing House, shows the condition of the State banks and trust companies in New York City not reporting to the Clearing House:

STATE BANKS.

	July 10	Increase
Loans and investments	$304,032,100	$385,200
Specie	51,255,500	*4,504,300
Legals	26,179,200	*506,700
Deposits	361,957,700	*3,555,700
Reserve on deposits	106,577,800	*4,320,600
P. C. of reserve	29.9	*0.9

TRUST COMPANIES.

Loans and investments	$1,089,760,000	$2,159,400
Specie	122,946,700	730,600
Legals	13,840,000	*18,800
Deposits	1,268,822,500	1,989,600
Reserve on deposits	145,192,500	987,100
P. C. of reserve	17.2	0.2

UNITED REPORT.

Loans and investments	$1,179,747,300	$2,720,700
Specie	129,449,300	1,056,700
Legals	23,002,000	177,000
Total deposits	1,386,103,500	4,211,200
†Net deposits	1,159,530,900	9,312,000
Reserve on deposits	184,185,300	2,834,900
P. C. of reserve	19.2	0.3

*Decrease. †Eliminating amounts due from reserve depositories and from other banks and trust companies in New York City.

FIGURE 33. BANK STATEMENT
WEEK ENDED JULY 9, 1909.

TRUST COMPANY STATEMENTS
FOR WEEK ENDED JULY 9.
BOROUGH OF MANHATTAN.

Capital.	Surp. and Undivided Profits.	Trust Cos.	Loans.	Cash.	Dep. with Other Bks & Tr. Cos.	Secured and Time Deposits.	Net Deposits.
$1,250,000	$654,900	Astor............	$14,768,684	$1,769,765	$1,569,265	$2,760,103	$76,433,687
3,000,000	21,335,500	Bankers'.........	37,902,000	5,655,000	2,577,000	3,912,000	43,730,000
1,000,000	15,579,700	Central..........	67,324,530	9,028,522	26,970,445	3,662,000	85,473,276
1,000,000	1,438,600	Columbia.........	13,268,246	1,473,427	1,187,788	2,588,650	13,866,472
500,000	320,100	Commercial.......	4,119,300	691,700	495,200	115,800	4,675,700
1,000,000	1,067,700	Empire...........	13,002,200	1,807,000	6,600,900	1,138,300	19,491,200
3,000,000	10,925,433	Equitable........	44,998,998	4,603,675	11,626,908	4,946,433	47,140,734
1,000,000	6,786,800	Farmers' Loan....	95,624,300	16,600,100	41,423,100	36,539,100	151,835,600
750,000	910,400	Fidelity.........	5,419,979	668,145	721,316	85,890	5,181,000
500,000	547,500	Guardian.........	3,124,000	417,000	1,414,000	70,000	3,979,000
500,000	673,500	Hudson..........	3,518,300	324,900	472,300	432,700	3,162,500
4,000,000	6,035,800	Lawyers T. I......	17,077,548	1,873,445	2,115,675	500,000	14,417,462
1,000,000	504,700	Lincoln..........	9,202,200	1,283,900	1,935,100	639,800	10,895,300
2,000,000	8,089,900	Metropolitan......	22,389,850	3,171,249	13,354,202	3,178,295	28,860,758
2,000,000	7,173,900	Mercantile........	69,107,000	6,979,000	5,747,000	22,046,000	72,257,500
700,000	389,100	Mutual Alliance....	6,410,217	1,016,487	2,151,776	....	8,771,649
300,000	10,723,800	New York........	62,148,600	7,394,400	12,643,000	21,063,000	68,607,700
4,375,000	8,924,800	Title Guarantee...	29,115,900	3,137,200	7,403,500	760,500	28,344,600
2,000,000	4,555,000	U. S. Mortgage....	31,769,815	3,254,282	11,851,731	7,348,038	40,616,098
1,000,000	1,213,700	Van Norden......	6,853,200	768,700	2,539,000	582,600	8,199,300
500,000	1,286,402	Washington.......	9,864,356	1,305,300	1,189,635	640,439	10,607,000

BOROUGH OF BROOKLYN.

500,000	169,600	Citizens'..........	1,776,400	186,400	284,200	12,000	1,681,300
1,500,000	1,479,200	Franklin.........	12,843,900	1,593,200	1,164,500	1,513,400	13,239,600
500,000	946,300	Hamilton.........	7,151,000	736,000	807,000	495,000	7,338,000
750,000	303,400	Home............	2,560,606	191,823	266,201	226,411	2,113,995
500,000	1,886,000	Kings Co.........	14,966,372	1,474,456	1,422,575	405,350	15,535,917
1,000,000	2,052,000	Long Island L....	814,269	814,905	1,290,000	500,000	9,425,371
600,000	444,600	Nassau...........	4,946,669	666,961	1,434,196	410,392	6,283,900

BOROUGH OF QUEENS.

600,000	166,078	Queens Co........	1,976,548	191,212	169,826	105,098	1,773,820

The cash of the trust companies above is divided between specie and legal tender thus:

Trust Company.	Specie.	Legal Tenders.	Trust Company.	Specie.	Legal Tenders.
Astor......................	$1,519,765	250,000	Mutual Alliance.............	$557,734	$458,753
Bankers'..................	3,998,000	1,657,000	New York...................	7,194,400	200,000
Central....................	8,999,007	29,515	Title Guarantee............	1,773,000	1,364,200
Columbia..................	983,027	490,400	U. S. Mortgage.............	2,333,166	921,116
Commercial................	553,400	138,300	Van Norden.................	535,700	233,000
Empire....................	1,797,400	9,600	Washington.................	1,285,300	20,500
Equitable..................	4,198,820	404,855	Citizens'...................	135,900	50,500
Fidelity...................	430,893	237,252	Franklin....................	1,386,700	206,500
Farmers' Loan.............	16,500,100	100,000	Hamilton...................	711,000	25,000
Guardian..................	182,000	235,000	Home......................	152,610	39,213
Hudson...................	255,200	69,700	Kings Co...................	1,202,906	217,550
Lawyers T. I...............	1,256,371	617,074	Long Island Loan...........	549,285	265,200
Lincoln...................	1,075,000	208,400	Nassau.....................	32,706	634,255
Metropolitan..............	3,161,912	9,337	Queens Co..................	63,737	127,475
Mercantile................	6,968,000	11,000			

FIGURE 33A

NEW YORK CITY NON-MEMBER BANKS
FOR WEEK ENDED SATURDAY, JULY 9.
BOROUGH OF MANHATTAN.

Capital.	Surplus and Undivided Profits.	Loans.	Banks.	Specie.	Legals.	Dep. with Clearing House Agent.	Deposits Other B'ks and Tr'st Cos.	Net Deposits.
$300,000	$308,427	$1,969,149	Ætna..............	$449,724	$30,030	$106,824	$498,192	$2,550,624
150,000	53,430	1,520,147	Bronx Borough.....	13,336	171,423	352,083	73,567	2,105,141
200,000	146,600	1,157,200	Battery Park.......	211,400	53,000	80,400	......	1,062,900
200,000	140,000	1,477,800	Century...........	28,100	222,500	87,200	236,700	1,926,100
500,000	803,000	5,338,000	Coal & Iron........	910,000	473,000	670,000	250,000	6,028,000
625,000	250,000	4,802,800	Colonial...........	690,100	303,500	485,100	800,000	6,564,300
300,000	439,700	5,822,000	Columbia..........	652,000	618,000	867,000	......	7,414,000
200,000	182,700	1,041,124	Fidelity...........	86,500	69,018	133,040	......	1,061,000
500,000	656,000	3,265,900	Jefferson..........	12,800	459,200	234,300	179,600	3,557,800
250,000	284,200	2,660,900	Mount Morris.......	525,400	41,000	501,100	90,900	3,605,400
200,000	314,790	3,990,898	Mutual............	44,614	688,741	464,513	5,144	4,745,348
200,000	225,000	1,989,000	New Netherl'ds.....	231,000	75,000	184,000	180,000	2,107,000
300,000	468,200	2,893,000	19th Ward.........	83,205	954,800	1,108,600	1,959,200	6,554,300
100,000	411,000	3,780,000	Plaza..............	336,000	382,000	811,000	......	4,791,000
200,000	1,863,400	1,860,100	23d Ward..........	183,200	74,200	286,200	......	2,235,400
1,000,000	917,800	8,310,600	Union Exchange....	936,000	1,275,000	248,400	......	8,592,000
100,000	228,200	1,237,000	Wash. Heights......	132,000	49,000	517,000	......	1,280,000
100,000	439,600	4,003,600	Yorkville..........	59,700	847,200	309,000	250,000	5,306,500

BOROUGH OF BROOKLYN.

200,000	119,324	2,046,300	Borough...........	38,300	161,300	191,100	40,800	1,843,700
150,000	3,180,508	3,126,121	Broadway..........	58,457	461,680	309,064	329,463	3,964,273
252,000	769,890	6,288,900	Manufact. Nat......	555,000	169,300	1,056,500	266,000	7,286,300
1,000,000	933,900	10,685,700	Mechanics'.........	294,500	1,813,600	1,251,700	278,100	14,228,800
750,000	900,000	6,849,000	Nassau............	291,000	603,000	1,631,000	......	7,596,000
300,000	4,331,000	4,418,000	National City.......	118,000	664,000	1,005,000	166,000	6,027,000
200,000	1,670,278	1,671,416	North Side.........	139,561	76,335	311,599	220,913	2,185,249
100,000	52,400	671,100	Prospect Park......	4,900	68,600	45,100	34,100	696,800

BOROUGH OF QUEENS.

25,000	26,710	......	Woodhaven........	10,557	39,559	60,105	.....	556,853

JERSEY CITY.

400,000	1,225,000	4,500,700	First National......	252,100	601,200	2,742,100	866,000	7,143,800
250,000	727,700	2,974,197	Hudson Co.........	181,416	40,741	300,083	248,556	2,920,305
200,000	372,845	1,747,609	Third National.....	72,764	137,049	575,891	32,040	2,307,310

HOBOKEN.

220,000	625,600	2,995,600	First National......	121,400	14,400	150,500	64,900	2,516,500
125,000	225,000	2,314,700	Second National....	79,000	103,000	43,200	322,200	2,829,200

BAYONNE.

50,000	31,277	2,639,018	Mech. Tr. Co.......	24,503	220,532	458,685	697,484	3,838,719

FIGURE 33B

BANK STATEMENT

ASSOCIATED BANKS OF THE CITY OF NEW YORK

FOR WEEK ENDED SATURDAY, JULY 9.

*Capital.	*Net Profits.	Banks.	Loans dis. Average.	Specie. Average.	Legals. Average.	Deposits. Average.	Circul'n. Average.
$2,000,000	$3,452,500	Bank of N.Y.N.B.A.	$22,065,000	$4,407,000	$1,381,000	$21,270,000	$1,500,000
2,050,000	3,567,700	Bank of Man. Co....	37,700,000	10,359,000	1,520,000	45,375,000	....
2,000,000	1,692,700	Merchants' Nat....	23,058,000	4,787,000	1,704,000	25,507,000	1,364,000
3,000,000	3,701,300	Mechanics' Nat.....	32,109,000	7,917,000	1,354,000	35,111,000	1,473,400
1,500,000	5,178,400	Bank of America....	30,691,400	6,308,100	1,892,200	33,255,800	....
1,000,000	680,300	Phenix Nat........	7,625,000	1,289,000	501,000	6,988,000	745,700
25,000,000	27,811,300	National City......	185,722,000	64,311,000	8,345,000	206,722,500	3,595,500
3,000,000	5,958,300	Chemical Nat.......	29,673,200	5,499,100	2,076,900	29,008,000	47,000
600,000	554,500	Merch. Exch. Nat..	7,318,500	1,709,500	590,000	8,207,900	355,000
1,000,000	2,419,000	Gallatin Nat.......	9,455,200	1,194,200	630,000	7,336,200	981,100
300,000	157,600	Nat. Butch. & Drov.	2,267,200	373,200	126,900	2,196,800	47,100
500,000	755,100	Greenwich.........	7,438,600	1,922,500	200,000	8,440,500	....
5,000,000	5,051,300	Am. Exch. Nat.....	31,378,200	4,456,900	1,955,600	25,060,800	4,826,200
25,000,000	15,722,100	Nat. Bank of Com...	179,599,000	31,383,900	10,984,700	167,177,400	13,069,400
3,000,000	2,495,700	Mercantile Nat.....	16,000,100	2,123,700	1,206,000	13,197,800	1,265,400
500,000	864,800	Pacific............	4,161,800	325,100	474,700	3,755,800	....
450,000	1,024,400	Chatham Nat.......	7,646,600	1,186,000	970,700	8,326,700	145,900
200,000	470,500	People's...........	1,961,100	498,300	135,400	2,475,000	....
3,000,000	10,747,500	Hanover Nat.......	73,086,600	17,816,000	7,440,200	89,756,600	50,000
2,550,000	1,484,500	Citizens' Cent. Nat.	24,720,200	6,441,000	328,800	25,643,700	1,948,600
500,000	435,800	Nassau Bank.......	5,655,000	538,500	1,086,600	6,274,700	....
1,000,000	1,674,000	Market & Ful. Nat.	8,054,900	1,349,300	1,125,600	8,416,100	50,400
2,000,000	1,309,700	Metropolitan.......	10,850,400	2,509,500	161,200	10,668,400	....
3,000,000	5,372,300	Corn Exchange.....	45,080,000	7,205,000	5,654,000	52,834,000	....
1,500,000	7,554,500	Imp. & Trad. Nat...	26,955,000	4,938,000	1,653,000	25,348,000	47,600
3,000,000	9,792,800	National Park......	92,004,400	25,307,800	1,367,000	105,517,100	2,957,500
250,000	104,300	East River Nat....	1,383,200	221,500	153,800	1,534,600	49,900
3,000,000	3,399,600	Fourth Nat........	26,440,000	5,921,000	2,887,000	29,695,000	594,000
1,000,000	1,868,600	Second Nat........	11,888,000	3,024,000	180,000	12,576,000	455,000
10,000,000	18,968,100	First Nat..........	114,334,600	25,048,300	1,918,300	107,257,000	6,436,700
2,000,000	1,450,400	Irving Nat. Exch...	20,733,700	4,054,700	1,587,800	21,950,100	793,600
250,000	789,700	Bowery............	3,315,500	821,000	58,000	3,470,000	....
500,000	1,631,200	N. Y. Co. Nat......	8,334,600	1,367,600	683,700	8,561,300	198,800
750,000	656,200	German-American...	4,207,500	768,000	222,600	4,015,800	....
5,000,000	6,655,100	Chase Nat.........	81,723,000	18,198,000	5,343,000	91,246,000	2,510,000
100,000	2,178,600	Fifth Avenue......	12,905,200	3,461,000	946,400	15,201,600	....
200,000	857,600	German Exchange.	3,400,400	365,000	600,700	3,962,700	....
200,000	1,020,900	Germania..........	4,931,800	940,600	537,100	5,735,600	....
1,000,000	1,312,400	Lincoln Nat........	15,272,800	3,459,900	981,200	16,714,900	729,800
1,000,000	1,160,800	Garfield Nat........	7,567,700	1,837,700	207,300	7,786,700	379,200
250,000	475,400	Fifth Nat..........	3,175,800	647,700	210,200	3,433,000	238,100
1,000,000	2,020,200	Bank of Metropolis.	11,883,400	1,015,900	1,964,100	11,961,100	....
200,000	1,087,300	West Side.........	4,471,000	1,123,000	242,000	5,047,000	....
1,000,000	1,782,100	Seaboard Nat......	20,555,000	4,396,000	2,356,000	24,870,000	232,000
1,000,000	2,610,400	Liberty Nat........	17,810,900	3,879,200	1,043,400	18,136,500	990,900
1,000,000	687,200	N. Y. Prod. Exch...	7,971,200	2,063,200	391,000	9,549,900	....
1,000,000	810,300	State..............	12,456,000	3,595,000	256,000	15,350,000	....
1,000,000	320,100	Fourteenth Street..	5,014,700	1,013,900	501,500	5,977,400	....
2,000,000	2,675,000	National Copper....	26,928,200	6,494,600	579,300	28,434,600	992,100
110,400,000	146,067,700	Total, Nat. banks					
15,950,000	28,382,400	Total, State banks					
126,350,000	174,450,100	Total, av'g.	1,348,980,600	309,872,400	78,714,900	†1,426,337,600	49,069,900
*As per official reports: 31 National, June 23, 1909; 18 State, Apr. 28, 1909.			Increase. 8,780,300	Decrease. 395,700	Decrease. 342,000	Increase. 7,021,900	Increase. 36,700

Res. on average dep., dec., $2,493,175. Res. on average dep. other than U. S., dec., $2,502,575.
†United States deposits included, $2,222,300.
Percentage of reserve to average deposits other than United States, 27.27.

	Loans dis.	Specie.	Legals.	Deposits.	Circul'n.
Actual figures Saturday	1,349,370,200	310,179,300	81,056,500	‡1,428,824,000	49,162,800
‡United States deposits included, $2,232,400.	Decrease. 8,185,800	Increase. 2,528,700	Increase. 3,207,700	Decrease. 4,368,000	Decrease. 12,100

Res. on actual dep., inc., $6,828,400. Res. on actual dep. other than U. S., inc., $6,820,800.
Percentage of reserve to deposits other than United States on actual figures, 27.42.

FIGURE 33c

BANK STATEMENT

York city, less offsets"; the sixth, "due from other New York city banks and trust companies, on call"; the seventh, "due from out of town banks and trust companies, on call"; the eighth, "deposits secured by bonds of State of New York"; the ninth, 'deposits." "Deposits" includes gross deposits and unpaid dividends, less checks and demand items on other New York city banks or trust companies and amounts due from other banks or trust companies, for collection. Figures 33, 33a, 33b and 33c on pages 76, 77, 78 and 79 show the summaries prepared by the clearing house and the banking superintendent from the reports submitted.

52. *Stock ledger.*—The stock ledger, in which is contained a detailed account with every shareholder, should be very carefully and accurately kept. The stock corporation law of New York State provides that

every corporation shall keep at its office, correct books of account of all its business and transactions, and a book to be known as the stock-book, containing the names, alphabetically arranged, of all persons who are stockholders of the corporation, showing their places of residence, the number of shares of stock held by them respectively, the time when they respectively became the owners thereof, and the amount paid thereon.

Any arrangement complying with the above will satisfy the law. The simplest and perhaps the best form in use is shown in Figure 34 on page 81.

This kind of stock ledger may be bought at any stationery store dealing in account books. This form may be improved slightly if the book is made to order by having an extra column at the right side as shown in Figure 35 on page 81, to show the balance of shares outstanding. It is perhaps needless to add that no

NAME ADDRESS

Date of Transfer	To Whom Transferred	Certificate No.	Shares	Amount	Date of Issue	From Whom Received	Certificate No.	Shares	Amount

FIGURE 34
STOCK LEDGER

NAME ADDRESS

Date of Transfer	To Whom Transferred	Certificate No.	Shares	Amount	Date of Issue	From Whom Received	Certificate No.	Shares	Amount	Balance

FIGURE 35
STOCK LEDGER

THE NATIONAL BANK OF NEW YORK
FIFTH SEMI-ANNUAL DIVIDEND, JANUARY 1, 1910. 4%

Names of Shareholders	Address	Shares Owned	Amount of Dividend	We hereby acknowledge receipt of the above named dividend

FIGURE 36
DIVIDEND REGISTER

entry, however trivial, should be made except through the transfer book.

It will not be necessary to prove the stock ledger except at the dividend periods and then two aims may be accomplished at once. The dividend book or record is shown in Figure 36 on page 81. It used to be the custom for the stockholders to call at the bank and sign for their dividends. The figure shown is intended to exhibit a suitable form for this purpose. Up-to-date banks are mailing checks for the dividend payments and when this is the practice, the last column should be changed to read "Date paid" and the date of payment stamped opposite the name when the check is presented.

When a dividend is declared, profit and loss or undivided profits should be charged and dividend No. — credited. When the checks are presented, the proper dividend account is debited and cash credited.

53. *Stock certificate book.*—The stock certificate book is not always kept with the care that should be given it. It must be remembered, first of all, that a blank certificate of stock in the hands of a crafty knave is almost as good as so much gold. After the stock has once been issued, no certificate should be issued or signed unless the old certificate for which it is issued accompanies the new certificate. It is not customary for banks to have their transfers of stock registered by another company, as other large corporations do, and thus it is necessary to exercise an unusual amount of care with every transaction. Every certificate and its corresponding stub should be numbered by the printer when the book is made. The stub should show the number of shares, the date of issue, to whom the certificate is issued and a place should be reserved for the receipt of the party to whom it was issued, or of his agent. It is a

good plan to exercise an unusual amount of care in filling out the stub so that the sum of outstanding certificates will equal the capital of the company. Cancelled certificates should be securely and neatly pasted to the stub without delay and without fail.

The form for the assignment of the shares of stock is printed on the back of the certificate and reads as follows:

For value received, ... hereby sell, assign and transfer unto ....,
..........shares of the capital stock represented by the within certificate, and do hereby irrevocably constitute and appoint ....attorney to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

Dated..............19....

....

In presence of

....

The following notice usually appears on one side, along the edge of the certificate:

Notice: The signature of this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement or any change whatever.

54. *Transfer of stock.*—There is comparatively little danger attending the transfer of stock standing in the name of an individual. The signature is usually known. Stocks standing in the name of one person and endorsed by a representative or by an executor, administrator or others, are a frequent source of trouble. The bank must know that the agency purporting to exist does actually exist, and that the agent in endorsing for his principal

is acting within the scope of his authority. In the case of representatives of an estate, the danger is much greater. In the first place, the fact that an endorser is an executor places the transfer agent on notice that the owner of the stock left a will at his death, the dictates of which must be obeyed unless set aside by the courts. He must therefore demand such information as will satisfy him that the transfer is regular. The transferee or the person presenting the certificate for him should be compelled to exhibit a certified copy of the will.

A very simple and yet convenient form of transfer book is shown in Figure 37 on page 85. The postings to the stock ledger should be made from this book.

Date	We, the undersigned, hereby sell, assign, and transfer so many shares of stock of this company to the persons whose names are set opposite, as per certificate surrendered and cancelled.	Ledger Folio	Number of Surrendered Certificate	Number of Shares Transfered

Favor of	Ledger Folio	Number of Certificate Issued	Number of Shares	Total Number of Shares	We, the undersigned, hereby acknowledge receipt of the number of shares of stock set opposite our respective names, subject to the by-laws of the company.

FIGURE 37

STOCK TRANSFER BOOK

CHAPTER VI

BOOKS AND RECORDS (continued)

55. *Certificates of deposit defined and illustrated.*—A certificate of deposit is a receipt given by a bank for money deposited, payable to the order of the depositor, or some other person designated by him, on surrender of the certificate properly endorsed. It is a specialized form of deposit not subject to check. Certificates of deposit are issued payable on demand, on a given number of days' demand, and on time. They are convenient forms of deposit for money not needed for current use. If it is known that the money will not be required for a long time, a higher rate of interest may be allowed than on a demand certificate. The chief use is for deposits of trust funds. Figure 38 on page 87 shows a certificate payable on demand, Figure 39 on page 87, one payable at ten days' demand, and in Figure 40 on page 88, is shown one payable at a future date. Figure 41 on page 88, shows one with interest option. Under the laws of the State of New York, certificates of deposit not payable within thirty days may be deducted from the gross deposits of trust companies when figuring required reserve, provided the certificate shows the date of issue and the date when due. An understanding, written or implied, that the certificate is subject to thirty or more days' notice will not suffice.

In a small bank the certificates should be bound in a book with a stub and the cancelled certificates pasted to the stub when paid. In a large bank, having very many to issue, it will be found more advantageous to

CERTIFICATE OF DEPOSIT.

FIRST NATIONAL BANK.

$........ Wellsville, N. Y ,.........19..

..................................ha.. deposited in this Bank

....Dollars

payable to the order of...

on return of this certificate properly endorsed.

No........ ....Cashier

FIGURE 38.
CERTIFICATE OF DEPOSIT.

CERTIFICATE OF DEPOSIT.

FIRST NATIONAL BANK

$........ Wellsville, N. Y.,...............19..

..................................ha.. deposited in this Bank

....Dollars

payable, ten days after demand, to the order of...................

on return of this certificate properly endorsed.

No.......... ....Cashier.

FIGURE 39.
CERTIFICATE OF DEPOSIT.

CERTIFICATE OF DEPOSIT.

THE OREGON COUNTY TRUST COMPANY.

Nyack, N. Y.,................19..

$..........

................................ha... deposited in this Company

.... Dollars

payable................19....to the order of....................

on return of this Certificate properly endorsed.

No..........   ....Secretary.

FIGURE 40.
CERTIFICATE OF DEPOSIT.

CERTIFICATE OF DEPOSIT.

FIRST NATIONAL BANK.

Wellsville, N. Y.,............19..

....

................................ha... deposited in this Bank

.... Dollars

payable to the order of...................... in current funds

on return of this Certificate properly endorsed with interest at 3%

per annum if left........months.

Interest ceases after one year.

No..........   ....Cashier.

FIGURE 41.
CERTIFICATE OF DEPOSIT.

have the certificates made up in pads and numbered.

56. *Record on general ledger.*—In a small bank, an account on the general ledger, called "certificates of deposit," will be found a sufficient record. This account is credited when certificates are issued and charged when they are paid. The account is kept, as shown in Figure 42 on page 90. When a certificate is paid, the debit is entered on the same line as the credit, regardless of the date of payment. The sum of the items on the credit side, having no corresponding debits, equals the certificates outstanding.

57. *Separate record.*—In a large bank a separate record is desirable, with only a controlling account on the general ledger. It is worth while to have a separate record for demand and time certificates. A good form is shown in Figure 43 on page 90. The Rand Company have a certificate of deposit register which has some good points. Figure 44 on page 92 shows a part of one of the pages of their book. The leaves are fastened in a special binder, down the middle of the sheet. When a certificate is issued the amount is entered in the amount column and in the certificate outstanding column. When the certificate is paid the date of payment is noted in the date paid column and two slits made with a pair of scissors, one above and one below the amount in the outstanding certificates column and the slip pulled out. The sum of the figures remaining in the last column should equal the outstanding certificates. The chief objection to this record is that when a certificate remains unpaid for some time, the tabs fall off and of course trouble begins.

58. *Credits for accrued interest.*—It is the custom in some banks to credit "accrued interest payable" to the certificates. This is objectionable, because the face of

Paid — CERTIFICATES OF DEPOSIT — Issued

Date 1909		Payee	No.	Amount	Date 1909		Order of	No.	Amount
July	16	Matthew Aaronson	1	1,500	July	6	Matthew Aaronson	1	1,500
					"	7	Andrew Jackson	2	2,000
July	15	William Harrison	3	1,200	"	10	William Harrison	3	1,200
					"	12	Daniel Boone	4	800
					"	25	Henry Clay	5	1,000

FIGURE 42
CERTIFICATE OF DEPOSIT RECORD

CERTIFICATE OF DEPOSIT REGISTER

When Issued	Number	Order of	When Due	Amount	When Paid	Amount

FIGURE 43
CERTIFICATE OF DEPOSIT REGISTER

the certificate should represent the certificate of deposit account. If it is impossible or undesirable to remit the interest due to the depositor or to credit it to his check account, it should be set up in an accrued account for interest due on certificates of deposit and charged to this account when paid.

59. *Partial payments.*—Partial payments should never be made on certificates of deposit, whether time or demand. If a depositor wishes to use a part of the money deposited, pay him what he wants, cancel the old certificate and issue a new one for the balance, putting the appropriate entries through the books.

60. *Filing of paid and cancelled certificates.*—If a stub is used, the paid and cancelled certificates should be pasted to the stubs as soon as paid. If a pad is used with a separate record, they should be filed in numerical order for ready reference. A spoiled certificate should never be destroyed, but cancelled and filed as if used and paid.

61. *Cashier's, secretary's or treasurer's checks.*—A cashier's check is a check of the bank on itself. It is an order given by the cashier to the paying teller—so to speak—directing him to pay a sum of money to the order of the party mentioned in the check. The secretary's and treasurer's checks occupy the same position in a trust company. An unpaid cashier's check is a liability of the bank, and ranks with deposits subject to check. The same kind of record is used as is employed for certificates of deposit. It is the usual custom to paste the paid checks back on the stub. This is a very good plan, but there is no objection to filing them carefully in numerical order.

62. *Individual ledgers.*—The bank is in business to make money for its stockholders. If it relied solely on its own capital to make loans to those who needed money,

	Date	Number	Deposited by	Payable to	Amount	Date Paid	Outstanding Certificates
		00	Esther H. Hunley		1 563 20		1 563 20
		01	Henry A Turner		439 89		439 89
		02	Wm. B. Hayes		436 40	Aug 1	
		03	Chas. W. Anthony		1 635 82		1 635 82
		04	L. L. Arthur		45		45
		05	A. B. Williams		608 10	May 26	

b

FIGURE 44
CERTIFICATE OF DEPOSIT REGISTER
(Perforated at a–b)

Name.. Name..

Date	Items	Debit	Credit	Balance	Date	Items	Debit	Credit	Balance

FIGURE 45
INDIVIDUAL LEDGER

it would be a dismal failure as a money-making proposition. However, since so large a percentage of our business is transacted by means of checks, etc., it has something valuable to offer the business man, as a depository for his funds. The banker therefore offers to receive the money, checks and drafts of the business man, to collect the same for him and to allow him to draw against the funds so deposited at pleasure, which drafts the banker agrees to honor up to the amount on deposit. If two business men in the same town are compelled to make payments to each other and both issue checks on the same bank, it is obvious that the only money the bank will be called upon to deliver will be the difference between the amounts of the two checks. The banker knows from experience about how much money he will need to keep on hand, to settle his daily balances with other banks. This reserve is comparatively small and he may have the rest of the funds deposited. Thus, with a comparatively small capital, a large line of loans may be made, if the money left on deposit is large. The record of these deposits must be carefully and accurately kept and must be up to date at all times. The individual bookkeeper is responsible for this part of the work. His records have been the cause of a great deal of thought and study and have produced some very clever schemes for the handling of accounts of depositors.

63. *Old style ledger—practically obsolete.*—The first stage in the evolution of an up-to-date individual ledger system is the old-fashioned ledger, illustrated in Figure 3 on page 30. All deposits are entered on the credit side and all withdrawals on the debit side. In order to prove this ledger, it is necessary to add the two sides, strike the balances and take off a list of them. This ledger

WILLIAM KELLY

2%

Date		Debit	Credit	Balance	Days	Aggregate	Interest
April	1			1 000			
"	5		500	1 500	5	5 000	
"	8	250		1 250	3	4 500	
"	13	125		1 125	5	6 300	
"	14		275	1 400	1	1 100	
"	25		500	1 900	11	15 400	
"	27	300		1 600	2	3 800	
"	28		178 50	1 778 50	1	1 600	
"	29	200		1 578 50	1	1 800	
"	30	50		1 528 50	1	1 500	
"	30		2 28	1 530 78	30	41 000	2 28

FIGURE 46

INTEREST LEDGER

has practically nothing to commend itself to an up-to-date bank, as an individual ledger.

64. *Cincinnati ledger.*—An improvement on the old style ledger is shown in Figure 45 on page 92, having the debit and credit columns adjoining and a balance column. Every time a check is entered, the amount is deducted from the previous balance. The deposits are entered in the credit columns and added to the old balance to give a new one. If the account is overdrawn, the balance should be shown in red ink. This style of account makes it possible to watch the accounts very easily. The deposits made, the checks drawn and the balances in the account for a long period of time stand out prominently. Proofs should be made of this ledger not less than once a month. The use of an adding machine makes the task an easy one, if the postings have all been made correctly.

65. *Interest ledger.*—The form shown in Figure 45 on page 92 does not make any allowance for crediting interest on daily balances. Figure 46 on page 94 shows an interest ledger, which is very popular among trust companies. Interest is allowed on average daily balances maintained during the month. As the balances change each day, the method is to allow one day's interest on the total of daily balances for the month. If the balance remains unchanged during the month, it is multiplied by the number of days in the month and one day's interest figured on the total. If the balance changes during the month, the balance remaining on deposit is multiplied by the number of days it remained unchanged and carried to the aggregate column. At the end of the month the aggregate column is footed and one day's interest allowed on the total. Note that the sum of the days column equals the total number of days in the month. The tables used in figuring interest on deposits

	Monday, July 12, 1909				Tuesday, July 13, 1909				Wednesday	
Balance	Checks in Detail	Total Checks	Deposits	Balance	Checks in Detail	Total Checks	Deposits	Balance	Names	Checksin

FIGURE 47
BOSTON LEDGER

are prepared on a basis of three hundred sixty-five days to the year. The books are small and conveniently arranged so that figuring the interest is a very simple matter. Some companies who are looking after the small items that may be saved, use during leap year, special interest tables compiled on a basis of three hundred sixty-six days to the year. In a company with many millions of deposits, the saving is quite considerable.

66. *Boston ledger—three column.*—There is necessarily a great deal of work connected with the individual ledger desk and as usual many labor-saving devices have been tried. Perhaps the most successful and widely adopted is the Boston ledger. The form generally used is shown in Figure 47 on page 96. The names of the depositors are sometimes printed down the left side of the left page and the right side of the right page, and sometimes down the middle of both pages. Many banks do not have the names printed, but have several short leaves cut between two long ones and use one writing of names on the margin of the long sheets. Other banks have the names of the depositors typewritten by a book-typewriter on these margins. The very active accounts may require two or more lines to give space enough to post all the debits.

The postings on this ledger are made directly from the checks and the deposit slips. The ledger is really a combination of ledger and journal. The summary of the footings of the credit columns equals the total deposits received, credits made for loans, discounts, etc. The summary of the debit columns equals the total amount of checks paid by the paying teller, loans charged by the loan clerk and other charges. The summary of the balances agrees with the balance due depositors, as shown by the general ledger.

JULY, 1909

No.	Monday, 12th		Tuesday, 13th		Wednesday, 14th			Thursday, 15th	
	Debit	Credit	Debit	Credit	Debit	Credit	Depositors	Debit	Credit
1									
2									
3									
4									
5									
6									
7									

FIGURE 48

TWO-COLUMN BOSTON LEDGER

Thus various classes of errors may be easily located. If the error is one made in striking the new balance, it may be narrowed down to a page of accounts, by taking the sum of the balances at the opening of the day, adding the sum of the credits made during the day and deducting the sum of the debits. The difference should equal the sum of the new balances. If the error is in the posting, it may be quickly determined whether it is in the debits or credits by comparing the total of the paying teller's debit book, loan clerk's charge tickets and other charges, with the sum of the debits made on the ledger. The posting of the credits may be tested in the same way by comparing the sum of the credits with the receiving teller's credit book, the loan clerk's tickets and other credits.

It is the usual custom to carry a week's work on the two pages shown when the book is opened. By inserting three short leaves, the names written on the long leaf will do for a month's work. If the accounts change very little, a few more short leaves may be inserted and the book used for a longer period.

67. *Boston ledger—two column.*—The two column Boston ledger shown in Figure 48 on page 98 is the most compact form possible. The detail of debits columns and the balance column are omitted. At the left of the debit column for Monday, in the figure is shown a narrow column for a memorandum of the number of checks composing the debit. It is necessary to use different colored inks on this ledger in order to get the most satisfactory results. The following color scheme is suggested: Use red for striking balances and always strike directly on the line. If the resulting balance is an overdraft, strike in red on the debit side, on the line. Enter all deposits in black ink, above the balance. Enter

MONDAY, JULY 12, 1909

		John Anderson	126	32		
			27	89		
			300			
					454	21
		Howard Brown			300	
		H. C. Carpenter	450			
			732			
			26			
					1 208	00

FIGURE 49
CHECK SCRATCHER

[illegible]. C. Ames N. Y. C.			W. A. Cox B'k'l'n.			B. A. Gray N. Y. C.			H. R. Hood N. Y. C.			C. A. Lamb N. Y. C.			A. C. Mapes N. Y. C.			R. C. Smith N. Y. C.		
Balances with A. Nat. Bank			Balances with A. Nat. Bank			Balances with A. Nat. Bank			Balances with A. Nat. Bank			Balances with A. Nat. Bank			Balances with A. Nat. Bank			Balances with A. Nat. Bank		
July, 1909			July, 1909			July, 1909			July, 1909			July, 1909			July, 1909			July, 1909		
Jun.			Jun.			Jun.			Jun.			Jun.			Jun.			Jun.		
28			28			28			28			28			28			28		
29			29			29			29			29			29			29		
30			30			30			30			30			30			30		
1			1			1			1			1			1			1		
2			2			2			2			2			2			2		
3			3			3			3			3			3			3		
4			4			4			4			4			4			4		
5			5			5			5			5			5			5		
6			6			6			6			6			6			6		
7			7			7			7			7			7			7		
8			8			8			8			8			8			8		
9			9			9			9			9			9			9		
10			10			10			10			10			10			10		
11			11			11			11			11			11			11		
12			12			12			12			12			12			12		
13			13			13			13			13			13			13		
14			14			14			14			14			14			14		
15			15			15			15			15			15			15		
16			16			16			16			16			16			16		
17			17			17			17			17			17			17		
18			18			18			18			18			18			18		
19			19			19			19			19			19			19		
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21			21			21			21			21			21			21		
22			22			22			22			22			22			22		
23			23			23			23			23			23			23		
24			24			24			24			24			24			24		
25			25			25			25			25			25			25		
26			26			26			26			26			26			26		
27			27			27			27			27			27			27		
Int.			Int.			Int.			Int.			Int.			Int.			Int.		

FIGURE 50

checks paid through the exchanges in black on the line, and checks cashed over the window in green above the line. Other charges and credits should be ear-marked in some way, such as "D" for discount, "C" for collection, "CC" for certified, etc.

It is necessary to have some book of original entry in which customers' checks are listed and footed, as a posting medium when using this ledger. A simple form is shown in Figure 49 on page 100. This book is sometimes called a check scratcher and sometimes a debit book. It is usually written up by the bookkeeper's assistant or some junior clerk.

68. *Interest sheets for use with Boston ledger.*—When either of the Boston ledgers is used it is necessary to keep a separate record for interest calculation. Interest is usually allowed on average daily balances at a rate agreed upon when the account is opened. A very simple method of record keeping and interest calculation for Boston ledgers is shown in Figure 50 on page 101.[1] The sheets are perforated at the dotted lines so that the portion belonging to an account may be detached and forwarded with the statement. The daily balances, omitting amounts below $100, are posted to these sheets at convenient times during the day and on the twenty-seventh of the month, and one day's interest allowed on the total, as before. By dividing the month in this way, just so much work is saved on the last day of the month, which is usually a very busy one.

There are many ways of keeping a record of the detail of the individual accounts where the Boston ledgers are used. Some banks keep duplicate ledgers, on which is displayed the detail of all debits and credits. The skeleton ledgers, of course, show only totals of ex-

[1] Copyrighted by Edward White, 1884–8.

changes, totals of checks paid over the window, etc. If statements are sent to customers, they must be laboriously copied from the duplicate ledgers or made up from the debit and credit books and compared with the duplicate ledger. A blotter or slip of paper should be placed in every account on the detail ledger which has changed during the day and the balances compared with the balance shown on the skeleton ledger, before any entries are made on the next business day. Every account should be compared two or three times a month.

69. *Separate sheets for detail and statements.*—The keeping of duplicate records, as mentioned above, is one of the best known methods of preventing the manipulation of the individual ledgers, but it is rather cumbersome and therefore expensive. The Boston ledger is, without a doubt, the best one for keeping track of the accounts, for it is proved every day with the general ledger and therefore the possibility of an error in posting a credit or debit or striking a balance is reduced materially. However, the ledger is faulty in that it does not readily disclose the detail of any one account. We have suggested that a duplicate record is a successful check and the detail may be kept very easily.

The larger the bank, the more readily this scheme may be adopted. We will assume that the large bank is in a city having a clearing house and that the exchanges have been received in the morning. If the bank has a number of adding machines, the very best and quickest way to check off the exchanges is to list them, making the same footings as the sending bank. If discrepancies occur in any footing, the difference will be very quickly found. This will be found far more satisfactory than calling or checking off the items. The assistant bookkeepers or check clerks, as they are called in some banks,

THE BUFFALO NATIONAL BANK

....IN ACCOUNT WITH NEW YORK No....................

IF NO ERRORS ARE REPORTED IN TEN DAYS THIS ACCOUNT WILL BE CONSIDERED CORRECT ....VOUCHERS RETURNED

No.	Date	Checks	Total	Date	Checks	Total	Date	Checks	Total	Date	Description	Deposits
1											Balance	
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
etc.												

FIGURE 51

STATEMENT SHEET

RATE, ...

Date	Balance	Days	Aggregate	Interest Aggregate	Deductions	Interest	Date	Balance	Days	Aggregate	Interest Aggregate	Deductions	Interest

FIGURE 52

INTEREST SHEET

will then sort the checks in the proper order and begin to list on sheets like Figure 51 on page 104. These sheets are printed in copying ink.

Note that the sheet appears to be printed on the back; this is intentional. An interest sheet, shown in Figure 52 on page 105, goes with this form and is bound facing it in a post binder, which can be opened at any point and a sheet removed or inserted. Some bookkeepers post ledgers of this kind from back to front instead of from front to back, and if this scheme is adopted, it will be found convenient to arrange the sheets accordingly.

Since these sheets contain the detail of the debits and credits of each account, they will be the best record the bank can have. When a statement is desired for a customer, the sheet may be torn along the perforated line, the balance struck and compared with the skeleton ledger. If it agrees, a press copy should be made and preserved for the bank's record and the original handed to the customer. Much experimenting has been done on copying inks, but there is no ink on the market that gives as satisfactory results as a high grade copying pencil. The best are made in Germany and are about medium grade of hardness.

This scheme will not be convenient if one customer's account is balanced at one time and another at a different time. As far as possible they should all be balanced at once. It will be found that an expressed desire on the part of a bank to mail statements on a certain date of every month will meet with unanimous approval on the part of the customers.

After the assistant bookkeeper or check clerk has entered the checks against a customer on his sheet, he should turn them face down on his desk. The next customer's checks, whether one or a dozen, should be crossed. If there is more than one check on a customer, the clerk should turn them over and foot the several amounts, striking the total on the back of the last check instead of on the sheet. After all his checks are posted, he should enter the total amount of each customer's debits in a debit book, or on a machine slip, which can be pasted in a book, for future reference. It will be necessary to indicate the name of an account here and there to facilitate checking back. The sum of the debit books should equal the amount received from the clearing house.

After entering the checks in the debit book, they should be passed to the bookkeepers and by them posted to the accounts on the Boston ledgers. Where more than one check is found against a customer, the total as noted on the back should be posted so as to make but one amount for debits through the exchanges. After posting on the ledger the checks should be laid straight again.

The bookkeeper will instinctively glance over the checks and note whether or not they are properly sorted and check the footings mentally. After the checks have been posted they should be handed to the paying teller for inspection of signature and for stop payments. The checks should then be returned to the check clerks to be checked back on the sheets by a clerk other than the one who listed them originally, and the postings footed and carried out into the second column shown in Figure 51 on page 104. These new footings should be checked back to the debit books. The sheets, being in the same order as the checks from which the debit book was originally made, no difficulty will be experienced

In Account with LIBRARY BUREAU SAVINGS BANK, New York

Date	Deposited	Dividend		Withdrawn	Balance	

FIGURE 53

CARD LEDGER

in checking off. This checking will disclose any error in posting, footing or entering in debit book, and no difference should pass this stage of the work.

70. *Card ledgers.*—Some savings banks, commercial banks and trust companies use a card ledger for savings accounts. The usual form is shown in Figure 53 on page 108. The proof of a card ledger is made by listing the balances on an adding machine.

71. *Loose-leaf ledgers.*—The demands of modern business for multum in parvo, both as to space and time, have caused the introduction of many card and loose leaf forms. They all possess the great advantage of eliminating dead matter, if properly kept up. Many officials seem to think, however, that they will take care of themselves. The writer once saw a clerk go to the storeroom of a large corporation in search of a binder for a new record he was about to set up; finding the transfer binder of another office, which had been closed, he promptly removed the leaves, wrapped them up neatly in a piece of paper and labelled the package. Some months later the storeroom was cleaned out, and the sheets of that ledger were seen scattered among the rubbish. Transfer binders are too apt to meet the fate of the one just mentioned, to be depended upon for final records. The card system presents the greatest amount of danger of any of the loose forms. The cards must be removed from the "cans" or drawers and placed on the desk for recording. If a clerk is anxious to decrease the liabilities to prevent detection of his "borrowings" from the assets, what easier method could be devised than by removing a card at proving time and replacing it after the proof is made? Only the most complete system of counter checks can guard against this danger.

Where loose-leaf ledgers are desired, it is possible to prevent abstraction of leaves by having every sheet numbered when received from the printer and doling them out when needed. This is unsatisfactory, because the pages will not run serially in the ledger, and an attempt to prove that the sheets had not been misused would involve a check of all the transfer binders and current ledgers.

Another scheme is to have the ledgers locked with a high grade lock and to have the key kept by the general bookkeeper, who is charged with the personal supervision of the removal and substitution of leaves.

72. *Substitute for loose-leaf ledger.*—An inexpensive and convenient individual ledger, one that combines many of the good features of a loose-leaf ledger and has none of its disadvantages, is made and used as follows: A sufficient number of Boston ledger sheets to last two weeks or a month with one writing of the names of the accounts is sewed together with a manila cover. When the last day is reached, the balances are struck in a new section, the names having been first rearranged and written on the long leaves. The ledger may be made to look very much neater by having the names of the accounts written with a book-typewriter.

When enough of these sections have accumulated to make a volume, the bookkeeper or a trusted messenger should take them to the bank's bookbinder and have them bound in an inexpensive cover previously prepared. Arrangements may be made with the dealer to keep a supply of these binders on hand so that there will be no delay when a book is ready to be bound. The process will take but an hour or two. The bookkeeper has a very light book to handle and therefore the cost of an expensive binding necessary to carry a heavy ledger is saved. The transfer ledger is not in steady use and therefore a cheap binding is quite as serviceable as an expensive one that has seen anywhere from six to eighteen months' hard usage. The ledger, although possessing many of the good features of a loose-leaf system has the advantage of having been a bound book throughout its entire history.

73. *Methods of proving each of the above ledgers.*— In describing the method of proving each of the individual ledgers, we must assume that each has its controlling account on the general ledger, that the sum of all debits given to the individual bookkeeper to post has also been given to the general bookkeeper to post in his ledger against the controlling accounts, and the same for all credits.

To prove an old style ledger such as shown in Figure 3 on page 30, it is necessary to foot the debits and credits in each account, strike the balances in pencil and take a list of them. If any of the accounts are overdrawn the totals will need to be deducted from the gross credit balances in order to arrive at the net balances as per the general ledger. An adding machine will greatly facilitate the work. If a difference appears when the work is completed, it will be necessary to go over the work again in the reverse order from which the entries were set up, i. e., call back the listing of balances first, then if the difference is ten, one hundred or a thousand dollars, test the footings and balances. If the difference is an odd amount, it will probably be found in the postings.

The proofs of the Cincinnati and the interest ledger shown in Figures 45 and 46 on pages 92 and 94, are made in the same way, except that the balances are shown at all times and all that needs to be done is to take a summary of the balances.

Proofs of these ledgers should be made very often because it is a trying task to check back the deposits and withdrawals of a long period. Some banks have proofs taken off once a month, others twice a month, some weekly and some have them prepared twice a week. The oftener they are made, the better.

There are many tricks in striking the balances in a Boston ledger, and these can be acquired only by practice. After the balances have been struck, each page should be footed, and a summary made of all the credit and debit balances. The latter will be very few in number and should be deducted from the credit balances. If the ledger does not prove, the location of the difference may be narrowed down to a page by footing the debits and credits and striking the balance for the page. If it agrees with the sum of the balances, the striking and footing is probably correct. This should be done with each page. If the difference still remains undiscovered, take a summary of the debits and another of the credits. Compare with the paying teller and receiving teller. If the bank is located in a city having a clearing house, the clearing house debits may be footed separately from the items cashed over the window and the general location of the difference narrowed down still further.

74. *Inactive accounts on Boston ledger—how to handle.*—One of the objections to the use of a Boston ledger is that inactive accounts must be carried forward each day, while in the older style no work is done unless there is action. This difficulty may be reduced to a minimum by dividing the individual accounts into three

classes, active, inactive and dead. The last class of accounts is usually known as sundry accounts and kept in a separate ledger, with a controlling account on the individual ledger. These accounts are usually very small amounts which everybody wishes could be gotten rid of. They cost money to carry, and where the amount is very small could be eliminated by charging the account with cost of check books, stationery, etc., used while the account was active and mailing a formal bill, duly receipted, to the last known address of the depositor. A certain bank issued a cashier's check to the order of the depositor for the amount of the balance, and filed it in its vault with a statement closing the account. When the customer called at the bank the check already drawn, together with the statement, was handed to him. This cleared the individual ledger, but it only transferred the burden to the general ledger, and so was only a choice of two evils.

The inactive accounts are those which are really alive and have good balances, but very few deposits or withdrawals. It is entirely unnecessary to carry these balances along every day. Separate these accounts from the others and arrange them in alphabetical order in the back of the ledger, carrying a controlling account in the current work called "inactive accounts," allowing several lines for it. All entries should be posted to the account affected among the inactive accounts and also to the controlling account. The balance of the controlling account, of course, will be struck every day. The balances in the inactive section should be struck about twice a month and a proof made with the controlling account.

The bookkeeper should have the privilege of transferring an account from the active to the inactive whenever he thinks it will be more convenient in one place than another. He will undoubtedly be the best judge. It may be argued that one will never know where to look for an account, but this argument has no weight in practice. The ledger man is usually at his desk when questions are asked, and he will know just where to open to the account. Others should not have access to the ledgers. If an officer wishes to know and cannot wait until the return of the bookkeeper, the account will be found in alphabetical order in one of two places.

75. *The certification book.*—The certification book should be kept in the paying teller's department.

A certified check is a check of a depositor, drawn to the order of some person, upon the face of which the bank has certified its genuineness and value, after having charged it to the account of the depositor. The bank certifies to the correctness of the signature and to the fact that the account is in funds to meet the check when presented for payment in the regular course. Some New York City banks certify payable only through the Clearing House, that is, they will pay it only when presented by some other bank through the Clearing House.

76. *Standing in liabilities.*—Since a certified check is charged to the customer's account when certified, the obligation to pay is then the bank's. Its liability is no greater, it is only in a slightly changed form. Before certification it owed the money to the depositor. After certification it owes the money to the payee named on the check, or to his order.

77. *Records.*—A good record is shown in Figure 54 on page 115, a record frequently found in small banks. It is sometimes kept in an ordinary day book. On the credit side are listed the checks as they are certified.

CERTIFIED CHECK REGISTER

Date	Number	Depositor	In favor of	Amount	Date Paid	Amount Paid

FIGURE 54

CERTIFIED CHECK REGISTER

The total of certified checks paid each day is listed on the debit side and checked off on the credit side. This book may then serve as a posting medium to the general ledger for both credit and debit, and to the individual ledger for debits to individuals. The total of the certified checks for the day is credited to certified checks and charged to the various accounts on individual ledgers. When the checks are paid in the regular course, the account "certified checks" is charged and credited. As soon as the checks are paid, they should be checked off the certified register, using a dating stamp for this purpose, to note the date on which the item was paid.

78. *Method of proving.*—To prove the certified check register, take a list of the items remaining unchecked, including the last day's certified, none of which will yet be paid. This should agree with the total of the account "certified checks" on the general ledger.

79. *Claims for lost certified checks—bond of indemnity.*—Once in a great while a certified check is lost. It has been charged to the account of the customer. His creditor is clamoring for the money. The bank can not stop payment on the lost check unless an endorsement is forged, because it has promised to pay the check when presented in the regular course. Before crediting the customer's account with the amount of a lost certified check, the bank should require him to give a bond of unquestionable security of twice the amount of the check, indemnifying the bank against all claims for refusing to honor it in case it should be presented.

80. *Debit and credit books.*—There seems to have been very little improvement in debit and credit books or check and deposit scratchers, as they are often called. The common ruling is shown in Figure 49 on page 100.

When the checks and deposit tickets have been sorted in the order their accounts appear on the ledger, they are listed in their respective books. The clerk who makes up these books must write out the names of every account having a transaction during the day. This makes a great deal of work, but it furnishes an excellent book of original entry with which many banks have been loth to part. They are sometimes used as posting media and sometimes simply as records to which the postings made on the ledger from the original documents may be checked. If the bank has a large number of accounts in which action occurs every day, several days may be entered with one writing of the names by adding several more columns to the form shown in Figure 49 on page 100. The labor may be further reduced by having the printer fill in the names of the very active customers and leaving sufficient space for others.

CHAPTER VII

DEPARTMENTS OF A LARGE BANK

81. *Paying teller's department.*—The paying teller is the disbursing officer of the bank. He is the custodian of the bank's cash and usually stands next to the officers in seniority of position. Every customer is introduced to the paying teller when he opens an account. He has a copy of the customer's signature in his files with which he soon becomes familiar. If there is a need that any man in the bank should be gracious in his manner, of an even temper, quick and yet accurate, the paying teller is that man. Impressions of the bank, gained through the paying teller's window, are good or bad advertisements.

In a small bank one teller both receives and pays. It is impossible to separate the work where the force is small. The teller's duties vary in proportion to the amount of responsibility given to him. In general they are as follows:

The most important is, of course, to cash the checks of customers. In order to do this he should be supplied with all kinds of money so that he will be able to meet any demand made upon him by the customers of the bank. All bills received from the Treasury Department are strapped in packages of one hundred. If new, they are sorted numerically and the last figures in the number of the bill run from one to one hundred. Thus, if a package of one dollar bills is seen, the teller will know immediately that it contains one hundred dollars; if twos, two hundred dollars; if fives, five hundred dollars; if tens, one thousand dollars; if fifties, five thousand dollars.

These packages should be assembled into bundles of one thousand bills and bound together with a heavy manila wrapper. A wrapper six inches wide and about twenty-four inches long will be found to be satisfactory, if folded neatly, lengthwise, making a double strap three inches wide and twenty-four inches long. The doubling of the strap makes it very strong and permits the exertion of great pressure on the bills if handled properly.

The bundle of one thousand bills should be placed face upward on the table, just about the center of the strap. Place the loose end of the strap, which is next to the body, over the package, and bring the other end over, pressing down on the top of the bills, and the first end of the strap at the same time. The end raised last may then be brought down on the bills and pinned through into the edges of the bills with long bank pins. Three pins will be found sufficient. It seems hardly worth while spending time on such a subject as this, but it is a knack which many tellers know nothing about.

Although bills are put up in packages of one hundred each by the Treasury Department, it is the usual custom among banks to arrange them in packages of fifty each. Many tellers have a peculiar kind of trade to handle and find it worth while to make up packages of assorted money, say ones, twos, fives and tens in packages of twenty-five, fifty or one hundred dollars. The teller should have ample drawer space for his broken bundles and packages. It will hardly be necessary to have more than fifty loose bills of any one denomination in the draw at once. It facilitates proving at night to have as few loose bills as possible, and no time is lost during the day in pulling off a strap when necessary.

82. *Arrangement of silver.*—The arrangement of the teller's silver will depend largely on the demands made upon him. Silver is received from the Treasury Department in bags of one thousand dollars for halves, quarters and dimes. Nickels are put up in bags of two hundred dollars and cents in bags of ten dollars. The teller will find it convenient to have the coin rolled in the following packages: Halves in rolls of ten dollars; quarters in rolls of ten dollars; dimes in rolls of five dollars; nickels in two dollar rolls; and cents in fifty cent rolls. If much of this class of work is to be done, a coin wrapping machine, infallible in its workings, will be a great labor saving addition. After the coin is rolled, the reserve supply should be kept in strong wooden or light iron boxes and never in bags. If stored in bags, the wrappers soon become broken and the package is worse than useless as far as convenience in handling is concerned. There are many kinds of small change trays. The most ingenious is one made by the Brandt Cashier Company of Chicago, Illinois. This tray will deliver in the hand of the operator any sum from one cent to one dollar by pressing one key.

While on the question of silver, every teller should should know that it is possible to keep his supply of small change as complete as he desires without any expense whatsoever. If the bank is in New York City, the teller may obtain as much as he wishes from the Sub-Treasury; and he may use his mutilated bills to obtain it. If the bank is situated elsewhere it will have a New York correspondent, who will be glad to get rid of its mutilated bills by making the deposit for its correspondent bank. The Treasury Department will pay the express charges if the amount is large enough. A smaller amount will be sent at the expense of the consignee. The consignee must pay expressage on new coin. Treasury Department circular No. 58, dated 1908, contains the following information:

ISSUE OF STANDARD SILVER DOLLARS AND SUBSIDIARY SILVER COIN

5. Standard silver dollars are issued by the Treasurer and Assistant Treasurer in redemption of silver certificates and Treasury notes of 1890, and are sent by express, at the expense of the consignee, in any amount for silver certificates or Treasury notes of 1890, deposited with the Treasurer or any Assistant Treasurer.

6. Upon the deposit of an equivalent sum in United States currency or national bank notes with the Treasurer or any Assistant Treasurer or national bank depositary, subsidiary silver coin will be paid in any amount by the Treasurer or Assistant Treasurers in the cities where their several offices are, or will be sent in any amount, in packages of $50, by registered mail, at the expense of the Government but at the risk of the consignee, from the most convenient Treasury office. For this purpose, drafts may be sent to the Treasurer of the United States in Washington or the Assistant Treasurer in New York, payable in their respective cities to the order of the officer to whom sent. Drafts on New York City must be collectible through the clearing house, and should be drawn to the order of the Assistant Treasurer of the United States, New York, and mailed to him direct.

NOTE: After one-half of the appropriation for the transportation of subsidiary silver coin for the fiscal year ending June 30, 1909, shall have been used in the transportation of such coin by registered mail, it will then be shipped by express in sums of $200 or more, at the expense of the Government, or by registered mail, in sums of $50, also at the expense of the Government but at the risk of the consignee, as the depositors may request.

7. While paragraph 6 is in force, if desired, subsidiary silver coin will be shipped by express, instead of by registered mail, in any amount, by the Treasurer or Assistant Treasurer of the United States, at the expense of the consignee for transportation.

ISSUE OF MINOR COIN

8. Upon the deposit of an equivalent sum in United States currency or national bank notes with the Treasurer or any Assistant Treasurer or national bank depositary, 1-cent bronze and 5-cent nickel pieces will be paid in any amount by the Treasurer or Assistant Treasurer in the cities where their several offices are, or will be sent by express in sums of $20 or more, at the expense of the Government, or by registered mail, in like sums, at the risk of the consignee, registration free, as the depositors may request, from the most convenient Treasury office. For this purpose, drafts may be sent to the Treasurer of the United States in Washington or the Assistant Treasurer in New York, payable in their respective cities to the order of the officer to whom sent. Drafts on New York City must be collectible through the clearing house, and should be drawn to the order of the Assistant Treasurer of the United States, New York, and mailed to him direct.

The express charges on new silver or minor coin from mints of the United States must be paid by the consignee on delivery.

9. The offices of the Assistant Treasurers are located in the following cities, viz, New York, Boston, Philadelphia, Baltimore, New Orleans, Cincinnati, Chicago, St. Louis and San Francisco.

15. Subsidiary silver coin (halves, quarters, and dimes) and minor coin (1-cent bronze and 5-cent nickel pieces), assorted by denomination, in separate packages, may be presented in sums or multiples of $20 to the Treasurer or an Assistant Treasurer for redemption or exchange into lawful money. The words "sums or multiples of $20" apply to subsidiary silver

and minor coin separately. Standard silver dollars may be presented for exchange into silver certificates only. When forwarded by express, the charges should be prepaid.

16. Coins should be shipped loose in cloth bags. Shipments put up in wrappers, envelopes or rolls of paper will not be received.

Not more than $1,000 in silver coin, $100 in cents, or $300 in nickel 5-cent pieces should be shipped in one bag or package.

17. No foreign or multilated silver coins, or coins to which paper or any other substance is attached, or upon which any name or advertising is stamped or impressed, will be received. Coin is mutilated when punched, chipped, clipped, or otherwise appreciably reduced in weight by any means except natural abrasion. Coins so multilated or reduced will be stamped by the receiving officer with a distinguishing mark before returning them to the depositor. Silver coin not mutilated but defaced otherwise than as above described, where it can be clearly and readily identified as to denomination and genuineness, will be received.

18. Minor coin that is so defaced as not to be readily identified, or that is punched or clipped, will not be redeemed or exchanged. Pieces that are stamped, bent, or twisted out of shape or otherwise imperfect, but showing no material loss of metal, will be redeemed.

TRANSMISSION OF PAPER CURRENCY TO THE TREASURER

19. Paper currency for redemption should be assorted by kinds and denominations, and each one hundred notes or less inclosed in a paper strap marked with the amount. Each one thousand notes, as nearly as convenient, in straps, should be inclosed in a paper band, likewise marked. In large consignments, two such parcels laid flat, face to back, with two others directly upon them, never more than 4,000 notes in all, should be firmly tied with two cords, forming a compact package about $6\frac{1}{4}$ by $7\frac{1}{2}$ by 12 inches. With each package should be inclosed a memorandum giving an inventory of the contents, the sender's

name and address, and the disposition to be made of the proceeds.

20. Packages sent by express should be sealed up in stout paper, addressed to the "Treasurer of the United States, Washington, D. C.," and marked with the owner's name and address, the amount and kind of currency, and, if sent under the Government contract, with the words "Under Government contract with the United States Express Company from nearest point of transfer."

Packages sent either by express or mail should be addressed to the "Treasurer of the United States" only. If sent otherwise it involves delay and risk.

21. United States notes, treasury notes, gold certificates, and silver certificates may be sent in the same package marked "mutilated United States currency for redemption," provided the total number of notes in the package does not exceed 4,000. National bank notes should be sent in separate packages marked "national bank notes for redemption." A letter of advice should be mailed for each day's consignment of United States currency, and a separate one for National bank notes.

22. Remittances and returns by mail are invariably at the owner's risk. Communications to the treasurer in regard to packages lost in the mail are referred to the Chief Post Office Inspector Post Office Department, Washington, D. C., to whom any inquiry on the subject should be addressed.

23. Postmasters will register, free of charge, all letters to the Treasurer containing United States currency for redemption on which the postage has been fully prepaid. Registration of such letters is recommended as a protection against loss.

24. When gold, silver, or minor coin is shipped for credit of the 5 per cent redemption fund, or as a transfer of funds, it should be so stated on the shipping tag attached to the bag.

The paying teller is also charged with the responsibility of certifying checks, and he should ever keep in mind Section 170 of the National Bank Act in this connection. It reads as follows:

Sec. 170. Illegal Certification of Check: That any officer, clerk or agent of any National Banking Association who shall willfully violate the provisions of an act entitled "An Act in reference to certifying checks by National Banks," approved March third, eighteen hundred and sixty-nine, being section fifty-two hundred and eight of the Revised Statutes of the United States, or who shall resort to any device, or receive any fictitious obligation, direct or collateral, in order to evade the provisions thereof, or who shall certify checks before the amount thereof shall have been regularly entered to the credit of the dealer upon the books of the banking association, shall be deemed guilty of a misdemeanor, and shall, on conviction thereof in any circuit or district court of the United States, be fined not more than five thousand dollars, or shall be imprisoned not more than five years, or both, at the discretion of the court. (Act July 12, 1882, Ch. 290, sec, 13; Stat. U. S., 162.)

83. *Clearing house balances.*—Another important duty of the paying teller in a city bank with a clearing house, is to receive from or pay to the clearing house, the amount of the bank's credit or debit as a result of the exchanges. The mode of procedure varies in different cities. Clearing house debits in New York must be paid in between twelve-thirty and one-thirty p. m., and must be in clearing house certificates or other large gold or legal tender certificates. The bills are put into envelopes of large denominations and sealed securely. If the balance is large he will have to call upon the officer having charge of the large bills for sufficient money to make up the balance. A careful teller will record the number of all five and ten thousand dollar certificates passing through his hands. If the balance is a credit one, he should see that it is sent for shortly after one-thirty, and that the large bills are promptly turned over to the proper officer.

The paying teller or his assistant should pass on the signature of all checks paid, whether over the window or through the exchanges. This duty should under no circumstances be given to any other department or clerk. The paying teller understands the loss a forgery may cause better than any other man in the bank, and he should be responsible for the signature of every check paid.

84. *Stop payment notices.*—In some banks, the bookkeeper is held responsible for stop payment notices given by customers, in others the paying teller, and in still others the responsibility is divided between them. In this, as in all other duties, the responsibility should not be divided. Let either one be charged with refusing all checks on which stop payment notices have been received, and hold him definitely responsible. The paying teller is the man on whom this duty should fall. He is in the habit of cashing checks, without referring them to the bookkeeper, when he knows the account is good, and in so paying he might very easily cash one that he should not have honored. The records that he will have to keep depend largely on the class of depositors.

The depositor should issue his instructions to stop payment in writing and preferably on the bank's own printed form. See Figure 55 on page 127.

The same, or greater caution should be exercised before allowing a customer to issue duplicates of lost checks. Duplicates should be refused unless advice has been received of their issuance. A very good form of advice in regard to issuing duplicate checks is shown in Figure 56 on page 128.

The memorandum of stop payment notices is often a very carelessly prepared document and more carelessly cared for. The writer has seen such records made

Name... ....

Address..

Date..

To the

JERSEY NATIONAL BANK

NEW YORK CITY

Please stop payment on check No...,...........

dated.., for $......................................, in favor of

....

This check has not been paid as shown by your accounts rendered to date.

Yours respectfully,

....

FIGURE 55

STOP PAYMENT NOTICE

☞ [Correspondents will please use this form of advice in all cases where Duplicate Drafts are issued. Duplicates will not be paid unless notice of their issue is received. Be careful to examine account rendered to date before issuing. We advise correspondents not to issue Duplicates TOO READILY.]

....Bank,

....

....19............

To the

JERSEY NATIONAL BANK

NEW YORK CITY

We have this day issued DUPLICATE of our Draft on you,

No...dated...

for $..in favor of..

....

The original of this draft has not been paid as shown by your accounts current rendered to...

....

Yours respectfully,

....

FIGURE 56

NOTICE OF ISSUANCE OF DUPLICATE CHECK.

up on a piece of common scratch paper and stuck on a spindle in the paying teller's department or pasted on the wall near the teller's window. The "Dinah" of the bank may sometime take a notion to "have a clarin' up day," and then these scratch memoranda, whether important or not, are liable to be lost or destroyed. For a small bank, a stop payment card prepared by The Rand Ledger Company of North Tonawanda, New York, is an excellent record. Slips of cardboard on which are inscribed the details of the check to be stopped are inserted in tin slides. The slides may be kept in alphabetical order and all dead orders removed as soon as the check is caught and returned. Some sort of permanent record should be kept in a bound volume, because if a check is actually destroyed it will never be presented, and yet as long as the bank is doing business it must be on the lookout for the check on which payment has been stopped. Figure 57 on page 130 shows a good form for this bound record.

If the check is to be returned through the exchange, it should be prominently marked across the face in red ink "Payment stopped," so that it will be impossible for the check to be put through again. The writer can see no reason why the same method should not be followed when a check is presented at the window, except that an unpleasant discussion is liable to ensue.

85. *Clerks' pay roll.*—The paying teller should have charge of the clerks' pay roll in a large bank. In a small one this should be attended to by an officer. Unless the bank decides that each position shall carry a definite salary, the pay roll should be kept strictly private. The policy of attaching a specified salary to a position is not the wisest one to pursue. There are many things which govern the value of the services

STOP PAYMENT REGISTER

	Letter Dated	Date Received	No. of Check	Date of Check	Order of	Amount	Original Returned	Duplicate Paid

FIGURE 57

STOP PAYMENT REGISTER

of a clerk, and seniority is not the most vital. A young man who is diligent, faithful and studious is worth infinitely more than the man who does the work assigned to him and no more. The former sometimes fills his own position and a large share of the other man's, while the latter is attending to private affairs or simply doing nothing. An officer who has been through the lower positions knows what work each requires; he should know who actually does the work and adjust the pay roll accordingly. The best record for a secret method of paying is a common columnarized book with a space at the side for the name of the clerk and at the top for the period covered by the salary paid. See Figure 58 on page 132. Each clerk should have an envelope a little larger than a bill, with a brass fastener, so that it may be used again and again. Nothing but his name should appear on the envelope and that in the upper right hand corner, for convenience in handling. A few days before the salaries are due, the officer in charge should prepare a receipt for every man's salary and enter the amount due in the proper column in the record book. See Figure 59 on page 133 for form of receipt.

The filling in of these receipts will be a very simple matter. On the day before pay day the officer in charge should procure enough new money properly assorted, from the paying teller, put the receipt and the money in the proper envelope and fasten the clasp. The first duty of the day following should be to hand the envelope to the proper clerk. He will appreciate and boast of the prompt and careful manner in which his bank pays its men. The clerk should sign the receipt at any convenient moment and return it to the envelope, affixing the clasp. A box with a slot should be pro-

PAY ROLL BOOK.

	1908												1909						
Clerk's Name	Jan.	Feb.	Mar.	Apl.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apl.	May	June	July

FIGURE 58

PAY ROLL BOOK

RECEIPT FOR SALARY.

New York...19........

Received from the JERSEY NATIONAL BANK, of New York City

....Dollars

in full for salary to date.

....

FIGURE 59

SALARY RECEIPT

vided in which the envelopes may be deposited. By following this method no clerk will be liable to ascertain what another's salary is, if the record book is kept under lock and key. He will know that he gets his salary, neatly prepared in new money, that it is handed to him personally by a responsible clerk or officer, and he will not fail to mention these features when talking about his bank.

86. *Shipments of money.*—The paying teller should have charge of all shipments of currency and securities, by express or registered mail. If these shipments are numerous, they should be counted and sealed by two clerks and such records made that each of them could make affidavit that the money, securities or other valuables said to have been enclosed, were so enclosed, and that the sealed package was not out of their possession until delivered to the proper express or registered mail clerk, whose receipt they can produce. Even if the clerks are never called upon to make such affidavit, the moral effect of the formality of the procedure impresses upon them the value of the property they are releasing possession of, and makes them careful.

87. *Paying teller's records.*—The paying teller's records are very simple and include a cash book, a proof or settlement book, a certification book, a record of stop payments and his signature files.

His cash book is a little more than an enlargement of his proof, but it should be kept by an assistant so as to check his work. If he receives everything through the receiving teller, only a small portion of the page is needed for the debit or receipt side. He should, however, receive the clearing house credit and provision must be made for that. The credit side should be columnarized to provide space for charging the general ledger and each of the individual ledgers. This cash book should not be a posting medium, although it may be if proper space is left for explanation of general ledger items.

The teller's settlement book is the book upon which he makes his settlement or proof at the close of the day. He charges himself with the balance of cash on hand at the opening of business, with receipts of all kinds, and credits himself with all disbursements. The difference is the amount of cash he ought to have, which agrees with the general ledger. For convenience in making reports, the teller should keep his records of cash on hand, so as to show specie, legal tender notes, notes of other national banks, etc.

88. *The receiving teller's department.*—The receiving teller is the clerk designated to receive the deposits of customers of the bank. If there are two tellers, he should not be allowed to make disbursements under any circumstances. In a small bank, where there is not enough work to warrant a third, or note teller, he handles the work of the two departments, and is known as the receiving and note teller. The receiving teller receives and receipts for all deposits of customers and then passes the deposits along for credit to the customers.

A deposit slip containing all kinds of items he is liable to receive, is shown in Figure 60 on page 136. His first duty is to receipt in the depositor's pass book for the total deposit. Before giving the receipt he should count all the money, looking very carefully for counterfeits. He should check the other items listed on the deposit slip, making memoranda thereon when the depositor has not given sufficient information. He should examine all checks for endorsement, and see that the depositor's name appears on every check, as this

THE FARMERS & SAVINGS BANK CO.

DEPOSITED BY

Rockfork, Ohio ____________________ 190

PLEASE LIST EACH CHECK SEPARATELY

Currency		
Silver		
Gold		
CHECKS AS FOLLOWS:		
Total, $		

SEE THAT ALL CHECKS AND DRAFTS ARE ENDORSED

FIGURE 60.
DEPOSIT TICKET

is the only way that the check may be identified after it has once gone into the work. If the window business is very active, he will have to receipt for large deposits subject to inspection, but deposits made by customers who do not come to the bank often should be inspected at the time the deposit is made. As the items are checked off, the teller should drop them in a box with several compartments. The exchanges should be separated from the route or hand items, the foreign and the miscellaneous.

89. *Deposit records.*—The first record of the deposit is made on a deposit scratcher, shown in Figure 61 on page 138. The total amount of the deposit is listed in the amount column and a memorandum of the currency contained in the deposit in the small extra column. This memorandum may be very useful in looking for a difference later in the day. It is almost the universal custom to post the credit to the customer's account from the original slip, so there is no particular reason why this laborious memorandum should be kept. A list of the deposits made on an adding machine will answer the purpose quite as well, provided some provision is made for the preservation of the records. The best method of preserving machine records of this kind, is to list the items on sheets instead of on slips and bind them in a suitable binder.

The sum of the deposits received during the day must be accounted for by an equal amount composed of the following items:

1. Legals.
2. National notes.
3. Gold coin.
4. Silver.
5. Nickels.

DEPOSIT SCRATCHER (Date)

Name	Currency	Amount	Name	Currency	Amount

FIGURE 61

DEPOSIT SCRATCHER

	Legals	Nationals	Gold Coin	Silver	Nickels	Cents	

FIGURE 62

CASH MEMORANDUM

6. Cents.
7. Exchanges for clearing house.
8. Route and hand items.
9. Checks on selves.
10. Foreign cash items.
11. Certified checks on selves.
12. Cashier's checks.
13. Certificates of deposit.
14. Cash coupons.
15. Foreign money.

The receiving teller's proof book is nothing more than a summary of these various items conveniently arranged. Items 1 to 6 inclusive must be summarized, and for this purpose a pad of forms shown in Figure 62 on page 138 will be found very useful. Habit is no less valuable in handling money than in putting on one's clothes in the morning. If a teller is accustomed to make his memoranda of cash count in the same way each day, he will soon become very proficient in summarizing. Additional columns may be provided if further subdivision of these items is desired.

90. *Clearing house items.*—The items included in exchanges for clearing house are carried to the proof book in total from a record prepared as follows:

The teller's assistants take the checks which he receives from time to time and sort them up for listing. The items for the clearing house are sorted into a "rack" or set of pigeon holes above their desks. Each bank in the clearing house has a number assigned to it and has a box in this rack. As soon as sufficient items have accumulated in the rack to make it worth while, the assistants begin to list the items on slips, a copy of which is shown in Figure 63 on page 140. These slips may be inserted in an adding machine or machine lists

No. 3.

From

LIBERTY NATIONAL BANK.

June 30, 1909.

				$ 472.20	
				328.60	
				198.00	
				25.00	
				37.50	
				26.82	
				1,000,00	
				$2,088.12	
				175.00	
				150.00	
				78.20	
				$2,491.32	

FIGURE 63.

CLEARING HOUSE SLIP.

Receiving Teller | CLEARING HOUSE SHEET | May, 5th, 1909

	1	2	3	4	5	6	7	8	9	10	11	12
											Summary	
											1 2 3 4 5 6 7 8 9 10 11 12 Total	

Figure 64. TELLER'S CLEARING HOUSE SHEET

made on narow machine paper. A footing is struck every time checks are added and entered again at the beginning of a new slip when other checks are added.

As a proof of these clearing slips, another clerk lists the items on a clearing house sheet which is retained by the bank, while the slips mentioned before are sent with the checks to the bank on which the checks are drawn. The clearing house sheet is simply a columnarized sheet, as shown in Figure 64 on page 141. If the work is very heavy, this sheet may also be made up on several sheets similar to the deposit scratcher. The clerks soon learn how much space to leave for each bank. If the items which have been listed are placed beneath the slips, the clerks are able to sort other checks into the boxes and know just where to begin when opportunity offers to list again. When the total of items for clearing house has been ascertained, the teller enters it in his proof book.

91. *Route or hand items.*—The route or hand items are usually not too large to list in the proof book.

92. *Checks on selves.*—Checks on selves, and other items in the list may be listed on the proof book.

93. *Receiving teller's journal entries.*—The journal entries drawn up by the receiving teller may be handled in many ways, but the effect is essentially the same in each case,—namely to credit individual deposits with the entire receipts and to debit as follows:

Paying teller:
- Cash.
- Exchanges.
- Foreign money.

Note teller:
- Route or hand items.
- Cash coupons.

Collection clerk:
  Foreign cash items.
General ledger:
  Individual deposits for checks on selves.
  Certified checks on selves.
  Cashier's checks.
  Certificates of deposit.

Naturally, where there are several individual ledgers, or several individual ledgers and a bank ledger, the items to the debit or credit of individual deposits should be divided between the ledgers.

94. *Items for collection.*—The receiving teller is called upon to acknowledge receipt to depositors of items left by them for collection, such as notes on other cities, checks or drafts against which the receiving teller thinks the depositor ought not to draw until paid, coupons not due, etc. It is customary to receipt for such items in the back of the depositor's pass book, except when this line of business is large, when a special pass book should be used, in which case the collection clerk should initial for the items himself. The receiving teller is merely a go-between for the convenience of customers, and immediately turns the items over to the collection clerk, who receipts for them. The receiving teller should keep a register giving sufficient information to enable him to trace any items later on.

95. *Care of money.*—The money received by the receiving teller should be sorted very carefully and strapped for use at the paying teller's window. He should have a special safe in the vault and should turn all his money, etc. over to the paying teller before the opening of business on the following day. The receiving teller should not be allowed to hold any money or checks over, to go in the following day's work.

96. *The note teller's department.*—The duties of the note teller in a large bank are varied, important and exacting. He is charged with the responsibility of collecting all the local discounts of the bank that must be presented for payment when due, or receive the payment therefor at his window. He must present and collect all local notes held for collection, for account of customers. He must present for acceptance and payment all local drafts deposited by customers for collection. All of the above duties must be cared for on the exact due date or the bank may sustain heavy losses for non-presentation, by releasing endorsers. Payment for these items is usually made by check on a clearing house bank, and so it is necessary in a large bank for him also to run a clearing house sheet similar to the one referred to under the receiving teller. All items collectible by hand are charged to him by the other departments and at the end of the day he must have sufficient cash, clearing house checks and unpaid items to equal the amount charged to him.

In the first place he will need a tickler to keep track of the things he must do on a certain day. Any style will do.

97. *Sight drafts.*—Sight drafts should be presented for acceptance to the drawee promptly. Figure 65 on page 145 shows a sight draft with the acceptance written across the face. If the teller is not familiar with the person or firm, on whom the draft is drawn, he should have the accepted draft certified by the bank when the item is payable after acceptance, as shown in Figure 66 on page 145. This should be done in all cases where advice of payment is requested by the customer, by wire.

98. *Time drafts.*—Figure 67 on page 146 shows a time draft drawn for thirty days after sight. Figure 68

$475.00 Philadelphia, Pa., July 6th, 1909....

........At Sight..Pay to the order of

...Fred S. Brewster..

Four hundred seventy five and...$\frac{No}{100}$ Dollars

....

Value received and charge to the account of...

To...Dodge & Company..........

No. 47 A. St. N. Y. City..........

...Ralph Colby............

Accepted—Payable at the Jersey National Bank,
N. Y. City. Dodge & Company.

FIGURE 65

SIGHT DRAFT, ACCEPTED

$475.00 ....Philadelphia, Pa., July 6th, 1909....

........At Sight...Pay to the

order of........Fred S. Brewster...

Four hundred seventy-five and...$\frac{No}{100}$ Dollars

Value received and charge to the account of...

To....Dodge & Company............

No. 47 A. St. N. Y. City...........

....Ralph Colby............

Accepted—Payable at the Jersey National Bank,
N. Y. City. Dodge & Company.

Certified, July 8, 1909. Jersey National Bank,
G. W. Cotton, *Teller.*

Figure 66

SIGHT DRAFT, ACCEPTED AND CERTIFIED

$300.00.... ....Chicago, Ill., July 7th, 1909....

........Thirty days after sight..Pay to the

order of............R. W. Gorham...

.. ..Three hundred...and No/100 Dollars

Value received and charge to the account of...

To....Hines & Hitch............

No.....120 B'way, N. Y. City............ ....Harry D. Hall........

FIGURE 67

TIME DRAFT

$300.00.... ......Chicago, Ill., July 7th, 1909

........Thirty days after sight..Pay to the

order of........... R. W. Gorham...

.......Three hundred...and No/100 Dollars

Value received and charge to the account of...

To ...Hines & Hitch..........

No.....120 B'way, N. Y. City............ ....Harry D. Hall ......

ACCEPTED
July 10, 1909.
Payable at the
Delaware National Bank
New York City
Hines & Hitch

FIGURE 68

ACCEPTED TIME DRAFT

on page 146 shows this same draft accepted by the drawee, payable at the Delaware National Bank. It is now a note and must be filed away so that it will appear automatically for payment on the due date. The teller on that day will present it at the bank for certification.

99. *Collateral drafts.*—There are many kinds of collateral drafts sent to New York for collection. The teller should make it a rule never to surrender documents of any kind until the accompanying draft is paid, unless he has definite instructions to the contrary. The most important collateral draft is one accompanied by bills of lading covering goods shipped by the drawer to the drawee. Bills of lading are always drawn to the order of some one, usually the shipper. When attaching them to a draft, the shipper should endorse them in blank. If he made the mistake of endorsing the bills to the bank, the bank should endorse them "without recourse" or "as bankers only," or better still, return the bills for correct endorsement. Stocks and bonds are frequently sent with a draft for delivery to the drawee on payment.

100. *Messengers.*—In a growing bank and one with a large staff of clerks, there is no better way of training young men for responsible positions than by having them act as messengers as their first duty. The messengers should be at the disposal of the note teller during the morning hours, after the exchanges have been sent to the clearing house. All local items that have been received in the morning mail and all received by the receiving teller on the day previous, should be sorted into routes and listed under the name of the payee. Each messenger should have a book and be responsible for the correct entering of his items. Before he leaves the bank these items should be listed by another messenger, so that any error may be detected. He should sign in the

note tickler for any notes due which he can collect. If other departments have items to be sent out, they should hand them to the messengers, obtaining their receipt therefor and instructing the messenger to obtain a separate check.

101. *Note teller's records.*—The note teller's cash book is a little more complicated than the receiving teller's, owing to the number of sources of items and the many kinds. The book should be ruled so that he may charge himself with items received from all departments and sources, and credit himself with all cash turned over to the paying teller, with the exchanges sent to the clearing house, items held over and unpaid items returned.

A very careful record of unpaid or return items should be kept by the note teller. A book should be ruled with sundry columns, to record the names of the drawer, drawee, payee, date, time, amount, endorsers, memorandum of documents attached and reasons for dishonor or refusal. A column should be provided for the signature of the notary.

102. *Mail teller's department.*—It will not be necessary to have a separate mail teller except in very large banks in clearing house cities. Banks in large cities, especially New York, have accounts with other banks. Some of these are reciprocal accounts, but they are usually reserve deposit accounts of the country banks. New York exchange is always in demand, and the New York account is no small source of revenue to the country banks, because of their ability to sell drafts at varying rates of exchange. These drafts are deposited in other banks and sent to New York, with all other papers collectible through or from New York. A large percentage of the deposits of the downtown or Wall Street

banks is composed of this class of remittance letters from out of town banks and customers. The heavy mail trains arriving during the night from cities within three or four hundred miles bring to the New York bank a great many checks and other items deposited during the day. The mail may be obtained from the post office quite early in the morning. The clearing hour in New York is at 10 o'clock, and therefore if a bank has an efficient force of clerks, it may open these letters and collect most of the checks through the exchanges on the same day, thus saving a day's interest. The mail teller is the clerk charged with this duty.

Trusted messengers are selected to report earlier than the general staff. Two of them stop at the post office and get the mail. On arriving at the bank they open the mail and stack the letters in piles to be checked off by the other clerks when they arrive. Many customers send money in remittance letters in spite of the protestations of the post office department. Coupons are often enclosed in large quantities though they are also payable to bearer. It will save time if the large letters are placed on the desks of the older or more efficient clerks.

103. *Remittance letters.*—There are many styles of remittance letters. The gist of the whole matter is included in the following legends, used as headings to the letters: "We enclose herewith for credit to our account the following items," and, "We enclose for collection and credit." These phrases are followed by a list of items with more or less detail. The description of the items is usually very meagre and much annoyance would be saved if the country banks would state in their letters, on whom the items are drawn. Figure 69 on page 150 shows a remittance letter containing all the items likely to be sent to New York for credit or col-

THE UTAH NATIONAL BANK

BOISE CITY, TENN.

May 11, 1909.

THE BLANK NATIONAL BANK,

NEW YORK CITY.

DEAR SIRS:

We enclose herewith for credit to our account, the following items.

Yours truly,

J. J. HAMMOND,

Cashier.

F. A. D.

Payer		Amount	Payer		Amount
Nat. City, N. Y.	—	$4,000.00	8		$4,000.00
Bk. of N. Y.	—	2,000.00	1		2,000.00
Chase Nat., N. Y.	—	1,800.00	74		1,800.00
Kountze Bros.	O	726.32	Kountze	O	726.32
Blank Nat.	X	87.36		X	87.36
Hartford, Ct.	L	108.21	Hartford, Ct.	L	108.21
Bills	T.N.J.	3.00		⅃	3.00
Un.Pac.Coupons	Baldwin	200.00		C	200.00
So. Pac. Coupons		100.00		C	100.00
		$8,024.89			$8,024.89
Less		303.00			
		$7,721.89			

FIGURE 69

REMITTANCE LETTER—CHECKED

lection. The part of the letter on the left shows the information which is useful to the New York bank. The part on the right shows the letter minus this information. Both sides are checked. The mail teller should compile a set of check marks to indicate the different kinds of items and instruct the clerks in their use. A set of such check marks is shown in the figure.

104. *Mail teller's journal entries.*—The mail teller charges himself with the total of the letters received, credits himself with each of the following and charges the department indicated:

Exchanges	Paying teller
Route items	Note teller
Check on selves	General ledger
Foreign items	Collection clerk
Cash	Receiving teller
Coupons	Coupon receiving department.

Cash and coupons sent in regular remittance letters may be omitted from the mail teller's work. In this case he should obtain an initial on the letter for the items so delivered and indicate plainly on the letter that they are omitted from his work. (See the Figure.) It may be considered better bookkeeping for the mail teller to charge himself with the total amount of the letter and take credit for all items charged to the different departments, but it is better practice not to allow him to keep such negotiable things as cash and coupons for any length of time. The charges to the different departments are made from the actual items.

With the foregoing remarks in mind, let us return to the clerks who are checking off the letters. Since the clearing hour is 10 o'clock, the first thing that must be disposed of is the exchanges. The clerks check off the items and lay the checks for clearing house in one pile, the route items in another, the foreign in another and the checks on selves in another. The currency and other items are left with the letters. The letters and checks are collected by boys and delivered to the men who are attending to the detail in connection therewith. The letters should be taken in hand immediately by a responsible clerk or junior officer. All regular remittance letters are turned over to the mail teller and all letters containing only collection items are handed to the collection clerk. Special letters requiring attention by the officers are handed to the proper parties for attention.

The exchanges will, in the meantime, have been endorsed, sorted, listed, proved, sealed and sent to the clearing house, together with those of the previous day put up by the receiving and note tellers. The total of the checks sent to the clearing house from this morning mail is known as "Morning additions," because they are added to those prepared as of the close of business on the day previous.

The messengers who have been collecting the items checked off by the clerks, endorsing the checks for the clearing house and sorting same, now list and prove the route items which they have also picked up, before going out to collect them. The total of the route items received in the morning mail is charged by the mail teller to the note teller.

The mail teller's own clerks then list the checks on selves and foreign items before turning them over to the departments to be charged with them. They also sort the letters in the order that the accounts appear on the ledgers and string them in convenient bundles for use

MAIL TELLER'S CREDIT BOOK

July 12	July 13	July 14	Customer	July 15	July 16	July 17

FIGURE 70

MAIL TELLER'S CREDIT BOOK

MAIL TELLER'S SETTLEMENT BOOK

DR. 19........

Letters:			First teller		
A-G			Second teller		
H-Q			Third teller		
R-Z			Ledgers A-G		
			H-Q		
			R-Z		
			Collection Clerk		
			Coupon Dep't		
			General Ledger;		
Total			Total		

FIGURE 71

MAIL TELLER'S SETTLEMENT BOOK

in posting. The letters must first be listed in credit books. The kind of credit book to be used will vary with the other machinery of the bank, but it is probable that some method of tracing a remittance through the mail teller's books will be used, though the posting to the individual ledgers will be made directly from the letters. A convenient form of credit book is shown in Figure 70 on page 153. The names of customers might be printed, if plenty of space is allowed for new accounts. Some banks give each customer a number when opening an account and make all such records, which are really little more than summaries or memoranda when postings are made direct, by the use of these numbers. There is convenience and inconvenience in the method.

The mail teller's settlement book is shown in Figure 71 on page 153, and needs no explanation.

105. *The loan department.*—The loan department of a bank compares with the sales department of a producing or manufacturing company, or with the operating department of a railroad. It is the department under the guidance of an officer, where the profits of the bank are made. In a large bank in New York City, the duties of this department are very exacting and of vastly more importance to the bank than any other. If the department has several clerks and loans in the millions, an officer should have a desk in the cage and be in charge.

106. *Time and demand loans.*—The first general division of loans is into time and demand. The time loans are classified as time loans and discounts. Either demand loans, time loans or discounts may be with or without collateral. Collateral may be divided into mortgages or other liens on realty and other collateral. The latter includes all forms of loans on stocks, bonds, bills

of lading, warehouse receipts, assigned claims, and not infrequently upon silverware and jewelry, though the latter class of loan borders on pawnbrokering and cannot be classed as a legitimate bank collateral. Discounts are always referred to in New York trust companies as bills purchased, because the law does not give them the right to discount bills receivable, but does allow them to purchase, invest in, and sell stocks, bills of exchange, bonds and mortgages and other securities.

The loans and securities should be kept in perfect order so that any note and its collateral may be produced with the least amount of delay. The furniture and general equipment should be selected with due regard to the vault space and room in the cage. It would seem almost like the millenium if all New York banks would adopt some method of filing loans flat instead of folding stocks and bonds in order to get them into the usual loan envelope.

107. *Discounts.*—The Standard Dictionary defines discounting as "The purchasing or accepting of notes, etc., at less than face value, retaining the difference, when paid, as interest." The same authority defines discount as "The interest allowed and deducted from the face amount for advancing money on negotiable securities not yet due."

The best kind of discounts arise from transactions similar to the following: A is a manufacturer of goods and sells to sundry dealers, including B. B buys his goods long before the season and must sell them when the season arrives. He is unable to pay A when he buys the goods, so gives his note to A for sixty or ninety days. He draws the note in A's favor and makes it payable at his bank. See Figure 72 on page 156. B, of course, can buy his raw materials for the next season's output

$920.00 Nashville, Tenn., July 6th, 1909

Sixty days after date, I promise to pay to

"A"..or order

Nine hundred twenty and..$\frac{No}{100}$ Dollars

at the Brooklyn National Bank, Nashville, Tenn.

Value received.

No............................ Due..."B"..............

Figure 72
NOTE

$1,000.00 Delaware, N. Y., July 25th, 1909

On the 25th day of........October............1909

We.......................promise to pay to the order of....................Hudson & Co.........

One thousand and...$\frac{No}{100}$ Dollars

at the Coal National Bank.

Value received.

Douglas & Duff

Figure 73
NOTE

at a better price if he can pay cash than if he has to give his promise to pay. He therefore takes the note to his bank, after endorsing it, and the bank gives him credit on their books for the amount of the note less interest to maturity, or less the discount, as it is termed. If B is a man of means and integrity, so that he is both able and willing to pay the notes of his customers in case they default, he will be allowed to discount his customers' notes quite freely.

We have become used to dealing on credit, and to-day do not demand a note for every sale of goods. The buyer is charged on the books of the seller and remits when he is able, or according to agreement made at the time of sale. Thus we have not so many bills receivable and a great many more accounts receivable. The seller must, however, have money with which to buy raw material. He therefore goes to his banker and offers his own note for discount. This paper is not so highly regarded by the bank as the note of the purchaser endorsed by the seller, and the bank is much more careful in investigating the credit of the borrower. If the bank has a great deal of confidence in the man they will loan him on his own note. If they wish to feel a little more secure in making the loan, they will require the applicant for the loan to get some one to endorse his note. Some banks loan on the note of the seller and take an assignment of the accounts receivable as security. We will discuss this class of loan later.

108. *Forms of notes.*—There are a few points that may prove interesting and instructive in the forms of notes. The note shown in Figure 72 on page 156 is the most common. The due date must be figured out by the bank and noted on the bottom of the note.

A very convenient form of note is shown in Figure

NOTICE

Please keep this memorandum, as no further notice will be sent you by the Company. It is expected that all notes will be paid at maturity, unless previous arrangement is made.

My note for $................................., due

at MUTUAL TRUST CO., Port Chester,

N. Y.,..19.......

—o:O:o—

$.....................   Port Chester, N.Y.,................19....

....................................after date

for VALUE RECEIVED..........................promise to pay to the order of

myself..Dollars

at MUTUAL TRUST COMPANY of Westchester County

....

No............................ Due..

FIGURE 74
NOTE

$.. 19	No.
....................months after date................promise to pay	Due.
to the order of..at the	
MERCHANTS' NATIONAL BANK,	

....Dollars

for value received.

....

FIGURE 75

NOTE

73 on page 156. The due date is settled at the time the note is drawn and specifically mentioned in the body of the note. This is valuable in definitely determining the due date at the time the note is drawn. It is hardly likely that a note will be drawn to fall on a holiday or Sunday when the due date is thus specified. At least the drawer can make a proper memorandum for his own use.

Figure 74 on page 158 shows a note in use by an active trust company in the suburbs of New York. The notice on the stub attached to the note is filled out, torn off and handed to the maker when the loan is made. The company has an extra supply of the stubs, in pad form, for use when the borrowers are the endorsers and not the makers of the notes.

The note shown in Figure 75 on page 159 has a very convenient arrangement of the number of the note and the due date. When running over a number of notes in search of a particular one, it is very convenient to have the dates on the upper right hand corner, so that all desired information is revealed when the corner is turned up in thumbing through.

109. *Offering book.*—In some banks no loans of any size are made until they are properly approved by the board of directors, or an executive committee of their number. If the discounts are very active, an offering book may be found useful. A form is shown in Figure 76 on page 161. When this book is used the members of the committee passing on the loans should sign the page of the book. An "A" in the remarks column indicated that the loan has been accepted and an "R" that it has been refused. This book will be found useful only in banks where much paper presented is refused. If the officers are able to forecast what the probable action of

Date,..

Maker	Endorser or Collateral	Discounter	Time	Amount	Remarks

FIGURE 76

OFFERING BOOK

Date..

No.	Maker	Endorser	Discounter

Date	Time	Due	Amount	Discount	A-L	M-Z	Sun-dries	Where Pay-able	Dispo-sition

FIGURE 77

DISCOUNT REGISTER

Date,..

Date of Discount	Consecutive Numbers	Preceding Numbers	Drawer	Endorser	Discounter

Date,..

Date of Note	Time	When Due	Amount	Discount	Proceeds	Renewal Number	When Paid or Renewed	Amount Paid or Renewed	Remarks

FIGURE 78
DISCOUNT REGISTER

the executive or discount committee will be, the discount register will answer the purpose of the committee. A good form is shown in Figure 77 on page 161. Every note should receive a number when it is entered on the records of the bank. It is customary for the executive committee to meet weekly and when officers have the ability to pass on the loans as noted above, they may be accepted and entered chronologically in this register. There is an objection to this register in that it is very difficult to trace a piece of paper that has been renewed several times back to its inception. Many notes are renewed either in whole or in part and in determining whether or not to allow a borrower an extension, the question as to what he has paid on previous renewals, or whether he has renewed at all, enters very largely into consideration. To provide a record that will make it possible to trace a loan back through its various stages, a form as shown in Figure 78 on page 162 has been devised.

110. *Discount posting media.*—There are various methods of posting the results of the discount desk to the individual and general ledgers. The discount register is an excellent book of original entry and by allowing a separate column for each of the ledgers, may be used as a posting medium with distinct advantage. However, there is an objection in allowing too many clerks to know the details of the loans. The discount register showing the names of the borrowers and their endorsers and guarantors, contains a mass of information that may be of value to an unscrupulous person. It is information that the borrower would not like to have generally known. Therefore the bank should be very careful not to leave the discount register around for general inspection. In most cases it would be much better to

LINCOLN TRUST CO.

....190..........

Credit..

....

....

....

Figure 79

CREDIT TICKET

LINCOLN TRUST CO.

....190........

Charge..

....

....

....

FIGURE 80

CHARGE TICKET

Dr. JULY 13th, 1909 Cr.

General Ledger	A-K	L-Z	Details	General Ledger	A-K	L-Z
$40,000.00			Discounts			
			To			
			Alfred Brown		$ 9,900.00	
			Charles Towney			$9,850.00
			Ezra Farmer		19,600.00	
			Discount	650.00		
			For discounts made this day			
	$1,000.00		George Harvey			
	2,000.00		Isaac Johnson			
		$1,500.00	Kingdon Lane			
			To			
			Discounts			
			For discounts paid this day	4,500.00		
$40,000.00	$3,000.00	$1,500.00	W. H. Lee—Discount Clerk	$5,150.00	$29,500.00	$9,850.00

Figure 81

CHARGE AND CREDIT TICKET

make out a special ticket crediting the borrower. A very simple credit ticket is shown in Figure 79 on page 164. The charge to discounts may be made on a similar ticket as shown in Figure 80 on page 165.

The work of preparing the credits to the individual accounts may be simplified very much by using the system of tickets as shown in Figures 12 and 13 on pages 45 and 46. The detail of the day's entry in the discount department would appear on this kind of ticket as in Figure 81 on page 166.

It may be used to furnish the detail for the individual ledger, the total of charge to discounts for the general ledger and the total of the credit to the controlling account of each of the individual ledgers on the general ledger.

111. *Tickler.*—The tickler is a very important book. It is essential to have a note presented on the day it is due. If it is not done, the endorsers are released from their liability as endorsers. A very high grade of efficiency is expected by the general public from banks, and there must be no slip in the presenting of notes due at a future date. In the first place, the notes must be "timed." "Timing a note" means to figure out when it will be due under the terms of the note and noting it on its face. If notes are drawn so many days after date, a maturity calendar will be found very useful. This calendar shows the month in order on one page. In addition to the days of the month, the days of the year are also indicated. Thus the first of February will also be known as the thirty-second day of the year, the twenty-eighth as the fifty-ninth day; the first of March, as the sixtieth day of the year, and so on. Suppose a note is dated January 19 and is drawn at forty days sight. January 19 is also the nineteenth day of

Date,..

Number	Drawer	Endorser	Where Payable	Amount	Remarks

FIGURE 82

TICKLER

Date,..

Number	Drawer	Endorser	Where Payable	Amount Due	Amount Paid	Remarks

FIGURE 83

TICKLER

1	JANUARY 1908						NOTES PAY TODAY			
2	Promisor	Endorser	Number	Amount	Rate	Date Paid	Number	Amount	When Due	
3										
4										
5										
6										
7										
8										
9										
10										
11 Etc. to 31										

FIGURE 84

TICKLER

	COLLECTIONS						Coll. Paid Today			1
	Payer	From Whom Received	Number	Amount		Date Paid	Number	Amount	When Due	2
										3
										4
										5
										6
										7
										8
										9
										10
										11
										Etc. to 31

Figure 85

TICKLER (Reverse Side)

the year; adding forty days to have fifty-nine, which is found on referring to the calendar to fall on February 28.

The simplest form of tickler is an ordinary diary in which a memorandum may be entered of the number of the note due on that day, the amount, where payable and such other data as may be found convenient. An improvement on this form would be made by having a book made up as per Figure 82 on page 168. A still better form is shown in Figure 83 on page 168.

A very convenient loose-leaf tickler is manufactured and sold by the Rand Co. of North Tonawanda, New York, ruled as per Figures 84 and 85 on pages 169 and 170, which represent both sides of the same sheet. They are twelve inches wide and nine and one-half inches long. The binder has twelve heavy divisions for the months with strong tabs. A sheet is inserted between the monthly boards for each day of the month. Each day's sheet also has a projecting tab so that with two moves of the hand the tickler can be opened to any day in the year. Figure 86 on page 172 shows a slightly modified form of this tickler. The distinguishing feature is the separating of the foreign and home notes.

If it is possible to have all notes paid at maturity, or if the bank is willing to adopt some other method of crediting discounts with the notes at maturity, and then making some disposition of unpaid items such as charging them to the customer and then crediting him on the same day with a renewal, or charging them to suspense to be later disposed of, a combination of tickler and journal may be made, which will save a great deal of labor. The tickler is a book of tickets ruled like Figure 87 on page 173, perforated so that the ticket may be

KANAWAHA BANKING & TRUST CO., CHARLESTON, W. VA., TICKLER ....

	Number	Maker	Where Payable	When Sent	Foreign	Home	Paid	Remarks

FIGURE 86

TICKLER

DISCOUNT DEPARTMENT JULY 13, 1909

A-K	L-Z	Cash	Suspense	Description	Number	Amount	Remarks
				For Discounts Due This Day			
1,500.00				Charles Haviland	1210	$1,500.00	
	$500.00			John Maloney	1232	500.00	
			$300.00	George Myer	1276	300.00	Protested
		$700.00		Henry Brown	1282	700.00	Check 1st Nat. Bank
$1,500.00	$500.00	$700.00	$300.00			$3,000.00	

FIGURE 87

COMBINED TICKLER AND JOURNAL

removed from the book and handed to the bookkeepers at the close of the day.

This book should be dated with a band dater some weeks ahead. The name of the borrower, the number of the note and the amount shown on the credit side of the ticket is to be filled in at the time the loan is made. From time to time other notes will be added. Some discretion will need to be used in apportioning the number of pages needed for a day's discounts if they ever exceed one page. This difficulty may be overcome by using a loose-leaf scheme with binder; then when a page is filled up for a certain day, a new leaf may be inserted. A complete discount register should be kept if this system is used, because the names of other people than the borrower, whether he be maker or endorser, would be superfluous on this ticket. If such information be desired when consulting the tickler, the register may be quickly referred to from the number of the note appearing in the tickler.

When the day—July 13, 1909—arrives, the tickler will be kept on the desk of the discount clerk. Mr. John Maloney has previously written a letter to the bank instructing them to charge his account, which is in funds, with the amount of the note maturing on July 13. The discount clerk simply enters the amount on the debit side of the sheet in the L–Z column on the line with John Maloney's name, stamps the note paid, pins it to Mr. Maloney's letter and throws it in his mail basket for advice with others when convenient.

Henry Brown brings in a certified check on the First National Bank. The discount clerk stamps his note paid and gives it to Mr. Brown. He then enters $700 in the cash column, making a memorandum in the remarks column to indicate of what the cash consisted.

Mr. Haviland calls and renews his loan for $1,000, instructing to charge his account with the difference, $500. He is informed that the bank will charge his account with the full amount of the old loan and give him a new loan of $1,000. The old note should be stamped paid and handed to him and the new note regarded as a new loan. Some banks refuse to surrender the old note until the loan is fully paid, no matter how many times it is renewed. There is no special advantage in having one's files filled with a lot of old notes, past due, which may be of immense advantage to an unscrupulous clerk who wishes to cover up a defalcation. Old notes should never be kept in the files when a new note has superseded them.

The messenger who was sent out by the discount clerk to see why Mr. Myer did not pay his note learned that he had been compelled to leave town a few days on a pressing business trip, and in the excitement of departure had forgotten to make provision for the payment of his note. His account is not good for the amount, so it cannot be charged. In any case it would be better to have instructions before charging. Mr. Myer is highly regarded by the bank, so the clerk simply charges it to suspense. The note is endorsed by several parties and it is therefore protested as a matter of precaution, and a special charge ticket made up for the fees. Similarly, each note should be disposed of at the proper time.

After all the notes have been recorded on the debit side in one way or another, the ticket is footed up, proved, torn out of the book along the perforated line and handed to the individual bookkeeper for posting. After he has made his entries, the general bookkeeper takes the ticket and debits A-K ledger, $1,500, L-Z, $500; suspense account, $300; cash, $700, and credits discounts, $3,000.

The current day's work is always before the discount clerk in his tickler.

A proof of discounts should be made from the tickler about once a month. The credit columns should be footed and a summary made of the totals, which should agree with the amount shown on the general ledger. If desired, the pencil footings may be made in the remarks column, where they will in no way conflict with other figures on the ticket.

112. *Bill book.*—The bill book is known by some as the liability ledger, by others as the discount ledger and by others as the credit ledger. By whatever name it is known it is a record of the borrowings of the bank's customers, showing how much each one owes the bank and the nature of the liability. Some banks enter in this book only the borrowings by discounts, others enter all loans, indicating in some manner the secured loans. It is intended to keep the total line of a borrower continually before the officers so that he may not borrow more than his line, or more than the bank is allowed to lend him.

Some provision should be made for the man who is not a heavy borrower himself, but frequently endorses for others. Very frequently, men of good standing in the community run up a heavy line of contingent liability not knowing how much money they have obligated themselves to pay in case of default. It is of immense advantage for a bank to know exactly how much and what kind of liability every name appearing on its notes has to the bank.

A simple form of liability ledger is shown in Figure 88 on page 177. When notes are paid, they are ruled off. This makes a very unsightly book, and in addition is not an easy one in which to find out a borrower's total

Name,..

Date of Discount	Payer	Endorsed By	Number	As Payer	As Discounter	As Endorser	When Due

Figure 88
LIABILITY LEDGER

Name,..

Date	Number	Other Names	When Due	Number Paid	As Maker or Discounter			As Endorser		
					Amount Discounted	Amount Paid	Balance	Amount Discounted	Amount Paid	Balance

Figure 89
LIABILITY LEDGER

Month..............................

Borrower..

Date of Discount	Payer	Endorser	Amount	Due Date	Single Name

Figure 90

CARD LIABILITY LEDGER

Total Line ....

Figure 91

MEMORANDUM SLIP

To be used in connection with Figure 90.

liability, for the amounts not ruled off must be picked out and added together.

An improvement on this form is shown in Figure 89 on page 177. Whenever an entry of any kind is made, a new balance is struck in the balance column. The total liability of the borrower can be seen at a glance. It is also a very simple matter to make a list of the balances in the different accounts, the total of which should agree with the balance shown in the general ledger. If a proof is made monthly from the liability ledger and monthly from the tickler, with an interval of half a month between the two proofs, there is very little danger in making erroneous entries in either record.

The contingent liability may be indicated by red ink entries and omitted from the total balance.

There are a great many kinds of loose-leaf liability ledgers. Some of the best in use are shown in the following Figures:

Figure 90 on page 178 is a record kept by a New York bank which does an unusually large discount business. The borrower has a sheet for each month. The items are ruled off when paid. All loans are entered in the amount column and when the paper is single name, in the last column also. These sheets are prepared on the typewriter and instead of repeating the name of the borrower when the loan is his own paper, the stenographer abbreviates by using the letters "Yr." The slips for the different months are fastened together with a staple.

A small slip shown in Figure 91 on page 178 on which is noted in pencil the total line, is fastened to the top of the sheets. These groups of sheets are filed alphabetically in a drawer.

Figures 92 and 93 on pages 180 and 181 show three

THE RAND NATIONAL BANK, NORTH TONAWANDA, N. Y.

NAME Smith, Jones & Co.

SHEET No. 6

ADDRESS Ellicottville, N. Y.

Date		No.	Name	Due	As Maker				As Endorser				Total as Maker and Endorser	Remarks
					Am't Loaned	No. Paid	Am't Paid	Total	Am't Loaned	No. Paid	Am't Paid	Total		
Jan. 4	08	1963	Smith, Jones & Co.	Feb. 4	$1,000.00			$1,000.00						
Jan. 4	08	1964	James Jackson, Jr.	" 5					$1,000.00			$1,000.00	$2,000.00	
" 5	08	1970	Abraham Alt	" 20					876.84			1,876.84	2,876.84	Renewed
" 11	08	2010	Smith, Jones & Co.	" 11	500.00			1,500.00					3,376.84	
Feb. 4	08					1963	$1,000.00	500.00					2,376.84	
" 5	08									1964	$1,000.00	876.84	1,376.84	
" 10	08	2100	C. F. Holmes						1,784.93			2 661.77	3,161.77	
" 11	08					2010	500.00						2,661.77	
" 20	08	2290	Abraham Alt	Apr. 20					876.84	1970	876.84		2,661.77	

FIGURE 92

LIABILITY LEDGER

SHEET No.............................. NAME..

ACCOUNT No.......................... ADDRESS..

	Date	Number	Makers and Endorsers	When Due	Am't Charged	Am't Paid	Balance	

FIGURE 93

LIABILITY LEDGER

very good loose-leaf forms made and sold by The Rand Co. previously referred to.

The laws of the state of New York contain the following provision:

Sec. 25. Restrictions. 1. No bank or trust company shall make any loans to any person, company, corporation or firm, to an amount exceeding the one-tenth part of its capital stock, actually paid in, and surplus; provided, however, that a bank or trust company having its principal place of business in a borough in any city of the state which borough had according to the last preceding state or United States census a population of eighteen hundred thousand or over may loan to any person, company, corporation or firm, a sum not exceeding twenty-five per centum of its capital stock actually paid in and surplus and a bank or trust company having its principal place of business elsewhere in the state forty per centum of its capital stock actually paid in and surplus upon security worth at least fifteen per centum more than the amount of the loans; or it may loan ten per centum of such capital and surplus as first above provided, and a bank or trust company having its principal place of business in a borough in any city in the state which borough had according to the last preceding state or United States census a population of eighteen hundred thousand or over may loan a further sum not exceeding fifteen per centum of such capital and surplus and a bank or trust company having its principal place of business elsewhere in the state may loan thirty per centum of such capital and surplus upon security worth at least fifteen per centum more than the amount of such loan so secured; and provided further, that a bank or trust company may buy from, or discount for, any person, company, corporation or firm, or loan upon, bills of exchange drawn in good faith against actually existing values, or commercial or business paper actually owned by the person negotiating the same, a sum not exceeding twenty-five per centum of its capital stock actually paid in and surplus if its principal place of business is located in a borough in any city in the state which borough had according to the last preceding state or United States census a population of eighteen hundred thousand or over and not exceeding forty percentum of its capital stock actually paid in and surplus if its principal place of business is located elsewhere in the state; provided further, however, that with the exception of the liability of the United States, of this state, or of any county or incorporated city of this state the total liability of any person, company, corporation or firm to a bank or trust company shall not exceed twenty-five per centum of the actually paid in capital stock and surplus of any such bank or trust company having its principal place of business in a borough in any city in the state which borough had according to the last preceding state or United States census a population of eighteen hundred thousand or over and shall not exceed forty per centum of the actually paid in capital stock and surplus of any such bank or trust company having its principal place of business elsewhere in the state.

An ingenious bank president in one of the banks outside of New York drew up the form shown in Figure 94 on page 184. He is able to tell at a glance whether or not he is living up to this section of the law when his discounts are properly recorded on this sheet.

113. *Filing of notes.*—The question of filing the notes so that any note called for may be produced with the least amount of delay, is not such a serious proposition. Most banks have solved the problem, at least satisfactorily to themselves. A leather pouch is generally used containing thirteen or fourteen pockets, one for each month, and the extra pockets for past due, etc. The notes are usually arranged within the pockets according to due dates. It is a simple matter to take a month's notes out of the pouch and run through for the note desired. The due date may always be ascertained from the discount register or the liability ledger.

An excellent file for notes is made by The Rand Co. It consists of a wooden box about fifteen inches long by

BUSINESS CREDIT EXTENDED NAME

Number or Date Disctd.	Maker	Endorser	Subject to the 10% Limitation			Subject to the 40% Limitation				Date due	Date paid
			Single Name	Endorsed	Balance	Collateral	Business Paper	Accommodation Endorsement	Total Balance		

FIGURE 94

LIABILITY LEDGER

eight and seven-eighths inches wide by four and five-eighths inches deep (inside measure), with a neat handle and lock. The equipment consists of a guide card for each month and one set of daily cards. The daily cards are used only in the current month. At the opening of business, the daily card is taken out and inserted at the beginning of the following month. The notes for the current day are then in view and may be left in the box until called for, or such other disposition made of them as occasion requires. On the day following, the next card is removed and inserted in the proper place in the next month but behind the notes due on the first. The question may be asked,—May not a note be improperly filed and therefore not come up for payment, because only the notes for the current day appear? This danger is always present, and under no condition should final reliance be placed in a filing scheme to call a note to mind on the due date. The tickler is the best method. The advantage of a filing scheme is merely that a note is in less danger of being lost, and can be produced quickly when called for. The scheme which will enable the clerk to produce the note called for with the least thumbing and delay, is the best. When such simple and yet efficient methods are to be had for a small amount of money, there is very little excuse for any slovenly methods of filing notes.

A very good filing scheme is carried out as follows: A folder similar to that shown in Figure 95 on page 186 is filled out at the time the loan is made. The note is placed inside this wrapper and the wrapper folded on the lines "a" and "b." The folders are then sorted chronologically and the months kept in separate bundles, secured by a strap bound over light wooden boards. Demand and collateral loans are kept in separate bundles.

Amount ....

Due ....

Maker ....

Number ....

Paid ....

Charged ....

a

b

Figure 95

NOTE WRAPPER

When a loan is paid, the note is receipted and returned to the customer. The wrapper is dated and used as a charge ticket. If paid in cash the date stamp is struck opposite the word paid; if to be charged to the account of the maker, after the word charged. If the loan is to be charged to some one other than the maker, an appropriate memorandum is made on the wrapper. The only persons who are opposed to this method are the examiners who must open every wrapper to see the actual note and its endorsers.

Notes may be filed in numerical order and this method is in use, but it is not a good one.

114. *Collection of notes when due.*—The method of collecting the notes when due depends very largely upon the nature of the business. If the customers are commercial houses borrowing on bills receivable, the notes will be payable all over the country. It will then be necessary for the discount clerk to send the notes out some time ahead for collection, or better still, for him to charge them to the collection clerk and let him send them to the proper banks for collection. When the returns are received, the proper entries may be set up by the collection clerk crediting discounts, or he may turn the proceeds over to the discount clerk to make the proper entries. If the business is done largely on local paper, the discount clerk should charge the notes to the note teller, who will send them out for collection by his messengers. Credits may be made by the note teller or discount clerk as in the case on foreign items. If the loans are made largely to makers of the notes, the borrowers will come to the bank and tender payment. The discount clerk will then receive the money and make the credits.

There is the usual objection to allowing a clerk who handles the records to handle cash as well, and the objection is worthy of careful consideration. This may be overcome by having the discount clerk's cage adjoin the note teller's, with a little window between. When a borrower comes to the discount clerk and offers to pay a note, the clerk gets the note out and checks it off his tickler. He then makes out a ticket showing the number of the note, the name of maker and amount, and passes both to the note teller. The customer then goes to the note teller's window, pays the amount and receives the note. The discount clerk charges the note teller and credits discounts. The note teller charges cash and credits himself. The total of the tickets must agree with the total amount of notes checked on the tickler.

115. *Endorsees.*—The question of endorsement of commercial paper is an important one in every department of the bank, but it is most important in the discount cage. The discussion following will apply to all commercial paper.

First, what is an endorsement? Tompkins defines it as follows:

> Indorsement is the writing of the name of the indorser on the instrument with the intent on his part either to transfer, or pass the title to the instrument; or to add strength to the security of the holder by assuming a contigent liability for its future payment. This latter is called accommodation indorsement.

The endorsement must be written on the instrument itself, or upon a paper attached to it. A piece of paper so attached to an instrument to give room for new endorsers is called an "allonge" and is frequently met with on foreign bills.

Endorsement may be made in one of four ways: (1) special; (2) blank; (3) restrictive; (4) conditional.

A special endorsement is one that specifies the person to whom, or to whose order, the instrument is payable.

A blank endorsement is one that is endorsed by the simple signing of the name without words of qualification.

A restrictive endorsement is one that makes the endorsee the holder of the instrument but not the beneficial owner of it. It gives the endorsee the authority to deal with the instrument as specified in the endorsement but does not transfer to him the ownership of the instrument. The usual form of restrictive endorsement is "pay X or order for collection," or "pay X or order for my use." In the above forms X is merely the agent of the endorser. The New York Clearing House has prohibited the use of this endorsement unless the paper is guaranteed by the bank presenting it. Another form of restrictive endorsement gives the endorsee only the right to negotiate the instrument for the benefit of the party named in its endorsement. The forms are "pay X or order for account of A," or "pay X or order for credit of A."

A qualified endorsement is one which limits the ordinary liability of the indorser. He becomes the mere assignor of the title. It relates only to his liability, and does not affect the negotiable character of the instrument. Such an indorsement is the addition of the words "without recourse" to the regular indorsement, and it means that when a man signs or indorses "without recourse" he incurs no liability as an indorser, but simply indorses in order to transfer the title properly.

116. *Corporation as maker or endorser.*—A corporation may endorse an instrument when acting within the scope of its authority. When accepting the signature of the officer of a corporation on an obligation, it is well

to ask oneself several questions: First, are the officers who sign the instrument the duly elected officers of the corporation at the present time; second, were they authorized to obligate the corporation as they are doing by signing the document in question.

When there is the least bit of doubt in the mind of the bank officer he should require a certified copy of the resolution of the board of directors authorizing the making of the obligation, duly attested and sealed. In lieu of this an affidavit made by the president of the corporation after signing an obligation stating that he is the president of the corporation whom he seeks to bind by his act, that the act is as per resolution of the board, that the impression of the seal affixed is the seal of the corporation, and that it was affixed by order of the board. This statement should be attested by the secretary of the corporation.

117. *Executor, administrator or trustee.*—An executor, administrator or trustee should always state the name of his principal. If he does not, he may be held as principal himself.

An accommodation party is one who has signed the instrument either as maker, drawer, acceptor, or indorser without receiving any value therefor, and for the purpose of lending his name to some other person.

The bank should be advised of the authority of one partner to sign the firm's name as accommodation party. A corporation may not be an accommodation party, because it was not chartered for that purpose.

The question of endorsement varies in different states, and the man who would become an efficient banker must know the laws of his own state first. The above notes and abstracts present only the most salient features of the subject.

118. *Single and double name paper defined.*—The distinction between single and double name paper is usually made under the following rule:

> Where a note is signed on the face or "made" by a single person, firm, company or corporation, and is not signed or endorsed by any other person, firm, company or corporation, it is called "single name" paper; if made by two parties or made by one party and endorsed it is "two name" paper.

The general understanding seems to be that there must be two "several" makers or a single maker and an endorser in order to classify the paper as "two name" paper. It would appear that a note signed "Atwood and Brown" would be a two name paper. And it is, provided the member of the firm who signed the paper was authorized to do so, because the holder has recourse not only to the assets of the firm, but to each of the partners in case default is made. However, if Atwood, for example, signed the note without authority, the bank would have recourse only to his assets, so that it is on the safe side to call notes signed by a firm "single name" paper.

Many banks refuse to loan on a single name, and to evade the rule of their own making resort to trickery to get two names. A business man who carries all his assets in his own name, requests a loan on his own note and the bank requires an endorser. Usually his wife is the one called upon to become his surety. If he is unmarried and the rule is inflexible, he must get some other relative, neighbor or friend to become contingently liable for his debts. If the bank has implicit confidence in his ability and willingness to pay at the time appointed, he may get his office boy to endorse it for him and the theory of the rule is respected. The theory is good. Two names are better than one, but three are better than two, and four are better than three, and so we might go on indefinitely. It is not well to hedge one's bank about with a rule to demand two names no matter what may come.

CHAPTER VIII

THE DEPARTMENTS OF A LARGE BANK (continued)

119. *Collateral loans.*—A collateral loan is one which is secured by property having marketable value, deposited with the lender. Collaterals fall under three grand divisions: (1) Stocks and bonds; (2) Real estate and (3) Miscellaneous collateral. New York City banks and especially those located in the financial district, loan large sums of money on stocks and bonds. This security is of the very highest grade, because its market value is known absolutely from the time the loan is made until it is paid. There is always a market for the security. These Wall Street loans are made on time, demand or call.

Time loans, as their name implies, are loans which run to a definite date. The security generally contains a fair proportion of bonds, because they do not fluctuate so much in price as stocks. Demand loans are usually made to customers of the bank at rates about equal to the rate on time loans and on collateral somewhat similar, though demand loans are frequently made on a single security. It is the mutual understanding between borrower and lender that demand will not be made for the payment of the loan. This class of loan should not form too large a percentage of the bank's portfolio. Demand should be made at intervals for the payment of the obligation in full. If it is not paid, it is very likely that the loan will be tied up as permanent capital of the borrower instead of furnishing him a working capital.

Wall Street call loans are loans made to brokers on good security and are so named because the bank reserves and exercises the right to request the payment of the loan at its own pleasure. The broker reserves and exercises the right to pay the loan at his pleasure.

A loan on mixed collateral is more desirable than a loan on one kind of stock or bond, for if the bank is compelled to sell the securities it will receive better returns on the collateral if it can sell small lots of several securities than a large block of one security. In the same way a loan of $45,000 on one thousand shares of United States Steel Common at 55, having an approximate value of $55,000 would be a better loan than a loan of a like amount on eighty-two shares of Standard Oil at 670 having a market value of approximately the same amount. If the market should suffer a reversion and Steel dropped to 54, the loan would still be margined by 20 per cent and the whole of the security could be sold, if necessary, for more than enough to pay the loan. In the same time that Steel dropped one point, Standard Oil would have fallen ten points or more and the security worth as much as the Steel, when the loan was made, would be worth but $54,120, a margin of only 18 per cent. If an attempt were made to sell the stock, it would probably decline still further and might result in a loss.

Quoting from Kirkbride and Sterrett's book on "The Modern Trust Company" p. 81:

The amount of margin which is required varies with the sort of collateral. Thus, it is perfectly safe to loan very nearly the full market value of government bonds, and of most state and municipal securities. First mortgage railroad bonds can also be taken at a higher valuation than stock and other securities readily marketable, perhaps, but of less certain value. If the collateral is composed entirely of speculative stocks, a sudden break in the market may in a few hours—and before there is an opportunity to sell—turn a comfortable margin into an actual loss. In figuring margins it is important to bear in mind that in times of contraction in values, when securities are selling at a low level, a margin may be safe which in times of inflation and prosperity, when high records are being made, would be entirely insufficient to assure safety. In the former case, prices will probably stay within a moderately narrow range, while in the latter a sudden large shrinkage may occur.

In New York two tests are applied to a collateral loan, the first requiring that the value of the securities must have a margin equal to 20 per cent above the amount of the loan, and the second, that the loan must have ten points margin, that is, that the amount loaned must be $10 per share less than the market price of the stock. This is reckoned by dividing the number of shares of stock (or if bonds, $10,000 are equivalent to one hundred shares of stock) into the margin. For example, if there were 2,000 shares of mixed stocks in a loan of $100,000 divide this number of shares into $20,000 (the 20 per cent margin), and the result shows an average margin of ten points on each share held. If the ten point rule is strictly adhered to, it has the effect of discriminating against low-priced, non-dividend-paying stocks, while the 20 per cent clause requires an ample margin on high-priced stocks. There are few institutions in New York which require nearly fifteen points with the 20 per cent margin, and some which do not adhere strictly to the ten point requirement. Outside of New York, the ten point test is not often applied, the usual requirements being simply 20 per cent margin on good mixed collaterals.

120. *Form of note.*—The form of note employed varies a great deal. The note in use is usually the result of a process of evolution. A bank finds by experience that it is not protected along certain lines by the note in use and instructs its attorney to draw up a new one, having a clause to cover the point in mind. Figure 96

$.. NEW YORK,................................190

....after date for value received,..........................hereby

promise to pay to.., or order, at The B National

Bank of the City of New York..Dollars,

with interest at the rate of................per cent. per annum until paid, having deposited herewith the following property, as collateral security for the payment of this note, and also as collateral security for all other present or future demands of any and all kind of the holder hereof against the undersigned, whether created directly or acquired by assignment, whether absolute or contingent, whether due or not due, to wit:—

....

....

....

....

....

....;

and do hereby give full authority to the holder hereof to sell the whole or any part thereof, or substitutes therefor or additions thereto, at any broker's board, or at public or private sale, at the option of the holder hereof, upon or after the non-performance of this promise, or upon or after the non-payment of any of the demands aforesaid, and without notice of intention to sell or of the time or place of sale, and without demand of payment of this note or of any of the said demands; and do hereby agree that if in the opinion of the holder hereof the value of the said collateral security or any substituted or hereafter deposited, should at any time be less than

.... Dollars,

the undersigned shall upon demand furnish such further security as will be satisfactory to the holder hereof, and in case of failure so to do, this note thereupon at the option of the holder hereof shall become due and payable forthwith, and then or thereafter the whole or any part or parts of said collateral security or substitutes or additions, may be sold as herein provided, at the option of the holder hereof; and do hereby give full authority to the holder hereof in case of any sale or other disposition of any of the collateral security aforesaid, after deducting all expenses of collection and sale, to apply the residue of the proceeds to pay any or all of said demands in whole or in part, due or not due, including this note, making a rebate of interest upon demands not due. And in case of deficiency, the undersigned agree to pay to the holder hereof the amount thereof forthwith after such sale, with legal interest.

It is also agreed and understood that upon any sale of any of said collaterals the holder hereof may become the purchaser thereof, and hold the same thereafter in his, their or its own right absolutely free from any claim of the undersigned. It is further agreed and understood that no delay on the part of the holder hereof, in exercising any rights hereunder, shall operate as a waiver of said rights.

....

FIGURE 96

COLLATERAL NOTE

....

$................................ 190

....after date for value received ....hereby promise to pay to THE JERSEY NATIONAL BANK OF THE CITY OF NEW YORK, or order at said bank, in the City of New York, N. Y.,...Dollars with interest at the rate of..................per cent. per annum until paid, having deposited with said bank, the following property as collateral security for the payment of this note, and also as collateral security for all other present or future demands of any and all kind of the holder hereof against the undersigned, whether created directly or acquired by assignment, whether absolute or contingent, whether due or not due, to wit:—

....

....

....

and do hereby give the said Jersey National Bank a lien for all of the said demands, upon all property left with said Jersey National Bank, (all remittances and property to be deemed left with said bank as soon as put in transit to it, by mail or carrier,) and upon any balance of deposit account with said Jersey National Bank, hereby authorizing said Jersey National Bank to at any time charge any and all of the said demands against the deposit account of the undersigned on the books of the said Jersey National Bank, if there be such an account; and hereby authorize said bank upon or after the non-performance of this promise or upon or after the non-payment of any of the demands aforesaid, or upon or after failure to furnish further security as hereafter agreed, to sell the whole or any part of said collateral security or substitutes therefor or additions thereto, at any Broker's Board or at public or private sale, at the option of said Jersey National Bank without notice of intention to sell or of the time or place of sale and without demand of payment of this note or of any of the said demands, and after deducting all expenses, including all for legal services arising from or incidental to the sale, realization, or collection of any of said collateral security, substitutions or additions, or of any of said demands, including this note, to apply the residue of the proceeds to pay any or all of said demands in whole or in part, due or not due, including this note, making rebate of interest upon demands not matured by their terms; and do hereby agree that at any such sale the said Jersey National Bank may become the purchaser of any or all of said collateral security and may hold the same thereafter in its own right absolutely free from any claim of the undersigned; and do further agree that in case of deficiency the undersigned will pay to the said Jersey National Bank the amount thereof forthwith after such sale with legal interest; and do further agree that if in the opinion of said Jersey National Bank or any of its officers the value of the said collateral security or any substituted or hereafter deposited shall at any time be less than...DOLLARS, the undersigned will immediately furnish such further security as will be satisfactory to the Jersey National Bank, and that in case of failure so to do, this note thereupon at the option of the said Jersey National Bank shall become due and payable forthwith, the said Jersey National Bank being also authorised in such case to sell the collateral security or any part thereof as above provided; and it is hereby further agreed that upon the transfer of this note the Jersey National Bank may deliver the said collateral security or any part thereof to the transferee who shall thereupon become vested with all the powers and rights above given to the said Jersey National Bank in respect thereto, and the said Jersey National Bank shall thereafter be forever relieved and fully discharged from any liability or responsibility in the matter. It is further agreed and understood that no delay on the part of the holder hereof, in exercising any rights hereunder, shall operate as a waiver of said rights.

....

FIGURE 97

COLLATERAL NOTE

GENERAL LOAN AND COLLATERAL AGREEMENT.

In order to obtain loans from and otherwise deal with The .... National Bank of the City of New York, the undersigned agrees that all loans, advances or credits hereafter obtained from said bank by the undersigned shall be repayable by the undersigned at said Bank upon demand unless otherwise agreed in writing at the time, and shall bear interest at rates to be agreed upon; and the undersigned further agrees that as collateral security for any and all loans, indebtedness, obligation and liability of the undersigned to said Bank, now or hereafter existing, matured or not matured, absolute or contingent, and wherever payable, including such as may arise from endorsements of notes, acceptances or any other items, or paper discounted by said Bank or held by said Bank as security for any loans or advances of any sort whatever, and including overdrafts, and indebtedness by the undersigned to said Bank, on account of collections or paper received for collection, said Bank shall hold, retain and have a lien upon all moneys, negotiable instruments, bonds, stocks, commercial paper, credits, choses in action, claims and demands of every kind at any time in possession or control of said Bank or any of its agents or correspondents, or in transit to it by mail or carrier, belonging to, for account of or subject to the order of the undersigned; and said Bank shall have the following rights and powers in respect to such collaterals, and every part thereof (in addition to any other rights which it may have): said Bank may at any time or times collect any of such collaterals, and it may endorse any thereof in behalf and in the name of the undersigned; and in case of failure of the undersigned to pay or discharge when due any such loan, indebtedness, obligation or liability, or in case of failure of the undersigned to furnish additional collateral as hereinafter provided, or in case of the insolvency, general assignment, bankruptcy or failure in business of the undersigned, said Bank may sell without notice any of said collaterals at private or public sale or at broker's board (being at liberty to become the purchaser if the sale is public or at broker's board) and may apply any and all money or credits, including the proceeds of any such sale, and any debts, liabilities or balances, due or not due in favor of the undersigned, arising from deposits, discounts, collections, items in transit, or otherwise, at any time owing or due from or chargeable against said Bank, or any of its agents or correspondents, to the payment of expenses of any such sale or sales, or of the realization or collection of any of said collaterals, or of any of said loans, indebtedness, obligation or liability of the undersigned, and to the payment of any or all loans, indebtedness, obligation or liability of the undersigned, whether due or not due; and any or all loans, indebtedness, obligation or liability of the undersigned shall in any of the cases above stated become due at the option of said Bank. If the collaterals at any time securing any loans, indebtedness, obligation or liability of the undersigned to said Bank shall any time be unsatisfactory in amount or otherwise to said Bank, or to any of its officers, the undersigned will immediately furnish such further security as will be satisfactory to said Bank. Said Bank may assign or transfer the whole or any part of any indebtedness, obligation or liability of the undersigned, and may transfer therewith as collateral security therefor, the whole or any part of the collaterals above referred to, and the transferee shall have the same rights and powers with reference to the indebtedness, obligation or liability transferred, and the collaterals transferred therewith, as are hereby given to said Bank.

....

New York,..190

FIGURE 98

GENERAL LOAN AND COLLATERAL AGREEMENT

on page 196 is a simple form of collateral note. Figure 97 on page 197 is a valuable note for use when the lending bank is the custodian of securities or funds of the borrower. It gives the lending bank a lien on all remittances to it as soon as they are put in transit. Loans made to brokers in New York City are frequently paid the following day, and an entirely new one made. They are constantly changing, and much time would be lost if a new note is demanded each time a loan is made. After a broker has made several loans which have been entirely satisfactory, he is invited to sign a General Loan and Collateral Agreement and file it with the bank. See Figure 98 on page 198. After filing such an agreement, he has only to present his collaterals in proper shape and receive his check.

121. *Call loans.*—Call loans are sometimes made by shopping at the different brokers' offices, i. e., the officer calls a number of brokers on the telephone and offers to loan them any part of the amount he has in excess of his required reserve at a given rate. The broker usually accepts or refuses at the moment. This is a rather slow process, for the bank cares very little which broker has its call money; in fact it would prefer to loan it to those who have no claim upon it and upon whom it can call for repayment without apology. There are a few brokers who keep in touch with the banks and know just where and at what rate and how much can be obtained. The officers of the bank know, as soon as the question is determined, whether the results of clearing have made the bank a debtor or creditor at the clearing house, and if the latter, they communicate with those brokers who make a practice of dealing out the money on the floor of the exchange. The brokers are usually advised about 11 o'clock and offer the money to the brokers who need

it, at the rate given them by the bank. They usually charge the borrowers a small commission for placing the loan. The brokers advise the bank, who place money in their hands by telephone, of the names of the brokers to whom they loaned the money.

122. *Requisites of a call loan.*—There is very little danger in this class of loan. The principal points to be observed are: (1) Kind of security; (2) Bank's title; (3) Margin.

(1) Kind of security: Brokers are usually anxious to use as many industrial stocks as the bank will allow. Good railroad stocks are generally less speculative, and the bank will do well to demand at least sixty per cent of railroad stocks in a loan. It would be bad policy to allow borrowers to deposit a large amount of any one stock as collateral even though it is scattered through many loans. Unless the loan clerk has a memory capable of carrying the collaterals in his head, including substitutions, it will be worth while to keep a record of the collaterals of all loans. This record can be kept better on cards, showing as a caption the name of the security, and as a collateral record the number of shares and the loan in which it may be found.

If this record is to be of any value, each loan made during the day must be entered on these cards, and each loan paid must be erased; each substitution must also be entered. Where loans are active this would entail a great amount of labor. A competent loan clerk, with a simple record kept on loan cards described later, will be able to know just how much of any one security the bank holds, and will be able to sound the note of warning without reference to such a laboriously kept record.

(2) The bank's title: The loan clerk should have studied, very carefully, the rules for delivery as pre-

scribed by the New York Stock Exchange. These rules are quoted in full in the Appendix. In general, every certificate of stock should be assigned in blank and witnessed. If the certificate is in the name of one other than a broker, the endorsement should be guaranteed by a broker whose signature the bank knows. Stocks, in the names of persons in fiduciary capacity should not be accepted, nor stocks in the names of married women. The loan clerk should examine all bonds to see that they are all payable to bearer or properly assigned. He should see that the current coupons are all attached.

(3) As to margin. The usual margin required is 20 per cent. The laws of the State of New York require 15 per cent on secured loans. To determine whether a loan is properly margined, the loan clerk must be familiar with the quotations of the market and must have, in addition to a stock ticker, in convenient files for reference, the daily official records of the sales on the floor of the stock exchange and the bid and asked quotations on stocks and bonds for which no sales were made. He should have the current number of the supplements to the *Commercial and Financial Chronicle*. The daily papers are valuable aids in his work of valuing the securities in loans. For out of town banks, the *Chronicle* above mentioned or the "Financial Supplement" of the *New York Times* are almost indispensable.

All these things must be attended to while the messenger is waiting for the check. The loan clerk must be very careful, but he must also be very quick in inspecting the securities and passing upon their value.

123. *Loan envelopes.*—We have seen something of the duties of a New York loan clerk with reference to the note and the collateral, and now we will turn our

DEMAND LOAN

Loan to..

No. .... Date...Am't............................

Rate of Interest														
	Date													
	Rate													

Securities	Rate	M'k't Value

Received the above collateral

FIGURE 99

DEMAND LOAN CARD

attention to the other requisites and records in connection with loans. The brokers in Wall Street usually have their own loan envelopes which are all made along very much the same lines. The envelopes are heavy manila paper about twelve inches long by five inches wide, with the opening at the side. Banks also have a stock of their own. All banks outside the Wall Street district who loan on collateral have their own envelopes. It is usual to have the demand loan envelopes printed in black ink and the time, in red.

The note, collaterals and all subsequent correspondence are put inside the envelope and the flap secured either with a pin or a rubber band. The stocks are laid one on top of the other and the whole pile folded together one third the way from each end of the certificates. It is very unfortunate that this method of filing loans is so general. Large blocks of stock certificates are always unpleasant to handle, owing to their tendency to curl up.

124. *Loan card.*—When a loan is made, some ledger record should be set up, showing the name of the borrower, the date of the loan, and the amount, together with a list of the collaterals; and if a time loan, the due date should be made prominent.

Some form of loose-leaf record is always more acceptable for a loan record than a bound book. Most banks have loan cards or slips ruled somewhat in the form shown in Figure 99 on page 202. The rate, or quoted value, and the market value are always written in pencil so that they may be erased and the correct market value inserted. This is very important in a declining market. When a portion of the collateral is withdrawn from the loan and delivered to the borrower, it is ruled off the slip. If a new security is substituted

COLLATERALS HELD BY TRADERS BANK, NEW YORK CITY

Deposited by..

Date	No. Shares Bonds	Description	Par Value	M'k't Value	Remarks

FIGURE 100
COLLATERAL CARD

DEMAND LOAN

To ______________________________

Date   Amount

Date							
Rate							

Security	None	Rec'd	Del'd	Bal.	Rate	Mkt Value

FIGURE 101
DEMAND LOAN CARD

it is added at the bottom of the list. If only a part of one kind of collateral is withdrawn, the old number is ruled out and the new amount entered above the old record. It is a very good plan to draw a line under the last of the original list of securities so that they may be identified or referred to at any time. In some banks, the cards are made a little larger than the figure, and the interest record shown thereon. The Library Bureau collateral card is shown in Figure 100 on page 204. A loan card which would obviate the necessity of ruling off items is shown in Figure 101 on page 205.

When a loan is made, the securities are listed in the proper column and the number of shares entered in ink on the top line of the balance column. A line is drawn under the last security on the list when the loan is made. If a portion of a security is withdrawn, the proper record is made in the "delivered" and "balance" columns, and a new extension of market value made. By taking all the securities above the line drawn when the loan is made, and the number of shares noted first in the balance column, it is possible to determine by what the original loan was secured. If the changes in any one security are so frequent as to fill up the space, the remaining balance may be charged out and a new line added below. A little check mark made in the column provided, indicates that there is none of the security indicated on that line, although it may appear again below the original list if reopened.

125. *Loan ledger.*—An excellent loan ledger for banks away from Wall Street, where changes in collateral are not so frequent, is shown in Figure 102 on page 207. This record is very complete, and from it any question that may be asked can be quickly answered. It has the additional advantage of being bound into a

INTEREST			COLLATERAL					
							Surrendered	
Date Due	Amount	Date Paid	Name of Security	Par	Price	Market	No.	Date

..........................Loan, No...............

Date	Advanced	Paid	Balance

RECEIPT FOR SURRENDERED COLLATERALS

Date	No.	Name	Par	Signature

Figure 102.
LOAN LEDGER

SUBSTITUTION OF COLLATERAL.

....19....

Received from..

the following securities held as collateral to our loan of.................................

Market Value.

....@....................$..............................

....@..

....@..

....@..

....@..

....@..

Total

And deposited in lieu thereof, subject to the same terms and conditions as collateral originally pledged:

....@..

....@..

....@..

....@..

....@..

....@..

Total

....

Figure 103

SUBSTITUTION BLANK

ledger. It is possible to have very simple and yet very complete loan records. In a large measure each individual case will work out its own solution, and other systems will only suggest ideas.

126. *Substitutions.*—Collateral loans and especially Wall Street loans are subject to constant change in the collaterals. A broker will find in his daily transactions on the exchange that he needs sundry stocks, which he has hypothecated, in order to make delivery of the stocks he has sold on the exchange, and will have other stocks which he has purchased. He is allowed the privilege of substituting other collaterals for those originally deposited, according to the terms of his note, and so sends the stocks he has, with a substitution slip duly signed, to the bank. The substitution blank is shown in Figure 103 on page 208. If the stocks sent to the bank have a value equal to or greater than the stocks to be withdrawn, and if the stocks substituted are as desirable as the ones to be withdrawn, the loan clerk will make the substitution. He should check or initial the securities deposited and withdrawn on the substitution blank and post the same to his cards or loan sheets when convenient during the day. It is customary to file these substitution blanks in the loan envelope with the note and securities. It will be readily seen that if the substitution slips are arranged in chronological order, and the original list of securities be retained, the securities actually in the loan at any date may be verified. Some brokers have their accounts audited by expert accountants or audit their accounts themselves, and when doing so request the bank to verify the securities held for their account.

These requests for reconcilement rarely go back of the current day so that a card as shown in Figures 99 or 101 on pages 202 and 205 will be the only necessary record to keep, in order to be in a position to check up these reconcilements without upsetting the current work.

127. *Filing of loans and correspondence thereon.*—As mentioned above, it is customary to file the note, substitutions, the correspondence, if any, and such securities in the loan envelope. Large blocks of bonds are usually bound together by large rubber bands or bands of webbing with buckles, and the envelope slipped under the strap. It would be very convenient in many ways if the envelope were made large enough to accommodate the note and stocks without folding.

128. *Loans on real estate.*—One of the essential marks of difference between national banks and state banks is that the former are prohibited from loaning on real estate security, while the latter may do so under certain limitations.

Section 17 of the National Bank Act reads as follows:

Sec. 17. Limitations as to Real Estate and Mortgages: A national banking association may purchase, hold, and convey real estate for the following purposes, and for no others:

First: Such as shall be necessary for its immediate accomodation in the transaction of its business.

Second: Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third: Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth: Such as it shall purchase at sales under judgments, decrees, or mortgages held by the association, or shall purchase to secure debts due to it.

But no association shall hold the possession of any real estate under mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

In Section 27 of the New York banking laws, paragraph 3, we read as follows:

3. No corporation to which this chapter is applicable except a building and mutual loan corporation or association or a co-operative savings and loan association shall hereafter make a loan, directly or indirectly, upon the security of real estate upon which there is a prior mortgage, lien or incumbrance, if the amount unpaid upon such prior mortgage, lien or incumbrance, or the aggregate amount unpaid upon all prior mortgages, liens and incumbrances exceeds ten per centum of the capital and surplus of such corporation, or if the amount so secured, including all prior mortgages, liens and incumbrances shall exceed two-thirds of the appraised value of such real estate as found by a committee of the directors or trustees of such corporation; but this provision shall not prevent the acceptance of any such real estate securities to secure the payment of a debt previously contracted in good faith. Every mortgage and every assignment of a mortgage taken or held by such corporation shall immediately be recorded in the office of the clerk of the county in which the real estate described in the mortgage is located. After the first day of November, nineteen hundred and eight, no loan shall be made, directly or indirectly, upon real estate security by a bank having its principal place of business in a borough in any city in the state which borough had according to the last preceding state or United States census a population of eighteen hundred thousand or over, if its total direct and indirect loans upon real estate security exceed, or by the making of such loans will exceed, fifteen per centum in the aggregate of the total assets of such bank, or by a bank having its principal place of business elsewhere in the state if its total direct and indirect loans upon real estate security exceed, or by making of such loan will exceed twenty-five per centum in the aggregate of its total assets.

The following comment on the real estate provisions of the federal law, from Pratt's Digest for 1908 (page

28), sets forth the arguments for and against loans on real estate very clearly:

> The prohibition against loans on real estate is a feature of the law which has been much criticised in some quarters; and as evidence that this restriction upon the powers of National banks is unreasonable and unnecessary, it is urged that real estate is the best kind of security; that savings banks, trust companies, and insurance companies are authorized to make such loans; and why, therefore, should not the National banks be permitted to do the same? But, by the great majority of bankers, the restriction is deemed wise and salutary. The objection to real estate security is not to its sufficiency, but to the kind. As the obligations of the banks are largely payable on demand, it is necessary that the securities it holds should be readily convertible into money; and while a mortgage upon real estate may be good security, it cannot be made immediately available, in case of an emergency. Personal securities of the kind usually taken by banks can be quickly assigned, and promptly realized upon; but the transfer of any interest in real estate is always attended with more or less delay. It has not infrequently been the case that banks have been compelled to suspend when their assets were more than sufficient to pay their debts, simply because a large portion of the assets were real estate securities, upon which it was impossible to realize at the proper time. In the case of insurance companies, trust companies, savings banks, and similar corporations there is not the same necessity for having the assets in a convertible form, but it is rather desirable that a large portion of the investments shall be of a more or less permanent character; and, therefore, real estate loans are well adapted to their purpose.

There are really two ways of loaning on real estate security. First, as an investment of capital funds; second, as an investment of deposits of customers. In the former case the institution makes or buys the mortgage and expects to hold it till maturity. In the latter case

Form No. 65

THE HOWARD TRUST COMPANY OF NEW YORK.

....190

The Undersigned desires to procure a Loan of $.......................................

at...............per cent. Interest per annum for...............year....on...........Mortgage

secured by Bond of...

....

Location...

Dimensions of Ground...

Dimensions of Building...

Description of Building..

Building Materials..

Purposes of Use..

Value of Ground, $...
Value of Building, $... } Total, $.............................

Annual Rent, $...

Name...

Address..

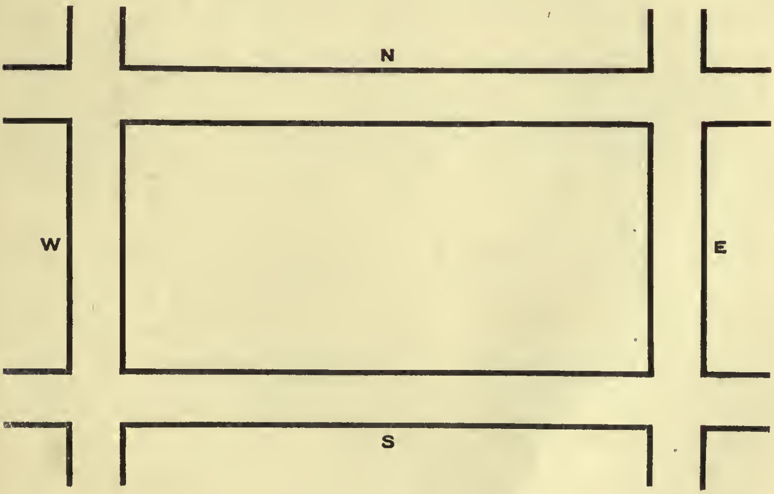


FIGURE 104

APPLICATION FOR REAL ESTATE LOAN

the mortgage is given as collateral security to a note which may be paid long before the mortgage is due. Let us follow a transaction in which the institution is loaning for capital investment.

John Brown contracts to buy a piece of property with buildings on it for $100,000 cash. He has $50,000 which he can pay down and must raise the balance. He knows the value of the property, and that a loan of $50,000 would make a valuable investment for a trust company, and so makes application for a loan of this amount. He is requested to fill in a formal application blank similar to the one shown in Figure 104 on page 213. This application is then turned over to the executive committee of the company, who have a standing sub-committee for appraising property offered as mortgage security. This committee visits the property, inspects it carefully, and endorses on the back of the application their joint conclusion as to its value, and the amount they recommend as a safe loan. This committee should consist of two or three men who are experienced in real estate and they should all sign appraisals and recommendations made by them. In large companies, where many such loans are presented, the duty of appraising the property may be delegated to an experienced clerk, who devotes his entire time to making appraisals.

An excellent form for preserving these appraisals is to record the result of the investigation in a bound volume, with printed headings to show the different features desired. Every mortgage should be numbered when accepted, and this number may be used in this appraised valuation register.

129. *Bond and mortgage.*—After the loan has been approved and the prospective borrower advised, he ex-

MORTGAGE BOOK

Name.. Date made..............................

Amount of Mortgage.................................... Building material....................

Rate.. Present use..............................

Time.. Annual rental.........................

Bond of..

Location...

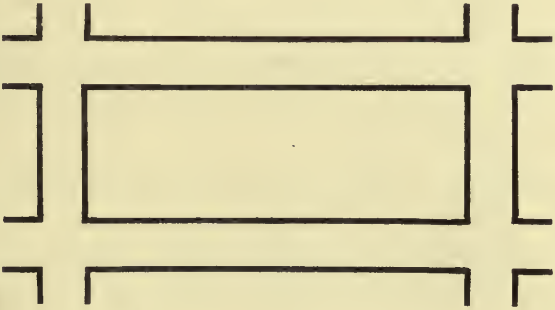
Dimensions of ground...

Dimensions of building...

Value...

Recorded liber..........................Mortgage page.......................at..............................

Interest commences..Interest days......................



Interest		Taxes		Water Rates		Insurance		
Date	Am't	Date	Am't	Date	Am't	Company	Am't	Expires

Figure 104a

MORTGAGE RECORD.

ecutes a bond and a mortgage. The former is only a sealed conditional note, duly attested by a notary or commissioner of deeds. In former days it was customary to draw the bond for double the amount of the sum to be advanced, but this is rarely done now. Before the bond and mortgage are finally executed, it will be necessary for the company to be assured that the mortgage when made will be a first lien on the premises, and will require that proof of title be furnished. It usually has a lawyer who is familiar with the procedure of making such searches and does the work, charging the borrower a fee. The company is usually willing to have a title guarantee company attend to the investigating of the title of the borrower and so request a title policy equal to the amount to be loaned. This title policy is a very much more convenient and safe way of being assured of its lien.

The company should require the delivery of the unexpired insurance policies and have their interest as mortgagee recorded on the face of the policies. Enough insurance should be carried to protect the company in case of fire.

The laws of the State of New York require that all mortgages and assignments of mortgages be made to the company and recorded. The mortgage should be sent to the county clerk's office by the bank's attorney immediately after execution, and the attorney's receipt therefor filed in an envelope with the bond, the insurance policies and other papers. The number of the mortgage and such other data as may be found desirable should be noted on the outside of the envelope. A good form of mortgage record is shown in Figure 104A on page 215. This book is eleven inches wide and eighteen inches long, thus giving considerably more

THE JERSEY TRUST COMPANY

No.........

Bond and Mortgage of — For $

Mortgage Recorded 190 — Appraised at $ (Completed)

Assignment Recorded 190 — Approved for 1st Mtge $ (Completed)

Underlying Liens: — Title Insurance $

$ Retired 190 — " " $

$ " 190 — " " $

$ " 190 — Fire Insurance $

$ " 190 — " " $

Release Executed 190 — " " $

" " 190 — " " $

— " " $

Guaranteed by — Rate %

Dates	Advances on the Mortgage			Participations Allotted				Balance
190	Dr.	Cr	Balance	To	Dr	Cr	Balance	Carried in Loans

Figure 105

MORTGAGE RECORD

room for the interest and other records at the bottom.

Many trust companies have a valuable list of deposits in trust for estates, minors, incompetents and others, which they must keep invested, and they find real estate mortgages an excellent form of investment. It is not always possible to find a mortgage for the exact amount needed to invest the surplus funds in a given trust, so they divide one of their own mortgages between themselves and the estate. These sub-divisions are called participations. It is customary to fill out a printed form or write a letter stating that the company has set aside such and such a portion of a certain mortgage as an investment for the estate and to file this declaration with the papers in connection with the trust, retaining the original mortgage papers in the company's own files. A loose-leaf ledger form with provision for participations is shown in Figure 105 on page 217.

There is very little difference in the machinery of handling a bond and mortgage for investment and loaning on a note secured by a bond and mortgage. In this case the borrower is usually the mortgagee instead of the mortgagor. He holds a mortgage running in his favor and wishes to borrow some money for immediate use. He does not wish to dispose of his investment, so makes a note in favor of the company, pledging the bond and mortgage as collateral. The company must first investigate the property to see if the title is valid and clear, and to ascertain just what kind of lien the mortgage is against the premises. Written evidence should be furnished covering all these facts. The company should demand all insurance policies, if the lien is a first mortgage, and if tempted to loan on a second, should obtain satisfactory evidence that there is plenty of insurance to cover all liens. The mortgagee assigns the mortgage to the company and this assignment should be recorded.

Loans on property owned by the borrower are frequently made in this way. The mortgage, of course, then runs direct to the company. Blanket mortgages are frequently given to protect all the loans a man may have or expects to have with the company.

Actual assignments of the title to the property are sometimes found. In some states, a mortgage is known as a mortgage deed, the actual title to the property being vested in the mortgagee until the note is satisfied.

130. *Loans on warehouse receipts.*—Banks are frequently called upon to advance money on the security of goods in storage, represented by warehouse receipts. These receipts are negotiable and represent actual goods having marketable value and ought to be as good security as commercial paper, minus the moral value of the extra name. Great care must be exercised in handling this class of loan, to see that the papers are in proper form, that the goods are properly insured, etc. The bank should confirm the statement of the borrower as to the value of the goods stored, and should demand ample margin. The borrower should reduce the loan every time he makes a delivery of goods. The warehouse will see all deliveries are endorsed on the certificate.

A grain receipt of a warehouse registered by the State of Illinois is preferred to receipts issued by non-registered warehouses in Chicago, because the Chicago Board of Trade will not accept trades in stored grain for delivery unless receipts are from warehouses under the supervision of the state grain inspector.

Loans should never be made on receipts covering whiskey, etc., unless from bonded warehouses.

131. *Loans on assigned accounts.*—This is a new form of collateral which has appeared when houses are unable to secure notes of customers for goods sold. They regard their accounts receivable as valuable assets and they are invaluable to them, but they ought to be discounted considerably as a collateral security. Borrowers who endeavor to secure loans on this kind of security have in all probability used up every other kind of borrowing asset and therefore need watching. The practice is to take an assignment of some of the larger accounts, with the understanding that the bank is to receive all payments on account, instead of the borrower and apply all receipts to the reduction of the loan, returning the balance to the borrower. There is considerable work connected with the handling of the loan itself and collection of the payments, not to mention the rigid investigation that should be made of the financial standing of every account assigned to the bank. The laws of the different states prohibit a bank from charging a rate high enough to make this kind of a loan profitable.

132. *Purchased paper and note brokers.*—Purchased paper is a term given to notes of commercial houses, which are bought from a third party.

A note broker is one who makes a business of disposing of large amounts of notes of commercial houses to banks and trust companies and others who have money to invest in such paper. Many bankers do a large note brokering business. Some large business houses who need to borrow money frequently, instead of shopping among the banks for loans, issue notes for all the money they need and deliver them to a responsible note broker.

If the broker has not already done so, he makes a careful investigation of the credit and financial standing of the intended borrower. On being convinced that the house is in sound condition and that the notes will probably be paid at maturity, which is rarely more than ninety days from date, they do the shopping among the banks. If the notes are drawn at 5 per cent they will try to shade the net return to the banks down a trifle so that they may make the difference. The broker does not endorse or become responsible for the payment of the note at maturity. He simply guarantees that it is what it purports to be, the genuine note of the house he represents. However, much dependence is placed upon the broker, and there are grave risks attending the purchasing of the notes of any but the best-known houses. On the other hand, the banker has the privilege of investigating the borrower as fully as he would one of his own customers.

Purchased paper is used largely in trust companies as a short time investment for deposits. It would be advisable to keep a certain percentage of deposits invested in first class paper of this kind, because there is no obligation to renew the loan at maturity. It is so much money that can be counted on. A bill of sale should always be demanded with every purchase.

133. *Loans on insurance policies.*—A banker is often requested to make a loan on the security of a life insurance policy. If the policy has a cash surrender value it is a safe loan so far as the security goes, but it may be a hard one on which to realize. Such loans usually have a sufficient amount of sentiment connected with them to compel the banker to make the loan. In most cases the policy is accepted by the banker more as a moral security than an actual security. Mr. George Rae in his book on "The Country Banker" says regarding life policies as collateral security:

But the inability to pay a sum owing to a bank has not ordinarily a fatal effect on the life of the debtor! It is frequently quite the reverse.

If the policy is accepted it should be assigned to the bank by the beneficiary and the assignment recorded with the company. The bank should see that all premiums are paid promptly as they fall due.

134. *Care of securities for customers.*—If a bank does not have a safe deposit department it is frequently called upon to hold securities for its customers, as custodian. New York City banks hold a great many of the investments of their country correspondents in this way. They usually buy the bonds for the banks in the first place. The country banks have not very strong vaults and avail themselves of the privilege of leaving their securities in New York. They thus save themselves the worry regarding their safety from burglars and fire. They do not have to cut the coupons when they fall due and forward them for collection, as the New York correspondent will gladly do it for them. Such bonds are usually bought and held as a safety fund or reserve in case of increased demand for money in their locality. If such a temporary demand arises the bonds are with the bank and instructions can be sent by telegraph to sell them and ship currency, or credit their account with a loan on the security of the bonds. When the bank wishes to sell the bonds they are in New York and the expressage has been saved to and from New York. The New York correspondent makes no charge for the vault space or services in connection with caring for the bonds.

The record of the custodian bank may be very simple. It may be kept in an ordinary ledger. The correspondent is credited with the securities received from or purchased for it. The record should show the date of receipt, how the bonds were received, the numbers and denominations of the certificates and the par value. In case of stocks, the record should show the numbers of the certificates, the number of shares and the names of the persons to whom the certificates are issued. There will be very few, if any, certificates of stock, unless the bank is acting as custodian for individuals. When securities are sold or delivered, the correspondent's account should be charged. The debit should show the date on which the securities were withdrawn, the date of the instructions, the disposition made, the numbers of the certificates and the par value.

The securities themselves should be filed in the vault in such order that they can be produced with the least delay possible. Access to the securities should not be allowed to any one clerk or officer. If one clerk keeps the records of the securities, the second clerk should insist on seeing the written instructions from the correspondent before allowing any security to be withdrawn.

Some good form of tickler should be installed to call attention to the coupons that must be cut off and collected, and although another one is described later under investments, the Library Bureau card shown in Figures 106 and 107 on page 224 has some advantages and we will therefore describe it in this connection. The months of the year are printed on a slightly raised portion of the card, as shown in the figure. As soon as a lot of bonds is received for account of or from a correspondent for safe keeping, they are entered on a card having the proper maturity date, like the above, and filed alphabetically, by correspondents. It is possible to pick out all the cards having bonds with coupons matur-

MAR.

		LOCATION
	Boise City, Tenn., Utah, National Bank	3—1
10 M	*N. Y. O. & W.*, 1*st* 4's, 1992	*M. & S*
5 M	*L. & N. Pens. Div.* 6's, 1921	*M. & S*

Figure 106. COUPON TICKLER

MAR. SEPT.

		LOCATION
	Boise City, Tenn., Utah, National Bank	3—1
10 M	*N. Y. O. & W.*, 1*st* 4's, 1992	*M. & S*
5 M	*L. & N. Pens. Div.* 6's, 1921	*M. & S*

Figure 107. COUPON TICKLER

ing in a given month by running the eye along the tops of the cards and picking out the ones having that month's projection. These projections will be one behind the other throughout the list. To save rewriting the card for the September coupon, the card may be made with both a March and a September tab as shown in Figure 107 on page 224.

Some time before the coupons fall due a batch of cards are selected and taken to the vault in the morning. The number in the upper right hand corner indicates the number of the safe in which the securities will be found and the shelf on which they are placed. The bonds desired are taken from the bundle, the card slipped under the band and the whole handed to a clerk to cut off the coupons at a convenient time during the day. As the coupons are cut he will put them in a suitable envelope, writing the name of the owner thereon, together with the due date, the number, denomination and amount of the coupons. He will then slip the card under the band with the bonds. At the end of the day the securities are returned to the vault by the two clerks having charge of them and the cards to the file for future use.

If the bank is not opposed to loose-leaf or card records, it would be a very easy matter to enlarge these tickler cards and keep the entire record thereon instead of in the ledger and also on the tickler cards. If both records are used the tickler cards may be kept by the second clerk having the combination with the custodian and thus have a still better check on the securities held.

There is a danger in caring for these securities for customers, if certain checks of this kind are not established, for what would be easier than for a clerk having sole access to the securities to hypothecate a large block?

He would only have to pay the interest on the loan and see that the correspondent received credit for the coupons as they fell due. This business is not directly remunerative, but the courtesy extended to a country correspondent is an advertisement worth while.

135. *Purchase and sale of stocks and bonds for customers.*—There will be little need for a department of this sort except in the largest New York City banks. However, every New York City bank which has out of town correspondents will be called upon at more or less frequent intervals to purchase and sell stocks and bonds for its customers. If the bank has no organized bond department and does not buy bonds for the purpose of selling, the loan department is the best equipped to attend to these purchases and sales in the market. National banks must buy and sell large quantities of United States bonds in this way.

The orders may be received by letter or by telegraph. Orders to buy at the ruling market prices should be entered with the brokers without delay, as a strong upward market might increase the purchase price of the stock so much that the bank would be called upon to explain why the price paid was so much higher than they or their customer expected to pay. It is much more satisfactory to receive orders to buy or sell at a definite figure or better, than to be instructed to buy at the market.

Orders for the sale of stocks or bonds should receive very careful attention. If the bonds are on deposit with the bank for safe keeping, the clerk having charge of the selling may exhibit his instructions to sell to the clerk who has custody of the securities of customers, and instruct him to deliver them after the opening of

HORNBLOWER & HARTSHORNE

______________________19____

BUY for our account

____

____

____

FIGURE 108

ORDER BLANK

HORNBLOWER & HARTSHORNE.

______________________19____

SELL for our account

____

____

____

FIGURE 109

ORDER BLANK

business of the day following. He may then instruct the broker to sell.

If the country bank instructs to sell by telegraph and says that the securities will be forwarded, the New York bank should enter its order "Seller three." This expression means that the seller will not be able to deliver the securities for three days, but wishes to contract for their sale at the ruling market price. In a normal market, there will be no trouble in effecting such a sale.

The necessary records for this work are very simple. The first requisite will be two order pads for each broker. They will be glad to supply them free of charge. These order pads are exhibited in Figures 108 and 109 on page 227.

A carbon copy should be taken and attached to the instructions received from the correspondent. The order for the broker should be initialed by an officer, after he has compared it with the instructions. Instructions to the broker to alter the rate or previous instructions in any particular, should be in writing and a carbon copy retained. An order to alter the rate should be made by cancelling the old order and entering a new one. New York brokers are accustomed to act quickly on instructions and rarely make mistakes. An erroneous order given by the bank may cost it hundreds or thousands of dollars to rectify, when the market is active, and it is impossible to be overcautious in this respect. If a great deal of this sort of business is done, it will be well to have separate books for records of buying and selling. If the business is moderate in size, the two may be combined in one volume, using the first half of the book for one and the last half for the other. This book should be small, for ease in handling. Suit-

BUY

Date of Instructions	Date Received	Hour	Security	Numbers	Broker	Date Sold	Rate	Amount	Remarks

Figure 110
RECORD OF PURCHASES

SELL

Date of Instructions	Date Received	Hour	Security	Numbers	Received by	Broker	Date Sold	Rate	Amount	Remarks

Figure 111
RECORD OF SALES

able rulings are shown in Figures 110 and 111 on page 229.

Reports will be received from the brokers later in the day, if the order is at or within the market price and the correspondent should be advised. Here again forms may be used, if the business warrants; if not, typewritten letters should be sent. Delivery is made on the day following and another appropriate letter written advising of charge to account if a purchase and credit, if a sale. The broker's charge is one-eighth of one per cent. The bank may add a fee if it is deemed advisable, but the granting of the favor gratis will be readily recognized as a good advertisement.

It is the custom among brokers to check up with their customers the unexecuted orders to buy below the prevailing market price and to sell above at regular intervals. They will send a list of the orders on their books. These should be checked up promptly with the records and errors noted and corrected.

136. *Transfer of stocks and registry of bonds for customers.*—A New York bank or trust company with a large number of bank correspondents cannot avoid the responsibility of transferring stocks and registering bonds for its customers and the customers of its correspondents. The bulk of the stock and bond sales of the country is made in New York and in consequence the majority of the large railroad and industrial corporations have transfer offices there. In fact, corporations whose shares are dealt in, on the New York Stock Exchange, are required under its rules to have a transfer office in the Borough of Manhattan.

There is a great responsibility in making these transfers for customers, because the transfer agents require that an endorsement of stock be known to them or that

IRREVOCABLE STOCK POWER

KNOW ALL MEN BY THESE PRESENTS,

That..

For Value Received have bargained, sold, assigned, and transferred, and by these presents do bargain, sell, assign, and transfer unto.............................

....

Shares of the.......................................STOCK of the...

....

standing in............................name on the books of the said.....................................

represented by Certificate No...herewith

AND................do hereby constitute and appoint...

....

.........................true and lawful Attorney, IRREVOCABLY, for................and in ....name and stead but to.... ....use, to sell, assign, transfer, and make over all or any part of the said stock, and for that purpose to make and execute all necessary acts of assignment and transfer thereof, and to substitute one or more persons with like full power, hereby ratifying and confirming all that...............................said Attorney or...........................substitute or substitutes shall lawfully do by virtue hereof.

IN WITNESS WHEREOF,........................have hereunto set........................ hand and seal at......................................the... day of..19

Signed, Sealed, and Delivered in the presence of

....

[L. S.]

....

Figure 112

IRREVOCABLE STOCK POWER

the endorsement be guaranteed by someone known to them. It usually falls to the lot of the New York bank to guarantee the endorsement of the customer of their correspondent, whose signature they do not know. If the transfer appears in the least unusual, the New York bank should require definite instructions from its correspondent to guarantee. Certificates sent for transfer or sale should never be assigned to the bank, because it will be necessary for the directors of the bank to pass a formal resolution authorizing some officer to assign the certificate. A certified copy of the resolution duly attested and sealed must be filed with the transfer agent, together with a separate assignment, duly executed. If the correspondent bank wishes to save express charges on a certificate assigned in blank, it may forward the certificate by registered mail without assignment, and in another mail, a separate irrevocable stock power as shown in Figure 112 on page 231 duly dated, signed and witnessed.

A few words of caution regarding the filling in of a stock power may be appropriate. The power shown in Figure 112 on page 231 corresponds to the form printed on the back of stock certificates. The portion in brackets, referring to the person who represents the stockholder at the transfer office and the place for the name marked x x x should be left blank. The other spaces should be filled in.

Bonds may be registered as to principal only and as to principal and interest. When a bond is registered as to principal only the name of the owner is inserted in a space reserved on the back of the bond, and signed by an officer of the company. The bond can not then be delivered until released to bearer or the party who buys it. The coupons are left attached to the bond and are paid in the usual way when due.

When bonds are registered as to principal and interest it is customary to issue a new certificate after cancelling the old one and all the attached coupons. Assignments must then be made on an irrevocable bond power, similar to the stock power.

Negotiable securities should always be shipped by express at full valuation.

137. *Telegraph and cable instructions.*—Present day business could not be transacted without the use of the telegraph and the cable. However, it would be a foolish procedure, to say the least, for a bank to act on an open telegram from a customer instructing to pay out money, to buy or sell bonds, or to ship valuable papers even to the correspondent. Some verification of the genuineness of the message should be made when the instructions are at all important. The usual method employed, when code books have not been exchanged, is to telegraph at once to the correspondent bank that a message purporting to come from them has been received containing important instructions, and requesting them to wire back the amount of a certain remittance letter which the bank has received, or to state amount of second or third item in a letter or to say what was the balance of last statement rendered, or to name the payee and amount of a check, which the bank has paid, or anything that can be known only by some responsible man in the corresponding bank.

This method is crude and costs a lot of money. Three long telegrams are sent, when one short one would do if the depository bank has enough bank correspondents to warrant the printing of a special code book. There are many code books in use by the bankers doing a foreign exchange business. Ideas may be gathered from these in preparing one. Only such words should be used in the code as are not likely to be used in the banking business. The words should be arranged alphabetically and the book divided into suitable headings, such as payments, securities, calendar, shipments of currency, letters and remittances, notes and drafts, collections, statements, etc., etc. In addition to these, a very carefully prepared table of numbers and dollars should be prepared. If some general scheme is followed on the numbers, such as using the adjective for numbers and the adverb for the same number of dollars, a word could be saved in each telegram. A table of fractions used in quoting values of stocks and bonds should be codified. The calendar should be arranged so that one word will represent the date, when dates must be referred to.

Code books should be kept under lock and key and access had to them by the officers only. The bank sending them out should require that this care be exercised.

In addition to using the code, some banks will not execute orders where the payment of money is concerned, unless a message is "keyed." To key a message is to use some word obtained by a secret process known only to the officers in the two banks. The method of ascertaining the key words is sometimes very simple and sometimes complicated.

When keyed messages are desired it will be found worth while to number each book sent out and keep a record of the numbers. Then by adding to the message the code word representing the number obtained by the following or any other arbitrary formula, the genuineness of the message is practically assured:

Take the number of the code held by the sender of the message, add the day of the month, the month, an agreed upon figure as per code for amounts over and under certain amounts, and the number of words in the message, then make some deduction which will make it possible to use a single word in the code for the resulting number, and add this word to the message.

Telegrams should be given very prompt attention. The actual time the message is received should be noted on the message and the translation initialed by the translator. It is conceivable that some code words may be learned by clerks other than the ones entrusted with the codes if the translation is made on the telegram itself, but if messages are keyed even very simply, and the key never translated, it will be impossible for any clerk to make use of the information he could obtain from translated messages. There would be a danger of error in writing the instructions on separate sheets and filing untranslated telegrams separately.

For cable work, the international codes are better than private codes, owing to the fact that some word in the English language used as a code word may be mistaken for a foreign word used in its national sense, and much complication would result.

138. *Participations in loans.*—The habit of dividing loans among several banks or trusts is quite a common feature of present day banking.

Banks in large cities are often more or less interested in the banks in smaller cities, through ownership of stock on the part of some officer or director. The time often comes when the smaller bank has no satisfactory borrowing market for its funds and so makes application to the large bank to suggest some profitable means of loaning its surplus funds. If the bank were strictly independent it would buy bonds or purchase some well known paper, but the suggestion is made that the large bank has a good loan, bearing a high rate of interest that it would like to divide and so the deal is made. As far as the small bank is concerned, it will be satisfied with a certificate from the large bank that it has charged its account and holds the agreed upon proportion of a definite loan, secured by certain collaterals. The small bank thereupon credits the large bank and charges loan account. It will hardly be necessary for the large bank to have any specially prepared forms for participations, unless they are numerous.

CHAPTER IX

CREDIT DEPARTMENT

139. *Importance in bank.*—If it can be said that one department is more important in a commercial bank than another, surely the credit department is that one. A great deal has been written of late in regard to the systematic gathering of credit information. In a small country bank, the need for classified information regarding borrowers is not so essential to success; but even if the banker feels that he knows each one of his borrowers and just what he is worth, a memorandum file of what has transpired in the loaning account of a customer in the past five or ten years may cause a slightly different decision in regard to a new application. Statements are hard to get in rural communities, because all business men do not keep accounts. Many men who do thousands of dollars worth of business in a year depend entirely upon their check books and stubs as their sole book records. With this class of borrower it will be impossible to obtain more than an estimated statement, but if such facts as can be gathered in this way are reduced to writing and signed by the prospective borrower, they will prove valuable to a tired memory or to the successors or substitute for the incumbent of the presidential chair.

When the community is of such a size that personal acquaintance with every borrower is impossible, or where the population is changing or increasing rapidly, the establishment of a credit department should not be regarded as a useless expense. In large cities such a department is absolutely essential.

The first requisite of a good credit department is an efficient credit man to take charge. To state the qualities that go to make up such a credit man would seem like naming all the virtues and saying these he must have. Some things are essential. The man must have a fair knowledge of accounts so as to be able to read between the lines of a statement. He should be a man of pleasing address, able to meet with and draw out of men the information he desires to know in determining the credit a borrower should have. He should never give offense to a debtor under any circumstances. A knowledge of shorthand would be useful, but it should be used with caution. It is a serious mistake to take a conversation down verbatim. Men dislike to be quoted on such matters and the feeling that every word is being recorded has the effect of sealing their lips rather than opening them. The credit man should keep posted regarding conditions of trade, assignments, judgments, conveyances, mortgages, petitions in bankruptcy, etc., and anything that may concern the bank or its customers. It may seem like sacrilege to suggest that banks should exchange information regarding borrowers, but it frequently happens that two or three banks within a stone's throw of each other loan money to the same borrower and each thinks it is the only creditor.

Credit has been defined as "A question of ability to pay coupled with an intention to pay." Both ability and intention must be assured in order that the credit may be considered a safe proposition. The latter of these requisites is one that must be settled on the basis of past experience, habits of life, character, etc. If a man always has paid his debts and is not living beyond his means, his intention to pay will be practically assured. The ability to pay is quite another matter and more difficult to determine. It is in this end of the credit work that the credit man is able to display his genius. The information that a credit man obtains from others often compares with the following anecdote:

Abraham Lincoln was once called upon to give a report on the financial standing of a brother attorney. Lincoln replied: "I called on Jones at his office and found that he had a wife and a baby, and that ought to be worth $50,000 to any man; he possessed half a dozen law books, two wooden chairs, a pine table, and a rat hole that is certainly worth looking into."

There are certain facts that a credit man must know in order to determine whether or not the bank will extend credit to a borrower:

1. The character of the management of the business.
2. The character of the business.
3. What the competition is.
4. How the concern is organized to do business.
5. What are their business methods.
6. Do they pay their bills.
7. What are they worth.
8. What do other people think of them.

He must obtain these facts from various sources, and from the information gathered form his conclusions.

140. *Records.*—The first requisite of a set of credit records is a statement of the borrower's assets and liabilities. The proper time to request such a statement is when the prospective borrower makes his first application for a loan. Figure 113 on page 240 shows a form in use by a large bank. It must not be assumed that because a man demurs at giving a statement that

To THE JERSEY NATIONAL BANK

OF THE CITY OF NEW YORK.

Firm Name.. Location..

Business.. Branches, if any..

For the purpose of procuring credit, from time to time, with the above bank for our negotiable paper, or otherwise, we furnish the following as being a fair and accurate statement of our financial condition on the......................day of..19........

In consideration of the granting of such credit, it is hereby agreed that in case of the failure or insolvency of the undersigned, all obligations of the undersigned held by said bank shall become immediately due and payable.

ASSETS			LIABILITIES		
Cash on hand..................			Bills Payable for Merchandise....		
Cash in............Bank......			Bills Payable to own Banks......		
Bills Receivable, Good..........			Bills Payable for Paper Sold......		
Accounts Receivable, Good......			Open Accounts.................		
Merchandise (How Valued......)			Loans or Deposits..............		
Real Estate in Name of Firm....			Mortgages or Liens on Real Estate		
Machinery and Fixtures........			Other Indebtedness, and of what composed		
Other Assets, and of what composed.			....		
....			....		
....			....		
....			Total Liabilities......		
....			Net Worth...........		
Total..................			Total....................		

Contingent Liability. { Accommodation Endorsements.............................. / Endorsed Bills Receivable Outstanding......................

Names in full of all General Partners. { .... / ....

Names in full of Special Partners with amounts contributed by each and until when. { .... / ....

State last date of taking trial balance and if same proved..........................

Memorandum..

....

....

....

Please sign here..

By..

Date Signed...................19...

FIGURE 113

STATEMENT OF BORROWER

he is not worthy of receiving credit, for, as mentioned above, there are many men with good business sense and plenty of assets who do not keep books and cannot give an accurate statement of assets and liabilities. Many men at first object to reposing such confidence even with their bankers, but it should not be impossible to convince such a man that it would be to his advantage to make a full statement to his banker. The confidence thus given is never violated, and it is much better for a banker to be able to say something positively about a man when others apply for information, as they surely will, than to have nothing whatever to say.

The signature should be acknowledged before a notary after taking a borrower's deposition that the statement is a true one. The bank's own notary may take these acknowledgments without charge. The effect of this formal declaration will be found worth while.

Analysis of borrower's statement. The next thing in order is to analyze the statement, for an unanalyzed statement is no statement at all. Professor Bolles sets up the following as a list of things to be looked into:

1. Is the capital sufficient, and has it been contributed in cash; if not, what does it represent?
2. Who constitute the firm and do the partners understand the business?
3. Has the stock been taken in at a fair figure, and has due allowance been made for depreciation? This is very necessary in large manufacturing concerns.
4. What about accounts and bills receivable? Is there sufficient depreciation for bad debts? Have all bad debts been written off or provided for?
5. Liabilities should be carefully examined; are they

heavy; are they continuously large, to whom and what for?
6. Is the buying legitimate in amount?
7. Do they carry other lines beside their principal business? If so, where does the capital come from?

In addition to the above, the credit man should inquire carefully into the question of insurance on stock in trade, buildings, etc., if carried in assets.

The borrower will probably value his assets generously, and the bank should be quite as liberal in depreciation. Ten per cent should be deducted from accounts and notes receivable as a reserve for bad debts, and a like per cent for depreciation on machinery. At least 10 per cent should be allowed on shopworn stock and 50 per cent on anything of indeterminable value.

Much valuable information may be gained from the previous loans. If paper is renewed year in and year out, it is pretty safe to assume that the borrowed money has been sunk in fixed capital rather than having been devoted to legitimate purposes as floating capital while goods are in process and sale. All discounts should be paid in full or reduced materially once a year.

If the borrower is willing to submit to any rate without protest, it is an indication of his urgent need for the principal.

A study of the man's account will produce valuable results. From whom does he receive the checks he deposits? To whom does he issue checks?

141. *Personal investigation.*—The credit man should supplement the information contained in the statement and collateral thereto, by personal investigation. He should call at the factory, look over the plant, machinery and stock, and form his own opinion of its value and

appropriateness to the business. If he has the time, and it will be time well spent, he should check the statement received with the general ledger. This is a detail that is probably never carried into execution, but if the credit man is familiar with accounting it will certainly be worth his while to do so. In addition to the borrower's own statements and records, the credit man should seek the opinions of others, being careful to obtain his information through such channels and in such a manner that the credit of the borrower will not be injured by his questioning. Rumors may start regarding the credit of a worthy man from the simplest remark that may finally lead to his bankruptcy.

142. *Agency reports.*—Although agency reports are not perfect, they are the best that can be obtained and are helps in determining credits. Every bank of any size should be able to command the forces of these agencies for its information. The information contained in a rate book should always be supplemented by personal investigation.

When all this information has been brought together, a report should be prepared and adjusted for the officers, which is concise, and yet omitting none of the essential facts. The credit man gathers the information and really decides the question as to whether or not a man's application shall be granted. He may be made the scape-goat for a careless officer, and it therefore behooves him to put his information in such shape that it cannot be mistaken.

143. *Credit files.*—The files of the credit department should be fireproof, and should be capable of expansion as the bank grows. There should be a file for each borrower. Most banks use manila envelopes marked on the outside with the borrower's name. The

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avge
Bal.													
Own													
B. R.													

B. D. Stm't Net

Introduced By

References

Figure 114

CREDIT ENVELOPE WITH RECORD OF BORROWINGS

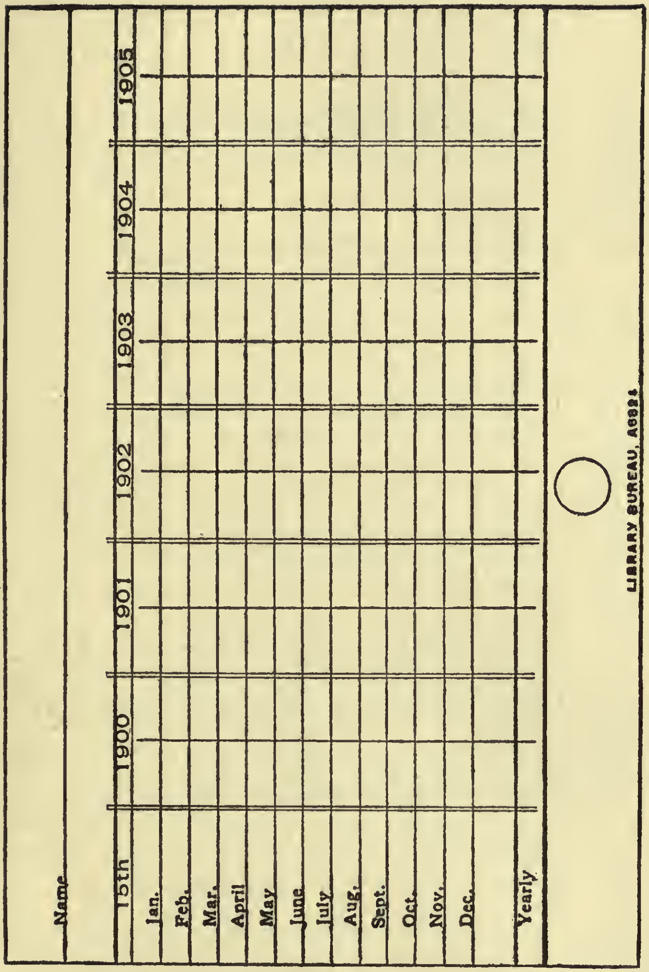


Figure 115

AVERAGE BALANCE AND DISCOUNT CARD

Credits and statements

Name						Liquidating Date	
Location					Business		
Officers and Partners							
Guarantors					Last Statement		

Average Balance	1899	1900	1901	1902	1903	1904	1905
Maximum Loan							
Assets							
Liabilities							
Net Worth							
Excess Quick Assets							
Line Direct							
Line Commercial							

FIGURE 116

CREDIT AND STATEMENT CARD

borrower's statement and all other memoranda are filed in the envelope. Some banks keep a running record of the average balance and the loans on the outside of the envelope, as shown in Figure 114 on page 244. This information is so valuable that it is worthy of a separate record. Cards are very acceptable records for this information. A stock card sold by the Library Bureau, four by six inches in size, is shown in Figure 115 on page 245. An additional file of condensed information as per card shown in Figure 116 on page 246 may prove to be useful.

144. *Credit men's association.*—The credit man should be given a membership in the Credit Men's Association, and should attend its conventions when practicable. He will learn many new ideas from his association with other men in his own line of work, and the bank will receive a large share of the benefit.

145. *Value of depositors' accounts.*—Some banks have endeavored to determine the value of the accounts of depositors. It is evident that a large inactive account on which little or no interest is paid is a paying account. No theory or system can determine the value of a small account. In itself, it may be an expense to allow a depositor to maintain a small balance, but it frequently happens that if he is asked to withdraw his account he will influence other accounts of greater importance. Accounts with large balances, but with activity of peculiar type may be an expense instead of a gain to the bank. In order to form some conclusion in regard to this class of accounts, a record should be kept by the credit department of all foreign items sent for collection. The record should show the number of days required to collect these foreign items and the cost of exchange.

At the end of the month the sum of the amounts outstanding three days should be multiplied by three, the sum of the amounts outstanding seven days, by seven, etc., and the results added together and divided by the total number of foreign items. This will give the average amount outstanding during the month, which should be deducted from the average balance maintained. The net balance is then multiplied by the average rate received for loans, and furnishes the main receipt from the account.

The next is the total amount of exchange charged during the month. From the sum of these two items is deducted the various costs to the bank such as exchange paid, which may not be quite as much as the amount charged, special expense of collecting, interest credited to the depositor and any other direct expense incurred for account of the depositor. The balance will represent the gross income from the account.

CHAPTER X

COLLECTION DEPARTMENT

146. *Its functions.*—The functions of the collection department vary in different institutions. Even the titles by which it is known are so different that the department in a strange bank would be hardly recognized. This is true of other departments, as well. The name collection department indicates that the department bearing the name makes collection of some kinds of checks, drafts, notes and other items with which the bank is continually dealing. In the majority of banks it has charge of the collection of items payable in other cities, and this is the kind of department we will attempt to study.

147. *Sources of items.*—The foreign items are charged to the collection clerk by the receiving, note and mail tellers, the discount clerk and the loan clerk. The only items which the paying teller charges to the collection clerk are the items he cashes over the window during the day. These will be very few in number and small in amount, because the bank would prefer having advice of payment on a check of any size before handing out the cash on it. It will usually recommend that the item be left for collection, in which case the receiving teller takes charge of the item presented. The paying teller is also asked during the day to cash a few checks on other banks or private bankers and since these will have to be charged to the note teller for collection, it will be better to add the foreign to the list and let

RECEIVING TELLER

Items Deposited for Collection

..................................19

Depositor	On	Amount	Collection Clerk's Receipt	Extended in Pass Book

Figure 117

RECORD OF
ITEMS DEPOSITED FOR COLLECTION

the note teller take care of the foreign with the items he receives during the day.

The bulk of the foreign items are presented at the receiving teller's window if the bank does a large counter business. He should receipt for the item presented, in short in the depositor's pass book. If a few depositors have large numbers of foreign items, they should be given a separate pass book in which the collection clerk himself should receipt for the total day's deposits. The receiving teller should take a memorandum of the items left for collection and obtain a receipt from the collection clerk for them at the close of the day. Figure 117 on page 250 shows a suitable book for listing and obtaining a receipt for the items deposited. Depositors in need of money will probably ask if collections are paid and if the receiving teller makes a practice of extending the memorandum to the money column in the pass book, when the item is paid it will be well for him to make some memorandum in his own record, and nothing could be better than to stamp the date, on which the extension is made, in the last column.

The receiving teller also charges all foreign items taken as cash to the collection clerk.

The note teller receives very few foreign checks in payment of the notes, drafts, etc., for which he is responsible. In fact he should refuse to accept foreign checks. However, if the bank transacts much business by mail, it will be good policy to open all letters received after the morning additions and collect as many of the items as possible. A large proportion of these items will be on clearing house banks and the note teller will be able to send the checks through his exchanges without upsetting his work in the least. He should charge any foreign items enclosed, together with those charged to

FOREIGN COLLECTIONS

When Sent	No.	Where Payable	To Whom Sent	When Due	Protest	Owner	No.	Payer	Amount	Disposal

FIGURE 118

FOREIGN COLLECTION REGISTER

him by the paying teller, to the collection department.

The mail teller also charges the collection clerk with all the foreign items received in the morning mail.

The discount clerk should turn all notes payable in other cities over to the colection department, obtaining a receipt in the form of an initial in the tickler. He should give the collection clerk ample time to get the notes to the place of payment so that there will be no doubt about presenting on the due date. Some banks allow the discount clerk to forward his own items for collection, but this duplicates letters and serves no valuable purpose. The collection clerk is in a better position, because of his knowledge and machinery, to collect the notes than is the discount clerk.

The loan clerk will probably never have any items payable in other cities, but if he does they should be charged directly to the collection clerk.

148. *Collection register.*—The items received from the various sources should first be entered on a collection register and given a number which should be plainly marked on the item. A numbering machine should be used for this purpose, and the number placed in a peculiar position, so that the bank's own number may be quickly recognized. The collection register is shown in Figure 118 on page 252. After entering on this register, the items are ready for endorsement. A very convenient rubber stamp may be used for this work, having a space a little wider than two lines of type left under the words "Pay to the order of" in which a small block having the name of the bank in rubber attached, may be inserted. Any good stamp maker will be able to make such a stamp. A small tray will hold all the small stamps the bank needs. One large endorsing stamp will be sufficient. Before endorsing the items, the small

Pay to the order of
Farmers National Bank
Wyoming, Nebr.
Prior endorsements
guaranteed.
JERSEY NATIONAL BANK,
NEW YORK CITY.

a

Pay to the order of
Any Bank, Banker
or Trust Co.
Prior endorsements
guaranteed
JERSEY NATIONAL BANK,
NEW YORK CITY.

b

FIGURE 119 *a* and *b*
ENDORSEMENT STAMPS

block bearing the name of the bank is inserted in its socket and the items endorsed with a single stroke. The items to be sent to another bank are then endorsed in the same way. Every item sent out can thus be endorsed specially as shown in Figure 119A on page 254. Some banks endorse items to the order of "Any bank, banker or trust company," as shown in Figure 119B. In this case a single stamp will do.

When reports of payment of items are received, it is necessary to make out charge and credit tickets and to advise the depositor of the credit to his account.

149. *Collection slip.*—A bank which does a very large collection business will find the use of a collection register and the necessary charge and credit slips and advice of credit, too cumbersome. A very ingenious labor saving scheme, known as the collection slip, has been devised. These slips are made up in pads or manila covered books, and are about the size of an ordinary check or draft. Four or five slips are allowed to a page, with perforations between each slip. There are three colors, one of white paper to be sent to the collecting bank with the item for collection, one of yellow, to be retained by the bank, and one of pink, to be used as advice of payment to the depositor. See Figure 120 on page 256.

These slips are numbered consecutively by the printer. The yellow and the pink slips bear the same number as the white slip. These numbers may and should be placed upon the items themselves, and will be a substitute for the collection number. By the use of two carbon sheets, three copies of the remittance letter are made at once. The entries on the collection ledger, which may be either skeleton or old style, according to taste, are made from the slips. The proof of the day's work may be made by running up the letters on the adding machine.

Foreign Collections
Jersey National Bank

To...
Payer... $..............................
Where payable...
Date.................................... Time................................ Due........................
Depositor................................ No protest.
Date credited or returned.
....
No.......... ....
....
Date......................

FIGURE 120
FOREIGN COLLECTION SLIP

JERSEY NATIONAL BANK
COLLECTION DEPARTMENT

New York City,....................19......

To...
....

Have the following collections been paid..
Please reply hereon by RETURN MAIL.

Sent		Due	Amount

FIGURE 121
REQUEST FOR ADVICE

THE WYOMING NATIONAL BANK
WYOMING, KANS.

....19.......

....
....

We have this day credited your account with the proceeds of the following items:

Yours respectfully,
H. H. Harrison,
Cashier.

FIGURE 122
LETTER OF ADVICE

After the proof is made the original slips with the items securely attached should be enclosed and mailed. The yellow slips should be sorted in drawers according to the banks to which the slips are addressed, after any particular items have been properly tickled. The pink slips are assorted according to depositors. When advice of payment is received, the letters are taken to the drawers containing the yellow slips and the slips removed. The corresponding pink slips sorted according to depositors are also picked out and arranged with the others. A rubber stamp with a cancelling line is used to complete the data on both slips, as shown in the Figure. The yellow slip is handed to the individual bookkeeper to post; if paid, the pink one is slipped in an envelope and mailed to the depositor. After the credit has been made to the depositor, the yellow slips are bound with the deposit slips for the day and filed. If the filing of the slips while in the process of collection is properly done, there is not a question but may be answered almost instantly with reference to any collection item or group of items.

An absolute and simple tickler could be installed in conjunction with this system by figuring how many days should be allowed for receipt of advice and filing the pink slips under their dates in chronological order instead of by depositors. Then after the day's remittances are checked off and slips removed, the slips remaining unadvised may be traced. For this purpose, a form letter of which Figure 121 on page 256 is a sample, should be sent out.

150. *Advice of payment.*—When a collection item has been paid, it is customary for the bank to which it was sent to advise the bank from which it came that it has been paid and credited, if reciprocal accounts are kept.

FROM

THE NORTHERN BANK OF NEW YORK

HAMILTON-PORT MORRIS BRANCH

REASON AS STATED BELOW:

GUARANTEE OF ENDORSEMENT	BANK STAMP MISSING
SENT WRONG	FILLING
NOT SUFFICIENT FUNDS	NO ACCOUNT
ENDORSEMENT MISSING	ACCOUNT CLOSED
DATE	PAYMENT STOPPED
SIGNATURE INCORRECT	MAKER DECEASED

DRAWN AGAINST UNCOLLECTED DEPOSIT

RETURNED THROUGH EXCHANGES BY PERMISSION

FIGURE 123

UNPAID SLIP

If there are no mutual accounts, a draft is enclosed less the collection charges. Regular printed forms are used for this purpose. An ordinary one is shown in Figure 122 on page 256.

When items are unpaid it is customary to attach a small paster to the item itself similar to the one shown in Figure 123 on page 258. A check mark is made opposite the reason given for the refusal of the item. A simple memorandum is added to a regular letter of advice that such and such items are returned unpaid with reasons as noted.

It is frequently necessary to recall items which have been sent for collection. A simple letter form providing spaces for the name of the item, the amount, when due, where payable and date of letter on which the item was sent, is all that is required.

CHAPTER XI

SUNDRY DEPARTMENTS AND DUTIES

151. *Coupon department, receiving.*—A coupon is an interest warrant attached to a bond, payable to bearer on the interest due date. The coupons usually mature semi-annually on the first of the month in which they are payable, though the coupons of some bonds are payable quarterly, and some are payable on some day other than the first. A bond having fifty years to run must have one hundred interest coupons attached to it, and if these coupons were of any size, a large block of bonds would occupy a great deal of space. The coupons are therefore very small and consequently very annoying to handle. Most of the railroads of the country have fiscal agents in New York City for the payment of coupons. A large percentage of these coupons is collected through the banks and trust companies. They are so hard to identify, unless the number of the bond is taken, that great care must be exercised in handling them, or serious losses may occur.

In the first place it will be found worth while to have some one person charged with the responsibility of receiving all coupons and collecting same. If the coupons are due or past due and payable, on presentation they may be credited as cash. If not yet due or payable outside of the city, they should be taken for collection, the same as any other obligation not yet due. They may be received by the bank through any of the following channels: In a deposit at the receiving tel-

Coupons of ....

Due ....

Payer..

Owner..

Received.................................... Paid and Advised....................................

Number	Rate	Amount	Remarks

FIGURE 124

COUPON ENVELOPE

ler's window; enclosed in a special remittance letter; by express or registered mail if in large quantities; in an ordinary letter with items for the clearing house; routes, collections, etc.; cut from bonds held by the special deposit department for safe keeping, or by the loan clerk from the bonds held as collateral for loans. Through whatever channel received, the coupon receiving or collecting clerk will receipt for the coupons delivered to him. In a great majority of cases, the coupons are enclosed in an envelope of some sort bearing the name of the coupon, the number contained in the envelope and the amount. The name of the owner usually appears somewhere on the envelope.

The first thing to be done is to get the coupons in some uniform wrapper, so that any entries or references may be easily made. For this purpose the bank should have envelopes printed showing on the top line the name of the coupon followed by due date, the payee, the owner, etc., as shown in Figure 124 on page 261. These envelopes should be about five and one-half inches by three in size, and should open at the side, and never at the end. Two colors of envelopes should be used, one for cash coupons and the other for collection coupons. All the information obtained from the envelopes, slips or whatever accompanies the coupons, should be written on the company's envelopes. Each coupon should be marked in some way so that if it is dropped on the floor or lost in any way and subsequently found, it may be identified. The writer knows of no better way than by the use of a collection number. These numbers are taken from the sequence of registering each lot of coupons in a coupon collection register shown in Figure 125 on page 263. Before sorting the coupons into the envelopes, the clerk may number a few envelopes begin-

COUPON REGISTER

Date Received	How Received	Collection Number	Owner	Coupons of	Due	Number	Amount	Paid and Credited	Initial of Messenger

FIGURE 125
COUPON REGISTER

ning at the first open number on his register, and then write or stamp the collection number on each coupon before putting them in the envelopes. After numbering and enclosing in properly labelled envelopes, all coupons received, the data on the envelopes should be listed on the collection register previously shown in Figure 125 on page 263.

Since the coupon clerk receipted for every coupon in his possession, he should obtain a receipt from every one to whom he delivers coupons. Most fiscal agents require that coupons be enclosed in their own envelopes, so that the messenger will have to take the coupons from the envelopes at the office of the agent and list them on theirs. He should be instructed to bring back the bank's envelope with the money, check or refused coupons, writing the reason for refusal in the remarks column. When the messenger returns to the bank he hands the envelopes and returns to the coupon clerk, who first prepares the credit entries for the individuals from the envelopes. He should then check off the paid items in his coupon register from the credit slips, using a dating stamp in the paid and credited column. The customer should then be advised from the envelope on the regular advice card, and the date stamped on the envelope by the clerk advising. If the coupons are unpaid the credit entry will be omitted. Prompt advice should be sent to the correspondent of unpaid coupons and further advice requested. If the coupons have been taken for cash, the credit will have been set up on the day of receipt. After the customer has been advised of the proceeds to his account, the envelopes are useless, but it is advisable to keep them for a few weeks before destroying. When they are destroyed, every envelope and piece of paper should be carefully inspected to see that no coupons are still sticking there.

152. *Coupon department, paying.*—Trust companies have the majority of the business of paying coupons. The paying coupon teller should have an abstract of all paying instructions before him continually. This abstract should show the name of the coupons, the due date, the title of the bond issue, the rate per cent, the serial number, the bond numbers, the total number of coupons to be paid, the value of each and the total amount to be paid. The abstract should allow ample room for special instructions and should show the account to be charged. These abstracts should be prepared from the original correspondence and filed alphabetically in a loose-leaf binder. The abstract sheet may be followed by a sheet on which is posted the total number and amount of coupons paid each day and the balance yet remaining in the account with which to pay coupons not presented. Instead of this ledger record, a special coupon ledger may be set up and kept like any other ledger.

The coupons are cancelled when paid, and sent to the corporation when the particular fund is exhausted.

153. *Stationery and supplies.*—The average bank does not devote sufficient attention to this subject. Few officers realize how large an item it is in their expense account. The carelessness is a relic of the days when banks were supposed to be very wealthy institutions in which expense was no object. There are cases to-day when financial institutions are paying from one-third to one-half as much again as others do for the same article. Much needless expense is incurred in purchasing and still more in using or non-using of supplies purchased. The scratch pads of most banks are made of forms, letter heads, etc., which have become valueless. The writer

has in mind a case where a clerk was found short of a certain kind of form at a time when they were very much needed. He was so inconvenienced thereby that he immediately placed an order for ten thousand, where one thousand would have sufficed. They will make very good scratch pads some day. The desks of individual clerks are often stocked with stationery and supplies enough to keep a dozen men going for some time.

Supplies of all kinds should be concentrated under one man, who should have full authority to purchase the needed articles where and when he can get the best prices, with due regard to the quality. A depositor who happens to be in the supply business should not be favored because he is a depositor, when it would be a loss to the bank to purchase from him. It would be far better to assure him that his account will be handled on the best basis possible, and allow him to bid with others on the bank's supplies, favoring him only when all other things are equal. If dealers know that they are bidding against others they are apt to cut their own prices to the lowest level. Orders for ledgers, check books, pass books and many other things can be placed, subject to delivery at the convenience of the printer, but before a fixed date. A printer with a large force of men will be glad to make special rates for such orders.

In a large bank, the head of each department should be held responsible for the use of supplies in his department and should sign a requisition on the stock clerk for supplies needed. A form of requisition is shown in Figure on page 267.

The stationery clerk should have a stock room furnished with ample shelf and drawer space, in dust proof compartments. Every shelf and drawer should be num-

THE NEW YORK NATIONAL BANK.

REQUISITION FOR SUPPLIES.

New York..............................19........

The Stock Clerk will please ıurnish the following supplies for use in my department:

Form No..

Form No..

Form No..

Special Instructions:

....

Chief of ....department.

FIGURE 126

REQUISITION FOR SUPPLIES

bered, so that a short memorandum on his record will indicate exactly where articles will be found, e.g., 3-2 would mean closet number 3, shelf 2. This may be carried further by the use of "L" for left and "R" for right, e.g., 3-2R would indicate that the form desired would be found in closet number 3, shelf number 2 on the right hand side.

Let us assume that the form ordered by Mr. Brown is a new one. He will attach two drafts to his requisition, one for the order clerk and one for the printer. The stock clerk has secured several bids and has decided to order the needed forms from the Meteor Printing Co. As the terms and articles will be so varied, it will be worth while to dictate a letter ordering the supplies and have a carbon copy made for his files. Before sending the form to the printer, he should give it a number and place the number so assigned on the upper right hand corner, with the number ordered and the date, e.g., 1-1,000-6-09. The form should be entered under an appropriate title in an index arranged numerically and another arranged alphabetically. Having received the goods, he first checks them with his letter and certifies to the correctness of the bill. He then charges himself with the total number of the forms ordered on a card record as shown in Figure 127 on page 269, and delivers a sufficient quantity to Mr. Brown for use in his department, crediting himself with the number of forms delivered and carrying out the remainder on hand in the balance column. The balance will be stored in his stock room and the location noted on his card, as mentioned above.

When posting future deliveries made from this stock, the clerk will note that his supply is running low and replenish in ample time to save rush and the necessary

STATIONERY RECORD

Article.. Stationery Number.................... Form Number....................

Received.. Delivered....

Date	Bill No.	Dealer	Quantity	Price	Cost	Date	Quantity	Inventory	Value of Balance on hand

FIGURE 127

STATIONERY RECORD

extra expense incident thereto. He should not place an order, however, without first conferring with the head of the department using the form, to ascertain whether any change is desirable.

As the clerk will be in the habit of dealing with tradespeople it will be worth while to allow him to secure bids for carpentry, plumbing, iron work, etc. It would be possible to curtail expenses in this way.

154. *Letter files—incoming letters.*—The question as to how letters received from correspondents shall be filed, is quite a serious one. The very best filing scheme falls down at some point. The Library Bureau system, with its vertical, numerical features, possesses distinct advantages over some of the old methods; but even it has objections. Every correspondent must be numbered and every letter inserted must be numbered before it is placed in the files. This may be avoided, however, if very objectionable, by employing the same method and using alphabetical folders instead of numerical. The numerical system possesses the possibility of growing without disturbing all past business.

Special correpondence, such as inquiries regarding credits or statements in regard thereto, letters relating to securities held as custodian and correspondence regarding loans, should be retained and filed by the department interested.

The letter files are important and should never be used as a place to discourage undesirable clerks so that they will resign. The peculiar qualities necessary to make a good filing clerk are rarely found in a boy or man. A girl or woman if she thoroughly understands the filing business, will do far better work and keep the files in better shape. The letter files should be in a cage, the door of which is kept locked. No letters should be filed or removed except by the filing clerk. A memorandum slip should be inserted for every letter removed, or better, a receipt should be given to the clerk in charge.

155. *Letter files—outgoing letters.*—The press copy book has been superseded by the carbon copy of the letter and by the copying machines which take copies of letters on rolls of papers, afterwards cut up and filed with the letter of inquiry.

156. *Check files.*—Paid checks are always filed away in drawers with sliding cardboard partitions for each depositor, so that they may be delivered at a moment's notice when called for. It is also customary to cut the checks in some way so that they may not be sent through the work and paid again. Some machines simply cut a number of lines across the check. Others, of more modern type, cut out the word "paid," and the date on which payment was made. If the old cutters are used, it will be found worth while to stamp the checks on the face with the same legend including the date of payment.

There are a number of fire-proof check filing devices on the market, any one of which is suitable.

The question as to the person who should be responsible for the files, varies with the organization. In some banks, the bookkeepers are responsible for the filing of their own checks. This is not a commendable practice. It might be very convenient for the man who keeps the records, to retain a check or two, uncut, to cover up a defalcation. In banks where a private telephone switchboard is needed, with branches connecting the departments, the operator of the switchboard may be held responsible for the check files, if the wires are not too busy. If these two cannot be combined, a separate department should be established, with a competent person in charge.

The checks should be sent to him as soon as the proof is made, and from the moment of receipt till delivered or sent to the customer, should never leave his possession without receipt. Access to the files should be denied to all except the person in charge and his assistants.

This department may also be charged with the filing of deposit slips. Some banks file deposit slips in chronological order and others by depositors. The former is undoubtedly the easier method and is just as efficient. The Rand Company has an excellent binder for filing these slips in chronological order.

157. *Old records.*—What to do with old records is one of the most trying questions for bankers in large cities. Vault space is very valuable and often cannot be had at any price. Books and other valuable records are frequently left in the cellar or open shelves, or in an unused room. There is great danger of fire and quite as much danger in having them exposed to prying individuals.

Sufficient vault space or fire-proof rooms should be provided so that all ledgers and books of original entry may be kept permanently. Other records, deposit slips, correspondence, etc., may be destroyed by fire after several years.

158. *Acknowledging receipt of remittances.*—If a large percentage of the remittances is received by mail, it will be worth while to establish an advising department under a competent head. This department should receive the letters from the mail department when convenient, and address postal cards and such regular letter forms as the letters warrant. Any unusual matter should be handled by an officer.

A specimen form of postal card for acknowledging receipt of cash remittances is shown in Figure 128 on

BLANK NATIONAL BANK

New York City..................................19........

Your letter of the..............................inst. has been received. We credit your account as follows:

We enter for collection:

A. B. JOHNSON,
Cashier.

FIGURE 128

ADVICE CARD

MAIL TELLER

Checked by..

Credited on statements..

Credited on ledger..

Advised by..

....19........

Figure 129

RUBBER STAMP FOR RECORD OF POSTING, ETC.

page 273. A quantity of these cards should be printed and kept on hand.

Figure 129 on page 274 shows a useful form for a rubber stamp to be stamped on each letter received by the mail department. Each operation in connection with the letter should be initialed. The opening of the mail is usually done by one or two responsible men and any irregularities may be traced to them. The clerk who checks off the items should initial the letter as shown in Figure 69 on page 150. It is not practical to stamp the letters until after this is done. Subsequent work may be initialed in this form.

The advising department makes a very useful one in which to train young clerks. They should be sent out with items for collection in the afternoon. They will soon learn the names of the accounts and something of their value to the bank. Errors made by them quickly come to light and are very easily corrected.

159. *Rules for employés.*—The clerical staff should be made efficient or the best board of directors and officers obtainable cannot make a bank a success. This cannot be accomplished by the inane practice of posting general rules on a bulletin board, or compelling clerks to sign a typewritten rule which he knows is filed away to be trotted out and exhibited to him by a petty officer at the least infraction. The fewer rules made to govern clerks, the more self-respecting they will be, and the more work they will do for the bank. Certain rules must be observed. Clerks should arrive in time to get books and left-over matters ready for the day's business, and be in a position to handle whatever is presented to them in the course of business. If a clerk is habitually late without reasonable excuse, his case should be treated individually. He should be talked with and given an

opportunity to mend his ways. If no improvement results, he should be asked to hand in his resignation. If the clerks happen to be a little boisterous, do not dictate a new rule that clerks must never smile above a whisper while in the bank, and post it for their edification (?), but ascertain the reason. Perhaps you would have been the worst offender had you been a clerk. Never make a clerk think that he is a mere machine. Treat him as if he were a man—perhaps he is, or has the making of one in him. Do not dismiss a clerk without notice, unless absolutely necessary, and then charge expense and pay him a few weeks' salary. Such procedure will not materially affect the dividends, and you will have won the confidence of the clerk even though you are discharging him.

Some banks compel tellers to make up short differences from their own pockets. The writer has known of cases where tellers were compelled to submit to deductions from their salaries in order to make up large short differences. The foolishness of this rule is apparent. If a teller is compelled to make up short differences, does anyone suppose for one minute that he will not feel that over differences belong to him? The way is soon paved for forced proofs and the teller tempted to peculation or defalcation by those who should continually be a source of encouragement to him. It is far better to run an over and short account and take the profit or stand the loss that results. If differences occur too frequently, discharge the teller.

Give the clerks the best equipment you can afford. See that they respect it and take good care of it.

Do not make the mistake of using cheap stationery. With poor materials, the clerk will make untidy records. Untidy records make dissatisfied customers. Dissatisfied customers are the worst advertisements a bank can have.

Give the clerks plenty of light and air. It is a pity that so many of our banks are constructed so as to give the very best and lightest space on the floor to the customers and the clerks the remaining dark corners. The customer spends but a few minutes in the lobby, and artificial light will not annoy him—in fact it is possible to make it very pleasant—but the clerks must pore all day over books and records, and the best is none too good in the way of light and ventilation. If the latter is bad, see that it is corrected at any cost. If these two features are properly cared for, the number of sick leaves will be very few.

CHAPTER XII

GENERAL REMARKS

160. *Duties of officers in a country bank.*—The duties to be assigned to the various officers depend very largely upon local conditions. In a country bank, the president is usually a man of means in the community and is able to devote only such portion of his time to the bank as will enable him to pass upon the large loans and all the investments. He is usually able to surround himself with a coterie of men who act as directors and assist him in his work. He acts as chairman of the board of directors. He usually serves without salary, unless he devotes a considerable portion of his time to the bank.

The office of vice-president is purely honorary. The vice-president should be a director.

The cashier is the real executive head. He should be a man of considerable experience in banking. He should know the law very thoroughly, under which the bank is chartered, and be well informed in the negotiable instruments acts of his state, as well as to know when to call upon the bank's attorney in the general conduct of the business. He should be familiar with the modern banking systems of accounting, and be able to organize the clerical staff so that the best results can be obtained with the least amount of effort. If possible, he should be a director and act as secretary of the board. If a director, he should be an ex-officio member of the loan committee. If he is an experienced man with executive ability, his position may be made the most important in the bank. He should not be encumbered with a mass of detail, as is usually the case, but should always be in a position to drop whatever he is doing, to take up the need of the moment, whether it be to converse with a borrower, prospective customer or salesman, or turn his attention to one of the many things that must be looked after immediately. He should not be the teller of the bank, nor have any other duties that demand constant attention. He may take care of the general ledger, the statement book and the loans and discounts, if necessary. It will be worth while to pay him a salary commensurate with his work. The cashier, as well as the president, should be bonded.

161. *Duties of officers in a city bank.*—In a large city bank, the duties of the officers may be much more clearly defined. The volume of business to be transacted makes it necessary to place some one in definite charge of the different branches of the business and hold him distinctly responsible for his special duty. Much more efficient work will be accomplished by so doing, than by allowing every officer to handle every kind of work. The president should keep in touch with market conditions and with the best bankers in the community. He should devote his entire time to the bank and approve every investment and every loan made, excepting purely call loans on securities with ample margin to protect the bank in case of a declining market. These loans are usually made from day to day and are intended to keep the excess funds invested. They may safely be entrusted to an under officer if the president has not time enough to devote to them himself. He should eliminate details from his work as much as possible, and keep his head and desk clear of those matters of minor

importance, so that he will be ready to throw his whole energy into action in case of emergency.

The vice-president (or vice-presidents) should assist the president in the above duties. Certain kinds of loans, such as call loans on collateral may be approved by him without referring to the president. He may be given authority to loan, up to a certain amount to any one borrower, and to refer to the president all matters of greater importance. He may be the bond man of the bank, and decide upon the purchase and sale of the bank's bonds with the consent and advice of the president and the board of directors or its executive committee. In recent years the vice-president has been the chief solicitor of new business. He has bent his energies to the task of getting depositors, depending upon the efficient management of the bank to hold them after he has succeeded in persuading them to open an account. The banker of the old school thought it undignified to solicit deposits. Not so the modern banker; he knows that he will not be able to compete with other banks unless he does. The means employed to interest and secure new customers are indeed numerous and some are indeed undignified. The vice-president if he fills this rôle, and the bank is a national bank in the city of New York, should be capable of making a public address. He should attend the conventions of the bankers' associations throughout the country, interest himself in them and meet the delegates. However, if all New York banks were to do this sort of thing, the conventions would soon become marts for the selling of wares and not educational conventions. The wise banker will then retire and leave the field for others. He should have charge of the advertising of the bank and devote a good deal of energy to it.

The cashier in a large bank is the executive officer. He should act as secretary of the board of directors and keep its minutes. He should have personal supervision of the stock ledger and stock certificate book. If the stock is inactive, he should personally prepare all transfers. He should receive a copy of the daily statement and see that the reserve is kept up to the standard required. He or his assistants should sign all checks disbursing funds of the bank, all certificates of deposit and initial all expense items for which cash is paid, no matter how small. The cashier should have direct charge of the clerical staff, placing the men to the best advantage and hiring such new employés as are necessary. He will be more efficient in this respect if he has had experience in all the departments of the bank himself. There is nothing that will make the clerical staff inefficient more quickly than to receive orders from an incompetent or inexperienced officer. The president himself should not issue orders to the clerical staff without consulting with the cashier, and it would be far better if the orders were issued in the name of the cashier. The cashier should have a desk with the other officers and among his other duties, meet the general public who come to the bank to transact business. It is needless to say that an affable disposition will win friends for the bank.

The duties of the cashier in a bank are about equally divided between the secretary and the treasurer of a trust company, with this general distinction, that the secretary attends more specifically to the trust business, while the treasurer is responsible for the banking department. The secretary ranks a little higher in that he acts as secretary of the board. Frequently the two offices are combined in one.

The cashier may be relieved of a great deal of detail work by the creation of the position of chief clerk. If there is such a clerk, he should be responsible to the cashier for the successful operation of the clerical staff. He should have the privilege of shifting clerks from one department to another as occasion requires, but should not make important changes without consulting with the cashier. He should see that each department has enough men to do its work and should see that all clerks are fully employed. He should conduct all correspondence with applicants and all necessary preliminary examinations prior to employment. He should see that all departments prove their work properly, that the messengers give efficient assistance to all departments, that the supply of stationery is properly maintained and accounted for. In general, he should relieve the cashier of all duties in connection with the clerical staff and general work of the bank.

The office of auditor is becoming more and more important. The work is of vastly more value in a trust company than in a bank. He should be an expert accountant and should be in complete control of the accounting methods, with power to change, substitute or add such books, forms or memorandum records as he considers necessary to properly set the affairs of the institution before the officers and directors. If the company has or can obtain the right man, he will soon become invaluable. He should prepare all statements required by the officers and directors and certify as to their correctness. He should make audits of the work of each department at frequent intervals. The majority of the defalcations of clerks is made through manipulation of the individual ledgers, therefore the auditor should take every precaution possible in watching these books. Valuable use of the pass books left for balancing may be made in this connection. All reconcilements of accounts receiving statements through the mail should be addressed to him. Such other duties may be added as may properly be attended to by him.

162. *Investments.*—It is not the purpose of this section to advise financiers as to the kinds of securities in which the funds of the bank should be invested, but to suggest some methods of taking care of them after they have been purchased.

The essential characteristics of a good system are: (1) safety; (2) ease of access; (3) collection of interest and principal at maturity; (4) compilation of schedules and statistics.

The kinds of securities to be considered under this head are bonds, stocks, bonds and mortgages, deeds and other papers. The only safe place to keep the securities is in a safe within a fire and burglar proof vault. It should require the presence of two people to open the safe when the securities are negotiable. Bonds and mortgages and deeds are or should be matters of official record, and their loss is only a matter of inconvenience. Stocks should be registered in the name of the company. Many banks and trust companies in and near the large cities, especially those occupying rented offices, prefer to have small safes and keep their reserves and investments in the vaults of safe deposit companies. The rule requiring that two persons be present when the box is opened should be more strictly enforced in cases of this kind than when they are kept in the bank's own vaults. Ease of access should never be favored at the expense of safety. Coupon bonds must be taken out twice each year and the coupons detached. Where large blocks of bonds are held, it is best to file them with reference to interest date, that is, to keep in one compartment or on a shelf all bonds having coupons maturing in January and July and in another compartment or shelf all bonds having coupons maturing in June and December. Each compartment should be arranged alphabetically.

Bonds are received in various shapes and conditions, but if a bank once starts the practice of keeping all bonds flat, it will never revert to the old method of folding, rolling, etc. The bonds should be filed between stout manila boards and be bound with straps of webbing. A small tag, bearing the name of the bond should be fastened to the edge of the board in a conspicuous place.

We hardly dare suggest that bonds and mortgages could be kept in flat files, so long have lawyers been folding these documents once in the middle and then once again and "backing" them on the approved side. Yet who has not sincerely wished for a revolution in this method when endeavoring to gain some information from a fifty-page abstract of title? The task of "digging out" the information is a serious one unless the lawyer has been considerate enough to append an epitome of his investigations. If the abstract is an old one, it is impossible to peruse it with any degree of comfort, and important facts are sometimes missed. However, other papers, such as insurance and title policies are always folded and backed, and it is better to conform to custom in this case than to oppose it. There is this consolation, that after the records are once prepared, there is very little occasion to refer to the papers, except to endorse on the bond a payment on account of principal.

163. *The accounting.*—The principal feature to be

BOND OR INVESTMENT LEDGER

Bond of..

Interest rate.....................Payable...Basis..Principal Due...

Safe No...................Compartment No..

Receipts and Debits					Balance		Deliveries and Credits					
Date	Numbers	Par Value	Rate	Amount Paid	Par Value	Amount	Date	Numbers	Par Value	Rate	Amount Rec'd	Int. Paid to

FIGURE 130

BOND OR INVESTMENT LEDGER

shown by the accounting for investments is the amount outstanding and the record of interest payments. Many banks open an account with each kind of security in the general ledger. The account is charged with the actual cost of the security and is credited with the proceeds of subsequent sales and often with part of the interest received each period. When a statement is prepared, a summary of the balances must be made to make up the total of stocks and bonds. This record will answer as well as any other if only a few bonds are held, provided the interest periods are carefully tickled so that no delay may occur in collecting the interest.

In a bank which has a large line of bond investments or in a trust company, something more elaborate must be installed. The general ledger should have only a controlling account for the entire holding of stocks and bonds and a subsidiary ledger kept by the bond department to show the detail of the company's holdings. Figure 130 on page 285 shows a form of ledger suitable for this purpose. A loose-leaf record will be found to be more desirable than a bound one, owing to the fact that all the securities of a certain issue may be sold if the market price is considerably above the book value. The dead leaves may then be transferred. Very little space has been left to the record of interest on this ledger. As before, a separate record or tickler should be kept to prevent failure to present coupons on the actual due date. This tickler may be made very simple by the use of cards as shown in Figure 131 on page 288. They should be filed in a drawer with monthly guide cards. Each month's cards should be arranged alphabetically. Some bonds, but fortunately very few, have maturity dates other than the first of the month. If there are enough of these to warrant, cards of another color may be used or a little tab bearing the date may be fastened to the top of the card.

When the clerk who is charged with the responsibility of collecting the interest finds time to cut off some of the coupons falling due, he removes a few of the cards from the box and gets the bonds from the vault, giving a receipt for the bonds to the custodian. He then tears off the coupons, puts them into envelopes ruled for the purpose and makes the proper notation to the effect that this much of the work of collecting the interest is done. He then returns the bonds to the vault and receives the receipt given by him, which he destroys. The card is then returned to the case, in the current month, but behind a guide card reading "coupons cut." After the coupons have been collected, the cards should be again removed and the proper note of credit made thereon. The actual ticket crediting interest should go to the clerk having charge of the investments so that he may note in the last column the date on which the credit to interest is made. Only one issue should be kept on a ledger sheet and card.

The records necessary for bonds and mortgages have been fully described in Section 34.

164. *Safe deposit company.*—The records of a safe deposit company consist of a ledger, a combined cash book and journal, a set of signature and identification cards, power of attorney indices, etc. Some signature and identification cards show very full information regarding the renter of the box including the number of the safe, the date of lease, the name, residence, password, business, parents' names and birthplace and sundry memoranda of the personal appearance of the lessee. If two persons are required to be present at the opening of the box, the same description is filled in at the

Due January and July 1st	Amount Held
Name..	
Safe No............... Comp. No..............................	

Coupons	Coupons Cut		Interest Crt'd		Coupons Cut		Interest Crt'd		Coupons Cut		Interest Crt	
Due	Date	By	Date	By	Date	By	Date	By	Date	By	Date	B
Jan.												
July												
Jan.												
July												
Jan.												
July												
Jan.												
July												

FIGURE 131
TICKLER

APR.

Name	Rate	Safe No.
Address	Date	

DEBIT				CREDIT				DEBIT				CREDIT			
Year	Mo.	Day	Amt.	Year	Mo.	Day	Amt.	Year	Mo.	Day	Amt.	Year	Mo.	Day	Am

ST. LOUIS TRUST CO., Safe Deposit Dept.

PATENTED MAY 25, 1897 LIBRARY BUREAU, CHICAGO 44

LEDGER CARD REDUCED. ACTUAL SIZE APPROXIMATELY 4 X 6 INCHES
FIGURE 132
CARD LEDGER—SAFE DEPOSIT COMPANY

bottom of the same card. On the reverse side is a receipt for the keys and acknowledgment that the lease is made subject to the rules and regulations of the company. The bottom half of the back of the card is devoted to an acknowledgment to be taken on surrender of the box, that all articles owned by the lessee have been removed. The power of attorney card is similar, the face containing reference to the attorney and the actual power signed by the lessee on the back, together with a revocation of the power.

The Library Bureau has an excellent card ledger for this kind of business. A copy is shown in Figure 132 on page 288. These cards, one for each safe number, have tabs indicating the month in which the lease expires and are filed numerically by the safe number. They constitute a numerical index as well as an expiration index. Dead cards are filed by safe numbers and form a consecutive history of the safes. This card ledger will be found very useful if the rentals are apportioned over the year instead of taking all the earnings on the date of receipt. Receipts from the storage of silverware and trunks may be handled in the same way.

165. *Minute book.*—The minute book is frequently looked upon as a necessary evil and kept accordingly. The minutes often read somewhat as follows:

The regular meeting of the board of directors was held at the bank on Tuesday, June 14th, 1909, at twelve o'clock noon, at which a quorum was present.

The president was in the chair.

The minutes of the last meeting were read and approved.

The loans and discounts made during the month were read and approved.

Sundry matters pertaining to the welfare of the bank were discussed.

There being no further business, the meeting was adjourned.

....

Secretary.

The minute book is the record of the official acts of the board of directors and should be kept in such complete shape that no question could ever be raised as to whether or not a question had been properly passed upon by them.

In the first place, some items require a majority vote of the entire board. It is therefore essential to state the names of the directors who were present at the meeting. Section 39A of the New York State law requires that some officer be designated to

> prepare and submit to each director or trustee at each regular meeting of the board, or to an executive committee of not less than five members of such board, a written statement of all purchases and sales of securities, and of every discount and loan, exclusive of discounts and loans of less than $1,000, made since the last regular meeting of the board, describing the collateral to the loans so made as of the date of the meeting at which such statement is submitted. Such statement shall also contain a list giving the aggregate of loans and discounts to each individual, firm, corporation or association, whose liability to such corporation has been increased $1,000 or more since the last regular meeting of the board, together with a description of the collateral to such loans held by such corporation at the date of the meeting at which such statement is submitted. A copy of such statement, together with a list of the directors present at such meeting, verified by the affidavit of the officer or officers charged with the duty of preparing and submitting such statement shall be filed with the records of the corporation within one day after such meeting, and be presumptive evidence of the matters therein stated.

The aim of the law is to compel directors to direct, and the very best way to convince the examiner that they are doing so is to file this report or one of a similar nature in the minute book. If a report of this kind is not required, a good substitute is to have the members of the board present at the meeting sign the discount register, after having the same read to them. A full memorandum should be made on the minutes.

Meetings of the board of directors are very formal affairs, and should be conducted on parliamentary lines. No "sundry matters pertaining to the welfare of the bank" should be "discussed" unless recorded on the minutes, except that such informal discussions might be in order after adjournment or before. If a matter is worthy of discussion, it is worthy of a motion.

There are several loose-leaf minute books on the market which make it possible to have typewritten records. A book typewriter will accomplish the same purpose in a bound book. Typewritten records require the services of a trusted stenographer.

CHAPTER XIII

GENERAL REMARKS (continued)

166. *Periodic audits.*—The success of audits of the work of a bank or trust company depends entirely on the efficiency of the auditor. The subject has been under serious discussion in late years. The national and state examiners have been sharply criticized because they have not discovered defalcations and closed banks and trust companies which have not been able to stand the strain of hard times. The examiners are appointed, primarily, to see that the laws are obeyed and not to check up the thousands upon thousands of transactions which even a bank of moderate size has between examinations, in order to ascertain whether some underpaid and overworked clerk has gone astray. The criticisms in regard to the value of the resources may seem at first suggestion to be just, and yet the department may not close the institution unless the capital is impaired. Examination of banks and trust companies in New York State are made twice a year by the banking department and twice a year by a committee of not less than three of the board of directors. The following Section 21A from the Banking Law of the State of New York would be a very good guide for any examining committee:

Sec. 21-a. Books, et cetera, to be examined. It shall be the duty of the board of directors of every bank and trust company in the months of April and October in each year to examine or to c use a committe of at least three of its members to examine, fully into the books, papers and affairs of the bank or trust company of which they are directors, and particularly into the loans and discounts thereof, with a special view of ascertaining the value and security thereof, and of the collateral security, if any, given in connection therewith, and into such other matters as the superintendent of banks may require. Such directors shall have power to employ such assistance in making such examinations as they may deem necessary. Within ten days after the completion of each of such examinations a report in writing thereof, sworn to by the directors making the same, shall be made to the board of directors of such bank or trust company, to be placed on file in said bank or trust company, and a duplicate thereof filed in the banking department. Such report shall particularly contain a statement of the assets and liabilities of the bank or trust company examined, as shown by the books of the bank or trust company, together with any deductions from the assets, or additions to liabilities, which such directors or committee, after such examination, may determine to make. It shall also contain a statement, in details, of loans, if any, which in their opinion are worthless or doubtful, together with their reasons for so regarding them; also a statement of loans made on collateral security which in their opinion are insufficiently secured, giving in each case the amount of the loan, the name and market value of the collateral, if it has any market value, and if not, a statement of that fact, and its actual value as nearly as possible. Such reports shall also contain a statement of overdrafts, of the names and amounts of such as they consider worthless or doubtful, and a full statement of such other matters as affect the solvency and soundness of the institution. If the directors of any bank or trust company shall fail to make, or cause to be made, and file such report of examination in the manner, and within the time, specified, such bank or trust company shall forfeit to the people of the state $100 dollars for every day such report shall be delayed, which penalty may be recovered through an action brought by the attorney general against such bank or trust company, in the name of the people of the state of New York. The moneys forfeited by this section when recovered, shall be paid into the state treasurer, to be used to defray the expenses of the banking department.

Many banks and trust companies in New York City are taking advantage of this compulsory examination to call in expert accountants to assist in the book work. The work of accountants of this class is usually well done, but it is quite possible to get as slipshod work as can be imagined. The directors appointed by the board to make these examinations should not turn over all the work to those whom they hire to assist them, but should personally value the investments and loans and instruct the accountants to devote their attention to checking up the assets and liabilities and looking for errors in work and methods. There is plenty of work for them to do along these lines and they are far better fitted to say whether the ledgers are in balance and whether the liabilities are properly stated than are the directors. The average bank director is better fitted to say whether a borrower is good for the money entrusted to him, whether the collaterals are sufficient to secure the loans, and whether the investments are conservative, than are many of our accounting firms. At all events, the New York law provides that the directors shall make the examinations and specializes particularly in regard to the valuation of the assets. If expert assistance is called in, its work should be under the direct supervision of the committee of the directors and subsidiary to it.

Some institutions have established systems of internal audits. At intervals, determined by the officers without notice, a committee of the clerks is appointed to check up the work of an unsuspecting teller. The clerks on the committee are not notified until time to begin the work. One clerk who is capable of handling a number of men, and who understands the different departments, usually takes charge of the audit and makes the report. This kind of examination can only determine that the clerk examined is in possession of what he claims to have. Clerks cannot question the wisdom of making loans, investments, etc. The moral effect is good, but that is about the only real result. The examinations are apt to be superficial and hurried because the clerks are compelled to remain after hours when they least expect to do so, and are tempted to hurry in order to keep engagements previously made.

167. *Accrued interest receivable and payable.*—The farmer is often heard to remark that interest never sleeps. He has in mind the mortgage on his farm and realizes that whether crops are good or bad, the interest on the mortgage must be made when it is due. When the banker opens his doors in the morning, if at all imaginative, he might find awaiting him a tidy sum of interest on his loans and investments, accrued since he closed the door at night. If he be at all pessimistic and has been offering high rates of interest to secure deposits, he may easily see the huge form of Mr. Depositor waiting to draw interest. One day's interest has been earned on all loans and investments since the bank closed the previous day and one day's interest is owing all depositors whose accounts draw interest. The careful bank officer should know each day exactly how he stands on the matter, but very few do. They seem to think they are very conservative in not taking interest into profit and loss until the cash is actually received. Then too, the majority of the interest on investments may be, and probably is payable on the first days of January and July. The usual method is to credit profit and loss with the amount that happens

to be in the interest earned account on the day the books are closed and charge profit and loss with the total of expenses including interest paid. Earnings and expenses ought to be distributed by months as far as possible.

A very simple method of accruing interest receivable day by day on loans will be explained in detail. Application of this principle may be made to bonds and mortgages, stocks and bonds, interest payable on accounts and certificates of deposit.

A columnarized sheet as shown in Figure 133 on page 297 will do for the daily record. Accounts should be set up in the general ledger as shown in Figure 134A and 134B on page 298. The accounts shown in Figures 135A and 135B on page 299 will already be on the ledger. We will carry the work over the end of the fiscal period to show how the books would be closed and will therefore begin our record on Monday June 27 and run to Wednesday July 6 closing the books on June 30.

The following transactions take place: June 27, loans made, $20,000 at 5 per cent and $10,000 at 6 per cent. These loans should be entered as per Figure 133 on page 297. At the end of the day, which is equal to the opening of the day following, "interest accrued" is charged and "interest accrued receivable" is credited with one day's interest on the loans made at the respective rates.

$20,000 at 5% for one day..........................	$2.77
10,000 at 6% for one day..........................	1.67
Total (See Figures 134 A and B)......	$4.44

If the loans are not very active, the same sheet may

INTEREST ACCRUED RECEIVABLE ON LOANS

Day of Week	Day and Month		4%	5%	6%		
Monday.............	June	27		$20 000	$10 000		
Tuesday............	"	28	$50 000	25 000			
Wednesday..........	"	29	50 000 10 000	45 000 10 000	10 000 10 000		
Thursday...........	"	30	60 000	55 000 a *20 000*	20 000 a *10 000*		
Friday.............	July	1	60 000 75 000	35 000	10 000 40 000		
Saturday...........	"	2	135 000	35 000 15 000	50 000		
Sunday.............	"	3					
Monday.............	"	4	*Holiday*				
Tuesday............	"	5	135 000 a *135 000*	50 000 a *50 000*	50 000 a *50 000*		
Wednesday..........	"	6	–0–	–0–	–0–		

a–Reductions of Loan Account by Payments.

Figure 133
ACCRUED INTEREST RECEIVABLE

Dr. INTEREST ACCRUED Cr.

Date		Memoranda	Amount		Date		Memoranda	Amount	
June	27	Int. Acc'd Rec.	$4	44	June	30	Cash	$ 13	03
"	28	" " "	13	47	July	5	"	154	43
"	29	" " "	17	64					
"	30	" " "	13	19					
July	1	" " "	28	19					
"	4	" " "	90	83					
		Total	$167	76			Total	$167	76

Dr. INTEREST ACCRUED RECEIVABLE Cr.

Date		Memoranda	Amount		Date		Memoranda	Amount	
June	30	Profit and Loss	$48	74	June	27	Int. Accrued	$4.	44
					"	28	" "	13.	47
					"	29	" "	17.	64
					"	30	" "	13.	19
		Total	$48	74			Total	$48.	74
					July	1	Int. Accrued	$28.	19
					"	4	" "	90.	83

Figures 134*a* and 134*b*
GENERAL LEDGER ACCOUNTS

Dr.		CASH			Cr.
Date	Memoranda	Amount	Date	Memoranda	Amount
June 30	Interest Accrued	$ 13.33			
July 5	" "	154.43			

Dr.		PROFIT AND LOSS			Cr.
Date	Memoranda	Amount	Date	Memoranda	Amount
			June 30	Interest Acc'd Receivable	$48.74

Figures 135*a* and 135*b*

GENERAL LEDGER ACCOUNTS

be used from day to day. If very active it will be better to open a new sheet each day with the balances outstanding at the various rates on the day previous.

On the 28th two new loans were made, $50,000 at 4 per cent and $25,000 at 5 per cent. These are entered in the proper columns on the daily sheet. At the close of the day "interest accrued" is charged and "interest accrued receivable" is credited with one day's interest on the total amount of loans held by the bank at the various rates as follows:

$50,000 at 4% for one day........................	$5.55
45,000 at 5% for one day........................	6.25
10,000 at 6% for one day........................	1.67
Total (See Figures 134 A and B)......	$13.47

On the 29th three loans of $10,000 each are made at 4, 5 and 6 per cent respectively and entries made as per the figures. The accrued accounts receive the entries on

$60,000 at 4% for one day........................	$6.67
55,000 at 5% for one day........................	7.64
20,000 at 6% for one day........................	3.33
Total (See Figures 134 A and B)......	$17.64

On the 30th two loans are paid with interest, $20,000 at 5 per cent, the company receiving three days' interest amounting to $8.33, and $10,000 at 6 per cent, the company receiving three days' interest amounting to $5.00. These payments are entered on the daily sheet in red and deducted from the balance of the previous day. The $13.33 received as interest is charged to "cash" and credited to "interest accrued" as per Figures 135A and B on page 299. The accrued accounts receive the usual charges and credits for the interest on the balances in the loans at the different rates:

\$60,000 at 4% for one day	\$6.67
35,000 at 5% for one day	4.86
10,000 at 6% for one day	1.66
Total (See Figures 134 A and B)	\$13.19

At this juncture the books are closed for the six months. "Interest accrued receivable" is closed into "profit and loss."

On July 1 two new loans are made, \$75,000 at 4 per cent and \$40,000 at 6 per cent. The usual entries are made in the accrued accounts:

\$135,000 at 4% for one day	\$15.00
35,000 at 5% for one day	4.86
50,000 at 6% for one day	8.33
Total (See Figures 134 A and B)	\$28.19

The 2nd, being Saturday, but one loan is made, \$15,000 at 5 per cent. Sunday and Monday being holidays it will be necessary to accrue for three days instead of one:

\$135,000 at 4% for three days	\$45.00
50,000 at 5% for three days	20.83
50,000 at 6% for three days	25.00
Total (See Figures 134 A and B)	\$90.83

On the fifth all loans are paid with interest as follows:

\$50,000	seven days at 4%	\$38.89
25,000	seven days at 5%	24.31
10,000	six days at 4%	6.66
10,000	six days at 5%	8.33
10,000	six days at 6%	10.00

75,000	four days at 4%	33.33
40,000	four days at 6%	26.66
15,000	three days at 5%	6.25
$235,000		$154.43

The interest received, $154.43 is charged to "cash" and credited to "interest accrued" closing the latter.

The paid loans are entered in red on the daily sheet and deducted, leaving no loans on which to accrue interest at the close of the fifth day.

It is a little difficult to apply this system to deposits upon which interest is paid on average daily balances, but even this may be accomplished if these accounts are segregated from the non-interest bearing. It may be applied with no trouble at all to certificates of deposit and other special accounts.

168. *Changing of clerks.*—Many banks think they secure a satisfactory protection against defalcations by changing clerks from one position to another at frequent intervals without notice. This practice works better among bookkeepers than with tellers, and is often the rule for bookkeepers only. It does keep the clerks from getting in a rut and it prevents them from entering into a conspiracy with a depositor to defraud the bank. It is objectionable in that a man can do best that which he does every day. He takes more pride in keeping his ledger neat and clean if that is his special duty, than if he knows he will be transferred to another at any time. It is much better practice in a large institution to grade the positions in each department. The younger men should fill the less responsible places and be constantly trained to handle one or two positions above them. In case of sickness or absence of any clerk, the clerk below is qualified to step up one, while the

lower positions may always be filled temporarily by the most promising of the messengers. To those who have not seen the effect of a well managed institution having this scheme of promotion, it will seem almost a rash statement to say that any man in the bank may resign or stay away for any length of time and the work go along quietly with the simple addition of a messenger boy to the staff or a little short handed work in this junior department. It will be worth the years of effort necessary to organize the staff on this basis.

169. *Advertising.*—Advertising is the branch of the banking business least understood to-day. A simple glance at the columns of the daily papers, the bankers' and other magazines and to some of the specialties sent out promiscuously, will convince one that there is abundant room for improvement. A great deal of money is spent in bank advertising that might just as well be thrown in the fire for all the good it does the institution. If this branch of the business is to be made a success, it must receive as much attention and careful study as any other.

> Bank advertising is the best insurance a bank can have against loss of confidence, and perhaps, against panic. Bank advertising might be called bank insurance—it not only brings new accounts, but makes all accounts secure by stimulating confidence. It is as profitable to advertise to people already on the books as to seek new business, for the confidence thus inspired is the bank's best asset. A bank's advertising is not a speculation, as many bankers think it is, but one of the safest investments it can make, considered with mortgages, commercial paper and securities.[1]

Some other pertinent quotations may not be amiss:

[1] From an address delivered before the New York Chapter American Institute of Banking on "Judicious Bank Advertising" by Edwin Irvine Haines, editor of the *American Banker.*

Advertising is looked on as an evil to be tolerated rather than an investment that may be made to pay large returns.

Many a good and worthy institution is very sadly misrepresented in its printed matter.

The question is not how much do you spend, but how much do you get out of it . . . I have known bankers who were as proud as a peacock of their advertising, because it displayed their names and their large resources in prominent type, and who seemed utterly unmindful that they got no tangible results from it.

The professional advertiser is not qualified to take care of the bank's advertising. His advice may be sought on details, but unless he makes finance a deep study he cannot be as successful as he has been in making us sure that there is nothing under the sun like "Sapolio" or "Pear's Soap." Pushing must be applied to banking with the utmost circumspection. The professional man is liable to overlook this feature.

One of the under officers should have personal supervision of the advertising. He should be on an equal footing with the other officers of his rank and be able to confer with them. In a large bank an advertising department should be maintained. The officer in charge should be conversant with the circulation of papers. He should know the relative value of street car advertising, programs, catalogs, etc., and be able to discriminate between them. He should know something of the mechanical part of advertising, such as how to lay out copy, how to prepare dummies; he should know the different styles of type, the comparative merits of electrotyping, zinc etchings, half tones and other methods of illustrating.

Bank advertising may be divided into two classes: First, that appealing to the public which is given through the medium of the daily papers, magazines, street cars, signs, window cards, etc. Second, that which appeals to the individual. This is carried on by the use of circulars, booklets, post cards, statement folders, follow up letters, etc.

It is impossible to say which is the best medium. In some localities one method might be very fruitful and be an utter failure in another. Generally speaking, newspaper advertising, properly followed up, gives the best results. The "Ads" should be written in an attractive style and should be changed at least twice a week. A small space full of live matter of interest to the general public will be read and remembered. Too much space is given to names of officers and too little to facts. It is a good plan to emphasize "you" and "your" in your copy and not "we" and "our." Don't say: "We want your deposits," "We need your business." It is more tactful to tell people that they need you in the services you are prepared to render. Be very careful where your advertisement is placed. Do not accept a space with or between railroad time tables or next to some fake cure-all. Better still, shun absolutely the journals who accept questionable advertisements. A man is known by the company he keeps, and so is a bank.

It is possible to get excellent results from judicious private advertising. The quarterly statement furnishes an excellent opportunity. It should be taken advantage of to the fullest extent posible. At least once a year a statement should be issued in an attractive booklet form and made to cover all features of the business.

A carefully prepared and closely followed up mailing list is a valuable feature. A card list is the best. Careful notation should be made on the cards of all matter sent, the replies received and the ultimate results obtained. A poorly followed up system is almost worse than no system at all.

While enlarging on the excellent features of your institution never reflect directly or indirectly on your competitors. Beware of the numerous schemes, tin banks, programs, special editions of this and that, which are of no value whatsoever unless unusually pertinent. Once in a lifetime, perhaps, a happy idea may occur along this line, but it is the exception and not the rule. Don't advertise a savings book as a suitable Christmas gift in the middle of July, nor advise the public to start savings accounts for the summer vacations in October. Don't attempt to joke yourself or your bank into the good graces and confidence of the public by such statements as the following:

> We can serve you living or dead. Give us your business. With us you will be independent in this world and comfortable in the world to come. Try us.

It seems impossible that anyone should have used the above as a bank advertisement, but such seems to have been the case. Be dignified.

Prompt and courteous attention to customers can hardly be classed as a part of advertising and yet if prospective customers are not treated civilly when entering the bank, the supreme efforts of the best advertising manager will count for naught.

170. *Soliciting business.*—Very closely akin to advertising is the question of soliciting business. On the whole it is better understood than the question of advertising. National banks in the City of New York have long employed solicitors to travel through the country. Their nearness to the bond market, close connections

at Washington, advantages as reserve agent, large capital and surplus, offers of loans to tide over stringent seasons, have been texts for many talks on "doing business with our bank." New banks are solicited for deposit accounts by the New York reserve banks before organization papers are complete. It has long been the custom for New York banks to send officers to state bankers' conventions and on tours through certain sections to become acquainted with the present customers and to make new friends.

Of late years the professional bank soliciter for local business has appeared in the large cities. His promises, ideas and terms are of varied hues. The fad that has been most prevalent is the locked savings bank scheme. The depositor is given a pretty little bank which can be opened only by the teller. The depositor is supposed to keep this toy continuously before him to remind him that he must save. At frequent intervals he is supposed to "tote" it to the bank, have it opened and the contents credited to his account. One of this kind of toy banks contained a clock which could not be wound unless a coin was inserted in the slot. And this is called soliciting business.

Other companies have employed a large force to solicit accounts, giving the solicitors a percentage on the average daily balances maintained by the depositors obtained by the solicitor, while he remains in the employ of the company. There is a grave danger in pushing for business. Promises of loans are often made which ought not and can not be kept. Too high interest rates are promised and the bank is tempted into questionable loans because the interest rates are high. It is far better to have a slow but sure growth, than a rapid rise which may perish with the first strain.

PART II. FOREIGN EXCHANGE

CHAPTER I

MECHANISM OF THE EXCHANGE MARKET

171. *Exchange defined.*—The system by which one country discharges its debts to another is called foreign exchange. This indebtedness may arise from shipments of merchandise; from money loaned, or invested abroad, or from the interest on such funds; from payments by one country to another for freights, insurance, or the expenditures of its citizens travelling abroad.

The rate of exchange is best defined as the price of the money of one country reckoned in the money of any other country. In speaking of the rate of exchange current between Great Britain and the United States, for instance, 486 means that a pound sterling can be bought for $4.86. The price at which a pound sterling can be bought is continually fluctuating. The immovable par of exchange is the price of the gold unit of one country expressed in the money of some other country. The gold in a British sovereign, for instance, is worth $4.8665 at any United States assay office—the rate of $4.8665 is, therefore, the fixed par of exchange between Great Britain and the United States.

172. *Pars of exchange.*—The three most important pars of exchange and the way in which they can be found are given as follows by the English writer, Clare, in his book "The A. B. C. of Foreign Exchange":

Asking by Chain Rule how many francs are equal to a sovereign, if

$$\begin{aligned} \pounds 1 &= 7.988 \text{ grammes standard,} \\ 12 &= 11 \text{ grammes fine,} \\ 900 &= 3100 \text{ francs;} \end{aligned}$$

we obtain the result,

$$\frac{7.988 \times 11 \times 3100 = 25.2215}{12 \times 900}$$

Again, according to German Mint law, 500 grammes fine gold are to be coined into $69\frac{3}{4}$ twenty-mark pieces, nine-tenths fine, which gives a ratio to the sovereign of,

$$\begin{aligned} \pounds 1 &= 7.988 \text{ grammes standard,} \\ 12 &= 11 \text{ grammes fine,} \\ 500 &= 1395 \text{ reichsmark;} \\ \hline &= 20.43 \text{ nearly.} \end{aligned}$$

Lastly, the United States coin a ten-dollar piece out of 258 grains gold, nine-tenths fine, making the sovereign worth,

$$\begin{aligned} \pounds 1 &= 123.274 \text{ grains standard,} \\ 12 &= 11 \text{ grains fine,} \\ 232.2 &= 10 \text{ dollars,} \\ \hline &= 4.86\tfrac{2}{3}; \end{aligned}$$

equivalent to 49 5-16 pence for one dollar.

These are the three most important pars; and for ordinary business purposes are the only ones that need be retained in the memory. Why they should be of importance to business men is due to the fact that the course of the chief gold exchanges frequently influences the course of the money market, and that we can only tell whether a rate is for us or against us by knowing the par, which is the center about which it oscillates. It must be clearly understood, that a mint par only expresses the *legal* ratio. When we say that a sovereign is equal to f.25.22c., we mean that this amount of French currency expresses, according to French law, the same weight of gold as is contained in a sovereign, according to English law; but whether, if we were to put 2,000 ordinary sovereigns into one melting pot and 2,522 ordinary napoleons into another, we should obtain two lumps of gold of exactly equal value, is another question. It would depend upon the state of preservation in which the coins were. The sovereigns might be £10 short of the full weight, and still be within the legal allowance for wear; and so might the napoleons.

The mint par depends, in short, not on the coin itself, but on the *legal definition* of it; not on the sovereign *de facto*, but on the sovereign *de jure;* and if every gold coin in this country were debased and every gold coin in France sweated and multilated, the mint par would still remain the same. Unless and until the law is altered the mint par cannot alter.

173. *Underlying principles.*—Underlying the whole business of foreign exchange is the system by which the creditor draws a draft upon the debtor—by which, for instance, a cotton firm in Nashville, Tenn., which has sold 100 bales of cotton to a spinner in Liverpool, draws a draft upon the Liverpool firm for £1,000. That is the origin of practically all foreign exchange business—some one is owed money and in order to get it draws upon the man who owes it to him. The draft he draws is called a bill of exchange.

How this simple operation develops into a transaction in foreign exchange is best shown by using a concrete example. Take the case of the cotton merchant who has sold his 100 bales and drawn his draft for £1,000 on Liverpool. Such a draft, in pounds sterling, is in itself of no use to him. Before he can make use of it he must manage to convert it into American money—find someone who will buy it and give him dollars for it. Such a man is the foreign exchange banker. He keeps an account in Liverpool, and is willing to buy the draft from the cotton man in order to send it over there and have it placed to the credit of his account. "The price of a pound sterling to-day is $4.86," he says. "I can pay you $4,860 for your draft on Liverpool for £1,000." The cotton merchant accepts, takes his check, and is out of it. He has sold his cotton, got his money, and is ready for a new transaction.

But why was the banker willing to buy that draft for £1,000, and why does he keep an account in pounds sterling over in Liverpool? Simply because customers who have payments of one kind or another to make on the other side are continually coming to him to buy drafts in pounds, and he wants to be in a position to sell them what they want. When he takes that £1,000 draft off the hands of the cotton merchant and sends it over to be deposited to his credit in Liverpool, he knows very well that he can always draw his own draft for £1,000 and sell it for dollars at whatever happens to be the current rate of exchange. If he paid $4,860 for the £1,000 draft he bought, and sells his own £1,000 draft for, say, $4,870, he has clearly made $10 on the transaction. And that is what the foreign exchange banker is in business for—to buy drafts, deposit them abroad for his credit, and then sell his own drafts against the balance at a higher rate of exchange.

Needless to say, the illustration given is elementary; bankers do make money exactly as stated,—the operation described is the very simplest and would not result in bankers making much money. At the same time it is the principle underlying the whole business, the principle on which a clear understanding of the foreign exchange business as it is carried on absolutely depends. Everything is built up around it. Every move the foreign exchange banker makes depends upon his being

GUARANTY TRUST COMPANY
OF NEW YORK.

EXCHANGE FOR

£..*Stg.* *New York,*..191..........

On demand please pay..

or order (Original being unpaid) the sum of..*Sterling*

which charge to New York account

To
Guaranty Trust Company of New York, ...

33 Lombard Street,

No.............................. London. ....

MANAGER

able to buy bills drawn by creditors on debtors, and on his being able readily to sell bills drawn against balances he is carrying abroad.

It is customary for bankers who are doing a regular foreign exchange business to carry a balance with their foreign correspondent (they often have several in each big city) and then by each mail-steamer to remit a great quantity of different kinds of exchange, drawing their own drafts against the bills they are remitting, and so keeping the original balance about stationary. A large house will frequently send over as much as £500,-000 worth of bills in one mail for the credit of its account. The descriptive sheet accompanying this mass of bills is apt to have recorded on it about every kind of foreign exchange in general use. Following is a description of different kinds of bills taken from the remittance sheet of one of the largest drawers of exchange in the country.

174. *Commercial long bills.*—Drafts drawn at from thirty days' to six months' sight upon foreign buyers of merchandise or upon banks abroad designated by them. Exchange of this kind is usually accompanied by bill of lading (receipt from the railroad or steamship line showing that the merchandise has been shipped), invoice of the goods, and often by insurance certificate showing where and for how much they have been insured.

Drafts of this kind drawn against shipments of cotton, corn and wheat, make up the bulk of the commercial foreign exchange handled in the New York exchange market. Where the drafts are drawn on a very good house abroad or on a bank, the bill of lading is deliverable upon "acceptance" of the draft by the parties on whom it is drawn. Where the drawee's standing is less well known or where the merchandise is perishable, documents are deliverable only on actual payment of the

GUARANTY TRUST COMPANY

OF NEW YORK.

EXCHANGE FOR

£..Stg. New York,..191....

Sixty days after Sight of this FIRST of Exchange (second of the same tenor and date not paid) pay to the order of

1

Sterling

value received, which charge with or without further advice to account of

Guaranty Trust Company of New York,

To

Guaranty Trust Company of New York,

33 Lombard Street,

London.

No....................................

....

....

MANAGER

draft under discount. In the case of a draft marked "documents for acceptance," therefore, the party abroad which has bought the goods can get them out of the ship as soon as it—or the bank which represents it—has "accepted" the draft. Where the bill of lading is deliverable only on "payment" the consignee has to pay the draft (less a discount for the unexpired time it has to run) before he can get hold of the bill of lading to get the goods off the ship. "Acceptance bills" are, therefore, *discountable;* "payment" bills, *rebatable* at the current rate for loans. The rate for loans in the London market always ruling lower than the discount rate, bills for payment drawn against perishable goods which *must* be paid under rebate as soon as the goods arrive, command a better rate of exchange than even the best bills where documents are to be handed over to the consignee on acceptance. Differently expressed, the idea is that a higher rate of exchange is commanded by a grain "payment" bill than by a cotton "acceptance" bill, because in the discounting process in London less pounds sterling will be taken off the face of the grain bill than off the cotton bill.

Documentary exchange drawn by reliable parties is a fairly safe kind of exchange in which to deal, the buyer being protected by the bill of lading which is endorsed over to him. As long as the buyer of the exchange or his agent abroad retain the bill of lading, they are perfectly safe; it is in the case of acceptance bills, therefore, where the documents pass out of possession as soon as the drawee accepts the draft, that the element of risk comes in. For which reason the greatest care is exercised not only as to the maker of the bill, but as to the drawee as well, documents never being surrendered to the latter unless his standing is absolutely satisfactory.

175. *Bills of exchange that involve more or less risk.*—Concerning the risk incurred in the purchase of documentary exchange, A. W. Margraff in his book "International Exchange" writes as follows:

Bills of exchange that may be purchased safely.—Bills accompanied by documents covering staple, non-perishable merchandise that can be readily resold in the market where consigned, in the event of forced sale, by reason of non-acceptance or non-payment by the drawees of the appertaining bill, and the inability of drawers to reimburse the purchaser of the bill upon demand for the amount originally paid them, plus expenses incurred.

The proceeds realized upon merchandise disposed of under forced sale would be applied on account of the amount of reimbursement demanded of drawers, and provided the merchandise was of the nature just referred to, would almost liquidate the purchaser's claim against the drawers, and the small balance, still due to the purchaser, may be recovered with little difficulty from the drawers; if, however, they have failed in the meantime, then the purchaser would have a creditor's claim for such balance against the insolvent drawers.

The possibility of such a loss is very remote in view of the fact that the majority of drawers of bills of exchange (exporters) have all refused bills immediately referred to their own agents abroad for protection.

Staple and non-perishable merchandise includes flour and other manufactured cereals such as corn meal, oat meal, hominy, etc.; farming implements, canned meats, fresh meats and other provisions, when the fresh meats and provisions are shipped in refrigerator cars and vessels of modern type, and warehoused in cold-storage plants upon the arrival at destination, if not immediately taken up by drawees.

Bills accompanied by documents representing shipments of perishable merchandise, such as butter, cheese, fresh fruits, etc., that are liable to deterioration in quality, or to absolute loss, during transit, rendering the merchandise practically unsalable abroad.

Bills with documents showing collateral security of live cattle, horses or other live animals, necessitating the expense of help and feed during transit for the maintenance of life, as a refusal of such annexed bill would *depreciate* the value of the security, day by day, to the extent of such expense incurred.

In addition to the liability of drawers and endorsers, if any, purchasers of documentary bills are secured by the financial responsibility of the acceptors *on and after acceptance* until actual payment of the bills.

The liability of drawers continues after the acceptance of bills, and remains in force during the whole life of the bills, and ceases only upon payment.

The primary conditions of the desirability of the purchase of any bill of exchange depend upon the moral and financial standing of the parties thereto, and the liabilities just stated of the parties should be quite ample in the majority of cases. Further, these bills possess another element of protection against a possible loss in this, that they are supplemented by documents covering salable merchandise with title continuing in the purchaser of the bills, until payment at maturity, or retirement prior to maturity, of the respective bills of exchange.

176. *Clean commercial bills.*—Bills drawn by commercial houses in one country on houses in other countries, at anywhere from thirty days' to six months' sight and unaccompanied by documents.

Of all classes of exchange this is about the most risky in which to deal, for which reason bills of this class can be had at lower rates than almost any other kind. The banker buying a bill of this kind has absolutely no security except the standing of the firms concerned. The actual shipments, payment for which is represented by the drafts, may have been made months before, or they may not have been made at all—about that the banker buying the bills knows nothing. When he buys clean commercial bills he does so absolutely on the standing of the drawer and the drawee. A good many foreign exchange bankers make it a point never to buy this class of bill at all.

177. *Drafts drawn against securities.*—Out of international trading in securities there originates an enormous volume of foreign exchange business. A banker in New York, for instance, sells a block of bonds to a firm in London and draws upon the firm in London for the purchase price converted into pounds sterling at the prevailing rate. To this draft are attached the securities, the whole being then sold in the open market. Exchange of this class is, of course, about the safest to buy that there is. The buyer of the draft gets the bonds as collateral and does not give them up until the draft is paid on the other side.

Sales of stocks as well as of bonds furnish a large amount of security-bills. "Buy for us 100 shares of Union Pacific preferred and draw on us for the amount due," comes a cable from a house in London to a house in New York. The order is executed, the stock bought, and a draft for the amount expended drawn upon the house abroad which sent over the order. Here again the stock itself is attached to the exchange, insuring for it a quick sale in the exchange market. A form of bill to the purchase of which there attaches less risk could hardly be imagined.

178. *Bankers' long bills.*—Drafts drawn at sixty and ninety days' sight by bankers here upon bankers abroad are coming to take an increasingly important part in international exchange operations. Such bills of ex-

change may be divided into three classes: (a) long bills arising from the regular conduct of foreign exchange business; (b) long bills originating from the operation of loaning foreign money in this market; (c) long bills sold without security for the purpose of raising money —so-called "finance-bills."

With regard to the first class of bills, it need only be said that every banker doing a regular foreign exchange business is continually called upon to furnish customers with bills of exchange drawn at sixty and ninety days' sight. Take, for example, the case of a merchant here who owes a merchant abroad £1,000, due in two months, but who has the money on hand and wants to pay off the debt. He might buy a demand bill of exchange and get the merchant abroad to give him a rebate for the period of prepayment; but a far better way would be to go to his banker, get from him a sixty-day bill of exchange and send that. This is only one of a thousand different sources from which may spring a demand for bankers' long bills. Any banker at all actively engaged in the business must at any time be prepared to furnish customers with exchange of this kind.

179. *Long bills from loaning foreign money.*—The second class of bankers' bills originates from loaning operations. To appreciate fully the nature and standing of these bills, it is necessary to understand the mechanism of the loaning of foreign money in this market. Take, for instance, the case of a house in London which decides to lend money out here. Its American correspondent is notified, and the question having been settled as to whether the loaning house wants to take the risk of exchange and accept a fixed rate of interest on the money,

or whether the loaning house would rather accept a commission and leave the risk of exchange to the borrower, the operation goes forward about as follows:

Suppose the London house to have chosen that the loan shall bear, say, 4 per cent interest, the risk of exchange to be taken by itself, the lender. The first step is the drawing by the American house of an amount of ninety-day exchange exactly equivalent to the amount of American currency to be loaned out. Thus, if the loan is to be for \$100,000, and the rate realizable for ninety-day exchange is 485, the American house draws a draft on the lender in London for £20,618. This draft it sells in the open market, realizing thereon exactly \$100,000 which, upon deposit of satisfactory collateral, it turns over to the firm here to whom the loan has been made. The latter will then have the use of the \$100,000 for ninety days, at the end of which time it must pay it back, plus 4 per cent interest, to the American correspondent of the English lender.

So far as the actual borrower of the \$100,000 knows, the loan is a regular loan of American currency—he has no way of knowing that the money he is receiving is a product of bills of foreign exchange, or, indeed, that there is any question of foreign exchange involved. He has borrowed \$100,000, and at the end of ninety days he will have to pay it back with 4 per cent interest. Beyond that his concern in the matter does not extend. But with the two banking houses who have lent the money the case is different. With them it is very much of a question of foreign exchange rates. They began the operation by selling £20,618 of ninety-day sight bills, and at the end of ninety days those bills will come back and have to be paid. What rate has to be paid in order to secure demand bills with which to meet the maturity of the "nineties" originally sold will have a good deal to do with what they will make on the transaction. If, during the life of the loan, exchange rates have gone down, they will be able to buy in the necessary demand exchange at a low price and make good profit on the transaction. But if rates in the meantime have risen, a price may have to be paid for the necessary exchange which will wipe out all profit on the transaction. Not infrequently it happens that enough of a rise in exchange takes place to cause the whole operation to show an actual loss to the lender.

In the other kind of a foreign loan where the lending banker does not care to take the risk of exchange, he lends out bills of exchange instead of dollar proceeds of bills of exchange, and charges a commission instead of a fixed rate of interest. The borrower, in this case, instead of receiving a check for $100,000, would receive a ninety-day bill for £20,000. This he would immediately sell for dollars, but when the time for repayment came along three months later, he would have to pay back, not dollars but a demand draft for £20,000 plus the commission (usually 3/8 per cent on ninety-day loans). In this case it is evident that it is the borrower who takes all the risk of exchange, the cost of the loan to him depending upon what he has to pay for the £20,000 demand which he must return at the end of ninety days. The banker, of course, makes only the commission, but that is fixed—he knows exactly what his profit is going to be.

Because of the speculative element which attaches to loans of foreign money in this market, they are a favorite form of operation with many houses. Take, for instance, the case of a borrower of money who figures out that the exchange market is bound to decline within a few months. By getting some foreign banker to lend money to him on the basis of his, the borrower, taking the risk of exchange, he can practically get himself short of the exchange market, and if he is right in his forecast he can get the use of the money for nothing, or even make a profit out of the deal. Similarly with the banker. Frequently it happens that foreign money is pressed on the market here on the idea that exchange rates are about to go down and that the lender of the money, by assuming the risk of exchange himself, can make a big return on the money put out.

180. *Finance bills.*—These are the other great class of bankers' long bills in the exchange market. Concerning the exact meaning of "finance-bill" it is surprising what a difference of opinion exists even among well-informed writers on exchange; but concerning the present meaning of the term as it is used in the exchange market in New York, there is no chance for any difference of opinion. Among practical exchange men a finance-bill means just one thing—an unsecured long bill of exchange drawn by a banker in one country on a banker in another and sold for the purpose of raising money. Sometimes the drawer carries a balance with the drawee, sometimes not; usually not, the drawee "accepting" the long bill drawn upon him for a fixed commission. Needless to say, the house abroad has to have a high opinion of the house here, or has to be in pretty close connection with it, before it will agree to accept its unsecured drawings to any extent.

This is the finance-bill as it is—not widely different from accommodation paper among international bankers. The house of Jones and Company in New York, which enjoys good standing and has close connections with Smith and Company in London, wants to raise additional money for some purpose. A credit is arranged with Smith and Company in London and the

New York house draws upon them in sterling for the amount required. The bills are then sold and Jones and Company finds itself in possession of the money it needs. For ninety days it has the use of that money, at the end of which time the bills it drew in the first place will be coming due and demand drafts will have to be sent across to meet the maturity. Usually the arrangement calls for the privilege of renewal, which works out as follows:

Suppose at the end of ninety days, Jones and Company in New York find it inconvenient to put up money with which to buy demand exchange in "cover" of the bills they drew ninety days previously. Yet those bills are maturing and have to be met. So, in order to raise the money with which to buy the necessary demand exchange, Jones and Company sell a *fresh* lot of ninety-day bills. Just here there is an important point to be noted. To take a concrete case, suppose that Jones and Company of New York originally drew £10,000 of ninety-day sight bills and that the exchange market did not materially change between the time the bills were drawn and the time when it became necessary to "cover." Say that when the "nineties" were sold Jones and Company realized $48,700 for them, demand exchange standing at 487. The finance-bills fall due and have to be covered, but Jones and Company decide to renew them by drawing more nineties. From the sale of £10,000 nineties at 484 they would not realize within $300 of enough to buy the necessary demand at 487. That difference represents the interest on the transaction. Usually, when connections are close, instead of drawing for exactly £10,000, the second time, Jones and Company of New York would draw for enough more, say £10,060, so that there would be no real balance to pay. Such a process may be continued indefinitely—is being continued indefinitely, in fact, by many banking houses in New York who have come to regard the money to be raised by the sale of these finance-bills as part of their regular working capital.

181. *Limitations to finance paper issue.*—Where is the limit to the practice? Only in the credit of the houses concerned, in the willingness of the exchange market here to absorb offerings of their long paper and the willingness of the London bankers to discount it when it is sent abroad. Otherwise there is no check upon the amount of finance-paper that a house might put out. No mark distinguishes it from any other kind of long bill; the banker who buys it cannot tell whether he is buying a bill of exchange secured by railroad first mortgage bonds or whether it is a finance-bill put out with nothing back of it to "raise the wind." There is no way for him to tell. His protection and his only protection is in the character of the drawer and the acceptor and in his knowledge of how much of the paper there may be knocking around in the open market.

Finance-bills have at times played a very important part in our financial history, the last time being in 1906 and 1907. That episode was thus recently described by John Gardin, vice-president of the National City Bank, New York.

Finance bills were issued in this country up to the spring of 1907 in enormous quantities. It was estimated that in the fall of the year when these bills generally are paid off, there was running all the way from $250,000,000 to $300,000,000 in finance bills. The merchants, particularly here in the East, have credits in the financial institutions abroad and sell these bills here and get their money. The brokers in Wall Street instead of negotiating time money here, negotiate sterling loans.

These loans are generally put out in the spring of the year when exchange is high, due to the enormous amount of imports that have to be paid for. They are generally issued so as to bring their maturity in the fall when the exports of staples from this country prevail and exchange rates are very low. The result is that where a man issues a bill originally when exchange is high and redeems it when the exchange is low, together with the commission he has to pay and the discount he has to allow, he finds as a general rule he pays a very low rate of interest; in some cases, 1 to 1¼ per cent.

In 1906, before the San Francisco disaster, we had quite a large gold importation and a great howl was raised in England by the financial writers to the effect that the enormous gold importations were facilitated by the credits granted for these long bills, by banks over there permitting their names to be used. There was quite a crusade against them. Any bank in London making a practice of loaning money in this country by means of these acceptances was looked down upon. In 1907 most of these credits were canceled. I don't believe $25,000,000 or $30,000,000 were owing to Europe in July and August on the strength of these credits. The result was that when the export season started in, due to the hard time we were having, and exports assumed undue proportions, there was no offset in the way of the redemption of these credits. In consequence, Europe had to give up its gold.

CHAPTER II

HOW MONEY IS MADE IN FOREIGN EXCHANGE

182. *The sale of demand exchange.*—Foreign exchange transactions, nowadays, are of considerable scope and endless variety, but all are based fundamentally on five different kinds of operation.

Selling demand exchange and cables against remittances of demand exchange is the elementary principle of the business. Suppose an exporter here to have shipped $5,000 worth of merchandise and to have drawn his draft on the foreign buyer for £1,000. He takes this draft to his banker and sells it at the current rate of exchange, say 485. The latter sends the bill to his correspondent abroad for credit of his account, drawing at the same time his own check for £1,000 against the deposit and endeavoring to sell it at a higher rate than 485. Outside the expense of conducting the business, anything over 485 that he can get for his draft is clear profit. The two transactions cross off. It cost him $4,850 to buy the commercial draft in the first place. By the sale of his own draft he received, say, $4,860. He may not have been out of the use of his money for five minutes, and as to his balance on the other side, the deposit of £1,000 and the draft on the balance for £1,000 arrive by the same mail steamer.

183. *Merchant seller's credit.*—Naturally, the credit of a merchant selling a commercial draft enters very largely into the transaction—determines, in fact, what rate the banker is willing to pay him for his bill of ex-

change. Here, evidently, is a chance for taking risks and making profits. It not infrequently happens that a banker comes to believe that some exporter who is not generally considered strong financially is really all right, and he buys his paper continually, though always at a big reduction from the market for prime bills. Two cents per pound sterling is not infrequently the profit on purchases of exchange of this kind. It is a form of business which a good many bankers refuse to touch at all, but on the other hand there are foreign exchange houses with well-equipped credit organizations who go in largely for just such transactions, and as long as they can avoid the purchase of bad paper they make very large profits. The business, too, can be done with a varying degree of risk, one banker being often in a position to sell his own demand draft at a little better rate than he is offered the demand draft of some other banker. In that case the profit is apt to be small but so is the risk, and an easy chance is afforded to make from one-tenth to one-quarter cent per pound sterling on the amount turned over.

The other form of activity along this line is the selling of "cables" against remittances of demand drafts. A cable transfer works as follows: A in New York has a credit balance in London; B, also in New York, comes to him and says, "I want you to wire your correspondent in London to hand over so-and-so-much in pounds to *my* correspondent over there. I'll pay you the equivalent on this end." The rate is fixed and A wires to the London bank which holds his money to make the transfer to B's bank, the whole operation being closed inside of twenty-four hours. In point of time we are five hours behind London so that unless the transfer is wired early in the morning it will only take place the following day.

184. *Banker's London balance.*—In order to be able to sell cable transfers, the banker, clearly, must carry an adequate balance in London and must be constantly replenishing it with deposits of exchange. Sometimes when his balance has run down and he finds he can sell a cable very advantageously he will go ahead and do it, making good the deficit by buying a cable himself at a lower rate. But this selling of cables against cables is unusual and takes place only under exceptional conditions. Bankers who make a practice of selling cables usually see to it that their balances are kept up by continuous remittances of exchange. They have bills arriving in London by every mail for credit of their account, and are almost invariably in a position to wire their correspondent to pay out large sums to whomsoever may be designated in the cable. The cable, incidentally, involving as it does the payment of large sums of cash, is the product of an elaborate cipher code, and is arranged with check-words and key-words which prevent any possibility of fraud.

185. *Interest on cable transfers.*—Cable transfers, being immediate, command a higher rate of interest than even the primest of demand drafts, which must necessarily lie on board ship for a week before they become of any practical use to the purchaser. The purchaser of a cable transfer. in fact, loses no interest at all. He makes payment here and simultaneously the money is paid over to the credit of his account abroad. In the case of a demand draft he makes payment when he buys the draft and for a whole week is out of the use of his money. The interest rate, therefore, is one of the prime factors in determining the difference in the rate of

exchange between cables and demand bills. When money is high the buyer of demand bills loses a good deal of interest and the quotations tend to diverge. When money is cheap the quotations come very near together. During the long 1908–09 period of cheap money, cable transfers and demand bills of exchange continually sold less than one-half cent per pound sterling apart.

Under such conditions there is but little money to be made out of cable transfers against remittances of demand exchange, but the business is clean and safe and the small margin of profit amounts to a good deal of money where the sum turned over is large. There are some financial institutions in the larger cities whose policy it is to keep large sums on deposit in London and Paris and who make a specialty of selling cable transfers against these deposits, replenishing them continually with remittances of prime bankers' bills. Fifteen points (that is to say 15/100 of a cent per pound sterling) is considered a fair profit on business of this kind. In the course of a day's business, for instance, if one of these banks sold £50,000 of cables the net profit would probably figure out to be between $75 and $100. Not a very large amount on a transaction involving a quarter of a million dollars, but enough to make a good many banks engage in the business and on a large scale.

186. *Against remittances of sixty and ninety day bills.* —Selling demand drafts against remittances of sixty and ninety day bills is the second important form of activity in foreign exchange, operations of this kind constituting, in fact, the main bulk of the business. Most of the merchandise sold in Europe by American merchants is sold on a sixty or ninety day basis; that is to say, a cotton firm which has sold cotton in Liverpool,

or a grain house which has sold grain in London, is apt to draw its drafts against the merchandise shipped, at sixty or ninety days' sight. Some of these drafts are drawn direct upon the foreign buyers; some of them on foreign banks designated by the buyers with whom they have opened credits for the importation of the merchandise.

187. *A typical example.*—In any case, practically all of these sixty and ninety day drafts are bought by bankers who want to use them in the conduct of their foreign exchange business. A cotton firm in Memphis, for instance, has sold 100 bales of cotton in Liverpool and drawn the draft, as previously explained, with the proper documents attached. The bill is then sold to a banker, perhaps in Memphis or in New York. Suppose, for the sake of illustration, that it has been sold to Messrs. Jones and Company in New York, who pay a rate for it according to the standing and strength of the drawer and the "usance" of the bill—the time for which it runs. A bill running for ninety days, for instance, commands a lower rate of exchange than a bill on which the holder can get his money at the end of sixty days.

Jones and Company in New York having received the bill and paid for it, immediately send it to, say, Smith and Company in London. What happens then depends upon the nature of the bill, whether the documents are for "acceptance" or "payment" as explained in section 174. If the documents are to be delivered on acceptance, Messrs. Smith and Company get the bill accepted as soon as possible and then have it discounted in the open market, placing the proceeds to the credit of Jones and Company, New York. If the documents are deliverable on payment only, Smith and Company get the bill accepted just the same, retaining the documents, however, until the consignees come around and offer to pay the draft under rebate of interest for the unexpired time. In the case of an "acceptance" bill, therefore, the proceeds become an available balance abroad just as soon as the bill can be accepted and discounted. In the case of a "payment" bill, the remitting banker cannot count on having the balance available until the bill actually comes due, though pre-payment may place the funds to his credit long before that time.

188. *Opportunity for profit.*—Hence in the remitting of sixty and ninety day documentary "payment" and "acceptance" bills and the drawing of bankers' demand drafts against the proceeds, there is a good deal of leeway and a chance to make considerable profits. Rates commanded by the documentary bills vary widely; discount rates abroad vary on different bills; "payment" bills are prepaid at varying periods before their maturity. Altogether, when a banker begins to engage in remitting large amounts of commercial long paper and drawing his own drafts against the resulting balance, he is undertaking a form of operation the profit on which is governed by a number of different factors.

189. *Loaning foreign money on joint account.*—This is another profitable form of activity for a foreign exchange department. Description of the bankers' long bills arising from operations of this kind has already been given, but for a clearer understanding of the matter it is necessary to know the theoretical as well as the practical end.

190. *Ninety-day bill operation.*—Underlying all operations in the loaning of foreign money in this market is the idea that a ninety-day bill of exchange drawn

by a banker here upon a banker abroad can be readily converted into American money. A banker on the other side who makes up his mind to loan £10,000 in New York is not called upon to put up any real money; all he has to do is to "accept" a ninety-day draft drawn upon him. This is something which it is exceedingly important to bear in mind. The loaning banker is not limited by the amount of his deposits or even by the amount of his capital, except insofar as other bankers let these considerations govern them in the amount of his paper that they are willing to take on. But as long as the discount market absorbs the long bills he has "accepted," he can go on accepting up to any amount he chooses.

As previously explained, the foreign banker "accepts" these drafts drawn upon him on the understanding that before they fall due, demand exchange will have been sent him by the drawers of the long bills with which to pay them as they are presented. Suppose, for instance, that in one of these loaning operations, A in New York has drawn a ninety-day bill in pounds sterling on B in London, and that B has "accepted" the draft. B has not put out any real money; all he has done is to put his name on the draft, obligating himself to pay it at the end of ninety days. By that time, he well knows, his correspondent in New York will have sent him demand bills out of which to make the payment.

191. *Loaning on credit.*—In considering the question of loaning out foreign money from the standpoint of the bankers engaged who want to make money out of it, it is to be noted that neither the banker abroad nor the banker here are ever out of any actual cash at any time. The foreign banker, as has been seen, "accepts"

a draft and later receives the medium with which to pay it. The American broker draws the loan-bills, puts out the money as agreed, and gets it back in time to remit the necessary demand exchange to the banker abroad who has done the "accepting." Neither party, then, has had to put up a cent of capital. Credit only has entered into the transaction, and anything that has been made out of it is clear profit. Sometimes the operation is transacted with the foreign banker taking all the risk and all the profit except the commission he allows to his American representative. Sometimes the operation is transacted on joint account. In that case the risk and the profits are equally divided. Such an arrangement works rather to the advantage of the foreign banker, assuring him as it does of the utmost care in the handling of the money. As for the commission, in order to get the business properly taken care of on this end, he has in any case to pay some American banker very nearly half of what he can make out of the transaction.

192. ***Risk of exchange.***—Bearing further upon this question of commission, it is to be noted that it makes a great deal of difference whether the money is loaned out under an arrangement by which the banker takes the risk of exchange, or whether the borrower takes that risk—as fully explained in paragraph 178. In the case where the banker takes the risk of exchange he receives just so and so much from the borrower, 3, 4, 5 per cent as the case may be, and out of that has to come the difference between what he was able to realize from the sale of the ninety-day loan bills and what he has to pay for the "cover" ninety days later. Even if the exchange market has stood still in the meantime this difference in the two exchange rates is bound to be quite an item, and it reduces what

he makes on the whole business to a pretty small percentage. But then the fact must not be lost sight of that he has never had to put up any capital at all and that anything he makes is clear profit. In case the loan has been made on the other basis, with the borrower taking the risk of exchange, the borrower pays the banker a fixed rate of commission—usually three-eighths of 1 per cent on ninety-day business. The banker makes that clear, for the borrower to whom he has lent, say, £10,000 of ninety-day bills, is obligated to return to him £10,000 of demand exchange at the end of ninety days. If the borrower can buy in this "cover" cheaply, by so much is the cost of the loan to him reduced. As for the banker, it makes no difference to him what the exchange market may do; he gets his three-eighths per cent commission (equal to 4 times $3/8$ per cent $= 1\frac{1}{2}$ per cent per year) and is out of the transaction.

193. *Commissions on loans.*—Large profits are at times made in loaning foreign money in the two ways described. The interest rate may seem small but the amounts involved in operations of this kind are enormous and even a small commission may mean a very large profit—in one month (October, 1902) one of the trust companies doing a foreign exchange business in New York cleared nearly $25,000 from commissions on sterling loans, excellent collateral being deposited and the borrower in every case taking the risk of exchange. Examination of the books of some of the big banking houses making a specialty of lending out foreign money here would probably show profits far in excess of the amount made by this trust company.

194. *Profits made from the purchase of exchange.*—

Buying foreign exchange for investment is still another source of profit to the foreign department. It sometimes happens, for instance, that for one reason or another discounts rise in Europe, driving down the rate of exchange for sixty and ninety day bills. When this takes place, if money is easy here, bankers are likely to buy large amounts of long exchange, not for the purpose of having it discounted and placed to their credit as usual, but for the purpose of actually holding it to maturity.

195. *Time money rates on call money basis.*—The purpose of such an operation is to take advantage of a depressed market for long bills. Suppose that on account of one of Europe's not infrequent war-scares or for any other reason, discount in London makes a sharp advance, correspondingly depressing the rate of exchange for "sixties" and "nineties." A banker who buys the latter with the purpose of holding rather than of discounting is pretty sure to be making a good rate of interest on the money he has laid out. As the bill nears maturity it breaks away from the influence of the high discount rate, becoming eventually demand exchange. In the meantime, if discount has gone down, the rate at which the banker can resell his bill has gone up. For there is always a market—always the closest kind of a quotation on exchange of whatever usance. After the bill has run forty-five days, and has fifteen days left to run, the banker, if he wishes, can instantly dispose of it. And just here is one of the most attractive points about this business of investing in exchange—the buyer gets time money rates on a call money basis. The price he pays for the bill is governed by the time rate and that is what he gets if he holds the bill to

maturity. But if at any time he wants to terminate the loan, so to speak, all he has to do is to resell the exchange.

196. *Investing in foreign exchange.*—No better description of the actual process of investing money in foreign exchange can be given than that which appears in Margraff's "International Exchange."

On the day of the purchase the *firsts* of bills of exchange are *not endorsed* by the purchasing banker to the order of the banker to whom remitted, as in the case of bills sent for credit, under discount, but on the face of the bills is written in full view the following phrase: *For acceptance only,* and the banker instructs his correspondents to whom forwarded, to obtain acceptance and to hold the accepted *first subject to the call of the endorsed appertaining seconds;* then by the following mail are forwarded the *duplicate documents,* which have been detached from the respective seconds of bills of exchange, to the same correspondents with instructions to deliver them to the drawees of respective drafts, provided the *firsts* have, in the meantime, been duly accepted.

Then the seconds of bills of exchange, without any documents, alone remain in the possession of the purchasing banker, and on the face of such seconds is written legibly, *Accepted first held by* ————, inserting the name of the banker to whom the firsts were sent for procurement of acceptance.

The investment of funds has now been completed and the seconds are placed in the purchasing banker's portfolio with interest to his credit accruing thereon from day to day at the rate of purchase, which, in the case at hand, was 4½ per cent per annum, that being the private discount rate in Germany on the date of the purchase of the bills. If these seconds of bills of exchange are held by the purchasing banker to within ten days of the date of maturity, and there has been no fluctuation in the price for *checks* on Germany in the interim, then the investment has netted 4½ per cent per annum for the period of time represented by the tenor of these bills.

But, if on the other hand, the rate of exchange for *checks* on Germany has advanced, say, one-quarter per cent during the time the seconds were held, and the bills were ninety-day sight bills, then his investment would have netted an additional 1 per cent, or, in all, 5½ per cent per annum for the ninety days.

A loss to the investor by virtue of a decline in the price of checks is rarely occasioned, owing to the fact that in almost all cases, the purchase of the long bills is made at a time when the rates of exchange are low, in consequence of the abundance of bills offered by exporters; and as the life of the bills is sixty or ninety days, it is fair to assume, that, at *some time* during this period, either the price for checks will have advanced, or the rate of discount in the open market will have declined, so as to permit the investor to realize upon his long bills, by conversion into checks, at an additional profit.

Investments in foreign bills of exchange are by no means confined to the purchase of *documentary acceptance bills*, such as just described, but are accomplished, also, by the purchase of sixty or ninety days' sight drafts drawn by the bankers in this country upon their European correspondents. These drafts are ordinarily issued in pounds sterling upon London bankers. The *modus operandi* is identical with that relative to documentary acceptance bills in Germany, with this difference, that there are no documents attached to bankers' bills.

In concluding this subject, observe that it is not necessary for the investor to remit the seconds of bills of exchange, previously referred to, to the banker to whom the appertaining firsts were sent, and notice that the latter were forwarded merely for acceptance and retention, subject to the call of the endorsed seconds, consequently, the seconds can be endorsed and remitted for collection and credit to any banker who will obtain possession of the firsts by the presentation of the endorsed seconds, the two parts, viz: accepted firsts and endorsed seconds constituting the completed bills.

Great care should of course be exercised in keeping an accurate memorandum of the dates of maturity abroad of all bills of exchange held in portfolio for investment, so that by reference thereto it can be readily seen what bills have to be extracted for remittance.

All bills of exchange must be presented to the drawees (or acceptors) for payment on date of maturity and ample time should be allowed for transit; and to guard against a possible delay in receipt of the mail with endorsed seconds of exchange forwarded to a banker for collection and credit, it is advisable to allow five days in excess of the ordinary time required to reach a given destination, to enable the banker to whom seconds have been sent to procure the appertaining *accepted firsts* and demand payment of the drawees by presentation of the completed bills on date of maturity.

197. *Arbitraging in exchange.*—This is another important part of the activity of the foreign department. Arbitraging may best be described as the purchasing of exchange on one country through another country. Conditions often arise, for instance, which make it cost less dollars to send a given number of francs to Paris by buying them in London, with a sterling bill, than to buy them here in New York.

198. *Arbitraging illustrated.*—To illustrate with a concrete case: Suppose a banker in New York sells a 25,-250 franc draft on Paris, at the rate of 5.17½ (5 francs, 17½ centimes to the dollar). That means that he realizes from its sale $4,879.23. Making up his mind to cover through London, he finds that the check-rate on London is 484, which means that he can buy a £1,000 draft on London for $4,840. Cabling to London, he finds that the rate there on Paris is 25.25 (£1 = fcs. 25.25) and that £1,000 will therefore exactly buy the francs, 25,250, he needs. He goes ahead, therefore, and pays out $4,840 for the £1,000 draft on London, sends it to London with instructions to his correspondent to buy with it francs 25,250, and directs that these

francs be sent to Paris to the credit of his account. On the other side the transaction just matches off—he drew francs 22,250 on Paris and he has deposited there exactly the same amount. But on this end he is ahead. He took in $4,879.25 originally and has spent only $4,840.

199. *Arbitraging operations.*—This is of course only the simplest form of arbitrage but it is typical of transactions being continually made. A recent article in the *New York Financier* says:

> In conducting such operations it is essential that the banker shall be advised, through the cable, of the varying conditions of the markets abroad. In such markets as Paris and London, where the exchange transactions are always large, rates often fluctuate sharply and conditions change frequently. Consequently, though the situation may be favorable one day it may suddenly become adverse, necessitating some modification of the method of arbitraging. Moreover it frequently happens that after a successful negotiation has been effected by a banker as the result of private information, his competitors may be advised of the favorable conditions prevailing and they also may draw in a similar manner. Hence each operator seeks to obtain for himself alone all possible information regarding changes which are likely to affect his business. Sometimes a banker may find, upon calculation, that it will be profitable to conduct arbitraging of exchange between three or more points; in such cases the conditions at each of the points must first be ascertained and calculations have to be made with the utmost care. Occasionally in drawing bills the banker, in order to take advantage of abitraging operations, will transfer credits, through the cable, from an adverse center to a point favorable for his purpose. Indeed there are very many ways by which arbitraging can be profitably conducted by bankers having the requisite facilities and the necessary skill for such operations. It will be observed that operations in arbitraging of exchange require the

services of men of the largest experience, and hence the business can be conducted to advantage only in the most thoroughly equipped offices. The exchange student who enjoys opportunities for practice in such offices and has the determination to qualify himself for this branch of exchange work by acquiring a knowledge of all of its intricate details will have no difficulty after such qualification in securing advancement. The field for operations in arbitraging of exchange is continually and rapidly broadening, and there will probably always be a demand for the services of men capable of taking positions as managers of exchange houses or departments.

APPLICATION FOR COMMERCIAL CREDIT

New York,..

Guaranty Trust Company of New York.

Dear Sirs.

Please issue for our account a Documentary

Credit in favor of

....

or £...*drafts at*..

against............................*cost of shipment of*...

from...*to*..

In force until first day of..

Insurance effected in...

Kindly advise the Credit by Cable
Mail.

Yours truly,

APPLICATION FOR CIRCULAR LETTER OF CREDIT

New York,..

Guaranty Trust Company of New York,

28 *Nassau Street,*

(*Mutual Life Building*).

Dear Sirs:

Please issue your Circular Letter of Credit

for £.. / $.. *to read in favor*

of..

or..

and to remain in force for............................*months from date of issue. At foot*

we affix specimen signatures.

Yours truly,

....

....

....

CHAPTER III.

FOREIGN EXCHANGE AND FOREIGN COMMERCE

200. *Commercial credits.—The financing of exports and imports.*—During the past ten years there has grown up a system of interrelation between the import houses and the bankers which is entirely different from anything that has ever been seen before. Due, probably, to our territorial expansion and the great gain in our foreign commerce, there has been an enormous increase in the amount of banking capital used in mercantile business and a corresponding cementing of the ties between the merchant and the banker.

Twenty years ago the financing of imports and exports at any given commercial center was concentrated in the hands of two or three bankers who understood the business and made a specialty of it. To-day there is hardly a leading banking house which does not engage in foreign exchange business and hardly a foreign exchange manager who is not doing some sort of a commercial letter of credit business. At a point like New York, for instance, there has been a complete change within ten years in the personnel of the banking fraternity which is backing the operations of the import and export houses. The private banker has given way entirely to the institution. Even the trust companies are engaging in this business on a large scale.

Commercial credit business has come to play so important a part in the operation of the up-to-date bank, and is so little understood even by many of those well

Credit No............................. (*Copy*)
£............................Sterling

GUARANTY TRUST COMPANY OF NEW YORK

*New York,..*191....

To the Guaranty Trust Company of New York,
33 Lombard Street,
London.

Gentlemen:

At the request and for account of.. we hereby authorize.. or any other parties whose drafts you may be directed by........written order, or by us, to accept under this credit, to value on you at...................................for any sum or sums not exceeding in all.. Pounds Sterling (say £...................Sterling) to be used as........... may direct for.......................................invoice cost of.. to be purchased for account of... and to be shipped to a...............port in the United States.......................................

The Bills must be drawn in.. ....prior to the first day of.. and advice thereof given to you in original and duplicate, such advice to be accompanied by Bill of Lading filled up to order of the Guaranty Trust Company of New York (with copy of invoice) for the property shipped as above.

All the Bills of Lading issued, except one sent to us by the vessel carrying the cargo, and one retained by the captain of the said vessel, are to be forwarded direct to you. Copy of invoice, properly certified by the U. S. Consul to be forwarded to us by the vessel, also advice of each Bill drawn.

And we hereby agree with the drawers, endorsers, and bona fide holders of Bills drawn under and in compliance with this credit, that the same shall be duly honored on presentation at your office in London.

We are, Gentlemen,
Your obedient servants,
Guaranty Trust Company of New York,
by

....

....
Manager.

N. B. Bills drawn under this credit must be marked Drawn
under Guaranty Trust Company of New York
Letter of Credit No....................dated...............................
for £..
Insurance in order at..

New York,..**191...**

To the

GUARANTY TRUST COMPANY OF NEW YORK

Gentlemen:

Having received from you the Letter of Credit of which a true copy is on the other side, I/we hereby agree to its terms, and in consideration thereof I/we agree with you to provide in New York, twelve days previous to the Maturity of the Bills drawn in virtue thereof, sufficient funds in cash, or in Bills on London, satisfactory to you, at not exceeding sixty days' sight, and endorsed by me/us, to meet the payment of the same with.................................per cent. commission and interest as hereinafter provided, and I/we undertake to insure at my/our expense, for your benefit, against risk of Fire or Sea, all property purchased or shipped pursuant to said Letter of Credit, in Companies satisfactory to you.

I/we agree that the title to all property which shall be purchased or shipped under the said credit, the bills of lading thereof, the policies of insurance thereon and the whole of the proceeds thereof, shall be and remain in you until the payment of the bills referred to and of all sums that may be due or that may become due on said bills or otherwise, and until the payment of any and all other indebtedness and liability now existing or now or hereafter created or incurred by me/us to you on any and all other transactions now or hereafter had with you, with authority to take possession of the same and to dispose thereof at your discretion for your reimbursement as aforesaid, at public or private sale, without demand or notice, and to charge all expenses, including commission for sale and guarantee.

Should the market value of said merchandise in New York, either before or after its arrival, fall so that the net proceeds thereof (all expenses, freight, duties, etc., being deducted) would be insufficient to cover your advances there against with commission and interest, I/we further agree to give you on demand any furth r security you may require, and in default thereof you shall be entitled to sell said merchandise forthwith, or to sell "to arrive," irrespective of the maturity of the acceptances under this Credit, I/we being held responsible to you for any deficit, which I/we bind and oblige myself/ourselves to pay you in cash on demand.

It is understood that in all payments made by me/us to you in the United States, *the Pound Sterling shall be calculated at the current rate of exchange for Bankers' Bills in New York on London, existing at the time of settlement, and that interest shall be charged at the rate of five per cent. per annum, or at the current Bank of England rate in London if above five per cent.*

Should $\frac{I}{we}$ *anticipate the payment of any portion of the amount payable, interest is to be allowed at a rate one per cent. under the current Bank of England rate.*

In case $\frac{I}{we}$ *should hereafter desire to have this credit confirmed, altered or extended by cable (which will be at* $\frac{my}{our}$ *expense and risk),* $\frac{I}{we}$ *hereby agree to hold you harmless and free from responsibility from errors in cabling, whether on the part of yourselves or your Agents, here or elsewhere, or on the part of the cable companies.*

This obligation is to continue in force, and to be applicable to all transactions, notwithstanding any change in the composition of the firm or firms, parties to this contract or in the user of this credit, whether such change shall arise from the accession of one or more new partners, or from the death or secession of any partner or partners.

It is understood and agreed that if the documents representing the property for which the said Credit has been issued are surrendered under a trust receipt, collateral security satisfactory to the Company, such as stocks, bonds, warehouse receipts or other security, shall be given to the Company, to be held until the terms of the credit have been fully satisfied and subject in every respect to the conditions of this agreement.

It is further understood and agreed in the event of any suspension, or failure, or assignment for the benefit of creditors on $\frac{my}{our}$ *part, or of the nonpayment at maturity of any acceptance made by* $\frac{me}{us}$*, or of the nonfulfillment of any obligation under said credit or under any other credit issued by the Guaranty Trust Company of New York on* $\frac{my}{our}$ *account, or of any indebtedness or liability on* $\frac{my}{our}$ *part to you, all obligations, acceptances, indebtedness and liabilities whatsoever shall thereupon, at your option then or thereafter exercised, without notice, mature and become due and payable.*

informed in most other departments of banking, that it is well worth while to pause and look carefully into the principles on which the business is grounded. A description of all the various forms in which it is being worked would require a volume in itself; but there is one main operation around which the system is built, a clear understanding of which will make it easily possible to grasp the more complicated forms of the business.

201. *Commercial credit finance illustrated.*—Take the commercial credit business as it applies to the import of merchandise, say, from the Far East to New York. Suppose a New York house to have bought a hundred cases of bristles in China, How can the transaction be financed and the payment effected? On closing the contracts for the bristles by cable, the first thing the importer would do would be to go to his banker and get him to issue a commercial letter of credit to fit the terms of the contract. Such a letter of credit would be addressed to some bank in London and would authorize that bank to "accept" the four months' sight draft of the sellers of the bristles in China, up to a certain amount and under certain conditions. These conditions, having to do with the attaching to the drafts of the bills of lading, insurance certificates, etc., are all set forth in the credit.

The banker in London having been duly advised of the credit on him that has been issued, the letter of credit itself would be sent out to the seller of the goods in China. The latter would then go ahead with the shipment. First, the bristles would be insured and a certificate to that effect received from the insurance company. Next they would be put aboard ship and a certificate to that effect (bill of lading) received from the steamship company. Having these documents in his possession the seller of the bristles would next draw a bill of exchange, in pounds, on the London bank mentioned in the credit, the draft being at four months' sight or six months' sight, as set forth in the credit. To this draft he would pin the bill of lading and the insurance certificate, and then, taking the letter of credit with him, he would go to the local bank to sell the draft, get his money, and thus close the whole transaction so far as he is concerned.

202. *Part London plays.*—Just at this point should be mentioned the reason why London was brought into the transaction at all—why, in fact, the seller of the goods did not draw direct upon the buyer in New York. In the first place, because a sight draft drawn on some small New York mercantile house would be just so much waste paper out in China; in the second place, because a draft in dollars drawn on a bank in New York, no matter how good its standing, would be but little better. To get his money the shipper of the bristles has to be able to draw in pounds of sterling and on some first rate London bank.

Having drawn his sterling draft for the full value of the merchandise, the seller of the goods takes the draft to his bank, shows the letter of credit which gives him the authority to draw, and turns it into local money. The bank is glad enough to take the draft. Exchange on London is always in demand and most of the local banks' business consists in buying bills of exchange just of this kind. So the shipper of the merchandise takes his money, and is finished with the transaction.

At this point in the operation the merchandise has been sent off on a slow steamer to New York and the bill of lading and the four months' sight draft on London, representing the value of the goods, is in the hands of the local bank. The latter now loses no time in sending off this draft (pinned to it is the bill of lading) to London, in order that the draft may be "accepted" by the bank on which it is drawn.

For the sake of clearness suppose the draft to be drawn on the London City and Midland Bank. A month passes, and one day the draft is presented for "acceptance." Detaching from the draft the bill of lading and the insurance certificate, the cashier of the London City and Midland Bank writes across the face of the draft, "Accepted, Payable June 23." He gives the draft back to the man who brought it in. He keeps the bill of lading and the insurance certificate. June 23d is four months off. The accepted bill of exchange may be discounted and rediscounted a dozen times between now and then, but the cashier of the London City and Midland Bank has no interest in what happens to the bill or where it goes. All he knows is that in exactly four months that bill of exchange will fall due, and, coming out of somewhere, will be presented at his wicket for payment.

203. *Value of implicit trust.*—Meantime the slow freighter is steadily carrying the goods toward New York, and as it is impossible for anyone to get them out of the ship without the bill of lading, the cashier of the London City and Midland Bank loses no time in sending the bill of lading to his banking correspondent in New York who originally issued the credit. From this time on the London banker is unprotected. He has put his name on a bill which obligates him to pay it in four months; and relying solely on the good faith and solvency of his New York correspondent has sent the shipping documents to him. In a business which involves such an operation as this it may be readily imag-

ined how intimate the relations must be between the bank that issues the credits in New York and the bank in London on which they are issued. No bank in London would ever agree to "accept" bills unless it has the most implicit trust in its New York correspondent and was sure that before the four months were up and the bill came due the necessary remittance would arrive from New York.

Before going on with the transaction and seeing how the goods arrive in New York and are finally delivered into the hands of the buyer, it is worth while to note what the usual relations are between the issuer of a commercial credit and the bank in Europe on which the credit is drawn. Very often it happens that a New York bank issues credits on its own branch in London, as for instance the Guaranty Trust Company of New York on its London office. Then again a great deal of the business is transacted on joint account both as to risk and commission realized—in which case the relationship has to be very close. Lastly, credits are issued strictly for a consideration—that is to say, the banking house of John Jones and Company in London being satisfied that the banking house of John Smith and Company in New York is all right, agrees, for a stipulated commission, to "accept" drafts drawn under John Smith and Company's credits up to a certain amount. Any good bank in the United States can easily make such arrangements.

204. *Banker's only security.*—Going back now to the typical transaction whose course we have been following, let us assume that the bristles have arrived in New York and that the bill of lading has been received by the New York banker who issued the credit, together with advice from his London correspondent of the

TRUST RECEIPT.

(FOR DELIVERY TO PURCHASER)

RECEIVED from the GUARANTY TRUST CO. OF NEW YORK the following goods and merchandise, their property, specified in the Bill of Lading per ...., dated..

marked and numbered as follows:

In trust to deliver the same to..
who have purchased the same for...
payable in...
and to obtain from the purchaser the proceeds of the sale of the same.

In consideration of the delivery of said goods to { me .... us } in trust as above, { I .... we } agree to deliver them immediately to the said purchasers, and to collect the proceeds of sale, and immediately deliver such proceeds to the GUARANTY TRUST CO. OF NEW YORK in whatever form collected, to be applied by them against the acceptances of the GUARANTY TRUST CO. OF NEW YORK on { my .... our } account, under the terms of Letter of Credit No............................issued for { my .... our } account, and to the payment of any other indebtedness of { mine .... ours } to the GUARANTY TRUST CO. OF NEW

The said goods while in { my .... our } hands shall be fully insured against loss by fire.

York. It is understood, however, that if such proceeds be in notes or bills receivable, they shall not be so applied until paid, but with liberty meanwhile to the Guaranty Trust Co. of New York to sell or discount, and so apply net proceeds.

The Guaranty Trust Co. of New York may at any time cancel this trust, and they may take possession of said goods until the same have been delivered to said purchasers and the proceeds of sale received from them, and thereafter of such proceeds, wherever the said goods and proceeds may then be found, and in the event of any suspension or failure or assignment for the benefit of creditors on $\left\{\begin{array}{c}\text{my}\\ \text{........}\\ \text{our}\end{array}\right\}$ part or of the non-fulfillment of any obligation or of the non-payment at maturity of any acceptance made by $\left\{\begin{array}{c}\text{me}\\ \text{........}\\ \text{us}\end{array}\right\}$ under said credit, or any other credit issued by the Guaranty Trust Co. of New York on $\left\{\begin{array}{c}\text{my}\\ \text{........}\\ \text{our}\end{array}\right\}$ account, or of any indebtedness on $\left\{\begin{array}{c}\text{my}\\ \text{........}\\ \text{our}\end{array}\right\}$ part to them, all obligations, acceptances, indebtedness, and liabilities whatsoever shall thereupon (with or without notice) mature and become due and payable.

Dated..191

....

.... 26990

TRUST RECEIPT.

RECEIVED from the GUARANTY TRUST CO. OF NEW YORK the following goods and merchandise, their property, specified in the Bill of Lading per S. S...Dated.. marked and numbered as follows:

and, in consideration thereof, $\left\{\frac{\text{I}}{\text{we}}\right\}$ HEREBY AGREE TO HOLD SAID GOODS IN TRUST for them, and as their property, with liberty to sell the same for their account, and further agree, in case of sale to hand the proceeds to them to apply against the acceptances of the GUARANTY TRUST CO. OF NEW YORK on $\left\{\frac{\text{my}}{\text{our}}\right\}$ account, under the terms of the Letter of Credit No.....................issued for $\left\{\frac{\text{my}}{\text{our}}\right\}$ account and for the payment of any other indebtedness of $\left\{\frac{\text{mine}}{\text{ours}}\right\}$ to the GUARANTY TRUST CO. OF NEW YORK.

The GUARANTY TRUST CO. OF NEW YORK may at any time cancel this trust and take possession of said goods, or of the proceeds of such of the same as may then have been sold, wherever the said goods or proceeds may then be found and in the event of any suspension, or failure, or assignment for the benefit of creditors, on $\left\{\frac{\text{my}}{\text{our}}\right\}$ part, or of the non-fulfillment of any obligation, or of the non-payment at maturity of any acceptance made by $\left\{\frac{\text{me}}{\text{us}}\right\}$ under said credit, or under any other credit issued by the GUARANTY TRUST CO. OF NEW YORK on $\left\{\frac{\text{my}}{\text{our}}\right\}$ account or of any indebtedness on $\left\{\frac{\text{my}}{\text{our}}\right\}$ part to them, all obligations, acceptances, indebtedness and liabilities whatsoever shall thereupon (with or without notice) mature and become due and payable. The said goods while in $\left\{\frac{\text{my}}{\text{our}}\right\}$ hands shall be fully insured against loss by fire.

Dated, New York City,..191

(Signed)..

£......................................Stg.

TRUST RECEIPT.

(Documents for Warehousing.)

RECEIVED from the Guaranty Trust Co. of New York Bill of Lading per............................dated...
for the following goods and merchandise, their property, marked and numbered as follows:

imported under the terms of Letter of Credit No..........., issued by them for $\left\{\begin{array}{c}\text{my}\\ \hline \text{our}\end{array}\right\}$ account, the said Bill of Lading to be used by $\left\{\begin{array}{c}\text{me}\\ \hline \text{us}\end{array}\right\}$ for the sole purpose of entering the above described property at the United States Custom House at the Port of..., and of storing the same in the name, and as the property, of the said the Guaranty Trust Co. of New York, and subject only to their order, $\left\{\begin{array}{c}\text{I}\\ \hline \text{we}\end{array}\right\}$ hereby agreeing to so store the said property and to hand the storage receipt for the same to the said the Guaranty Trust Co. of New York, when obtained.

$\left\{\begin{array}{c}\text{I}\\ \hline \text{We}\end{array}\right\}$ also agree to fully insure said property against fire, the loss, if any, payable to said the Guaranty Trust Co. of New York, and to hand to them the policies of insurance thereon.

Dated...191

(Signed)..

£..

amount of the draft drawn and its maturity. The next step is to put the bristles into the importer's possession. But by doing so, the banker is doing nothing less than handing over the only security he has. How can he let the importer have the bristles and still remain protected himself?

He cannot, unless the "trust receipt" he receives when he gives up the bill of lading to the importer can be called protection. The "trust receipt" is simply a paper signed by the importer stating that he has received the merchandise and that he will sell the same and apply the proceeds toward paying off the four months' sight draft before or at maturity. Most trust receipts specify that the merchandise is to be kept separate, earmarked as it were, and that the proceeds are to be kept strictly distinct from the firm's other assets and handed over to the banker as the bristles are sold.

Having the actual merchandise in his hands, the importer is now in a position to sell it and begin to make pre-payments to the banker who issued him the credit. As these are received by the banker he sends them to the London bank which holds them against the maturity of the bill it accepted. Presumably, before the four months are up, the bristles will all have been sold and enough money out of the proceeds remitted to London to cover the whole amount of the maturing draft. What is left constitutes the importer's profit.

205. *Benefits to importer.*—It has been worth while to set down the whole practical course of one of these typical commercial credit operations in order that there may be no confusion in dealing with the theoretical side—the reason why the various parties go into such transactions and the benefits each gets out of it. Take first the importer. It is all a matter of credit with him; if

he can get a banker to give him a commercial letter of credit, he can bring in any quantity of merchandise, have anywhere up to four months to sell it in, and never have to put up a dollar of his own money. All it costs him is a commission on the amount of the drafts drawn.

The regular commission is one-quarter per cent for each thirty days of the life of the draft drawn. Thus, if the drafts are drawn at sixty days' sight, the merchant pays a commission of two times one-quarter per cent, which equals one-half per cent. If the draft runs four months, or 120 days, the commission would be four times one-quarter per cent, which equals one per cent. This is the *regular* commission. As may be imagined, it is changed in all sorts of ways as a matter of individual negotiation. On coffee credits there are several banks in New York now doing the business at three-eighths per cent for ninety days' sight drafts—which is exactly one-half the regular commission. So keen is the competition that there is one large bank which is doing six months' business at only one-half per cent. Such business is ruinous, a commission of that kind being no fair compensation for the risk taken.

206. *Benefits to exporter.*—So much for what the importer gets out of the transaction. How about the exporter in China? As has been shown, he has been able to make a sale on a four months' credit, and to get his money without a day's delay and put himself in shape for the next transaction. Of course, when he took his four months' sight sterling draft to his banker to sell he did not get as high a rate of exchange as if he had had a sight draft to sell, the difference representing the discount. But that was allowed for in the price he originally quoted for the goods. What counts with

him is that he has made the sale, has received his money, and is ready for the next transaction.

207. *Banker's commission.*—As for the two bankers, one in New York and one in London, their part in the transaction has been influenced simply by the desire to make a commission. Both of them took a certain risk, to be sure, but credits of this kind are never issued except to entirely trustworthy parties. And as a matter of fact neither banker has had to put up any real money. The one in New York has had to stand responsible for the importer to whom he issued the credit, and the one in London has had to obligate himself by "accepting" the drafts—putting his name on commercial paper—but no one has had to advance any actual money. The real money that the shipper in China received was based entirely on the *credit of* the banks concerned in the operation.

For which reason it appears that as long as a bank here can get a bank in London to "accept" drafts drawn under the American bank's letters of credit, there is almost no limit to the volume of business it can do. And even a small rate of commission will return big profits. There are a number of banks and bankers doing business in New York for whom their foreign correspondents regularly keep running acceptances amounting to $5,000,000. A fair average net profit to the bank issuing the credit would be called $\frac{1}{4}$ per cent, turned over four times a year, so that a bank with $5,000,000 of acceptances constantly running abroad would stand to make, say, $50,000 a year in commissions without having put up a dollar of capital.

A book might be written on the various forms of commercial credit business being transacted but it would

The said goods while in { my / our } hands shall be fully insured against loss by fire.

BAILEE RECEIPT.

RECEIVED *from the* GUARANTEE TRUST COMPANY OF NEW YORK

....

....

and..hereby undertake to sell the property therein specified, for account of the said Company, and collect the proceeds of the sale or sales thereof, and deposit the same immediately on receipt thereof in the said Company, at ....to the credit of..

hereby acknowledging...............................to be Bailee........ ....

of the said property for the said Company.

If the above are not sold and the proceeds so deposited within ten days from this date,..................undertake to return ***all*** *documents at once on demand, or to pay the value of the goods, at the Company's option*

Dated at..the..

....

BAILEE RECEIPT.

RECEIVED *from the* GUARANTY TRUST COMPANY OF NEW YORK, *solely for the purpose of selling same fc- account of said Company:*

....

....

marked and numbered..
and..*hereby undertake to sell the property herein specified, for account of the said Company, and collect the proceeds of the sale or sales thereof, and deliver the same immediately on receipt thereof to the said Company, to be applied to the credit of*...
hereby acknowledging...*to be Bailee of the said property for the said Company, and*...............
....*do hereby assign and transfer to the said Company the accounts of the purchaser or purchasers of said property to the extent of the purchase price thereof, of which fact notice shall be given at the time of delivery of the said property by*................*to such purchaser or purchasers and all invoices therefor shall have imprinted, written or stamped thereon by*................*the following:*

"Transferred and payable to
GUARANTY TRUST COMPANY OF NEW YORK,

NASSAU AND CEDAR STREETS, NEW YORK."

If the said property is not sold and the proceeds so deposited within ten days from this date,................*undertake to return all documents at once on demand, or to pay the value of the goods, at the Company's option.*

Dated at...*the*...191

....

The terms of this receipt and agreement shall continue and apply to the merchandise above referred to whether or not control of the same, or any part thereof, be at any time restored to the Guaranty Trust Company of New York, and subsequently delivered to us.

The said goods while in { my / our } hands shall be fully insured against loss by fire.

be only a more detailed description of operations whose theory is the same as the one I have attempted to outline. Whether the merchandise in question is bristles and comes from China, or whether it is coffee and comes from Brazil, makes little difference so far as the banking end of the transaction is concerned. Nor does it make any difference if the article happens to be silk or dry goods imported from France, or if the credit directs that the drafts shall be drawn in francs on some bank in Paris instead of pounds on some bank in London. All these are ramifications of the same thing. They all come back to the one central idea that the banker turns over not his money but his *credit* to the importer, enabling the importer to do safely a very much larger amount of business than he would do on his own limited capital.

208. *Export letters of credit.*—As for export letters of credit, they are a different thing, being rather like the advances bankers are continually making to their mercantile clients. A machinery firm in Detroit, for instance, wanting to sell mowing machines in Argentina may get its bank to advance the money and assign the payment of the invoices over to the bank. All sorts of business of this kind is being carried on and under various arrangements. Strictly speaking, however, these advances have nothing to do with commercial letter of credit business. They are more in the line of the business of the banker who advances money to a client for the purpose of building an addition to his plant or for any other valid purpose.

209. *Growth of commercial credit and facilities.*—Owing to the large number of bankers now engaged in commercial credit business and the fact that even the big banks are willing to open little credits of £100

to £200, the use of these facilities by importers has become very general. It is a common thing for a bank to grant an importer with resources of $100,000 a letter of credit for £20,000, thus enabling him to double his business. And it is to this that the great increase in our foreign trade during the past ten years is undoubtedly due. Where importing is made so easy there will be plenty of people who want to engage in it.

What influence does this mass of credit exert on the stability of the commercial structure? Is there any ground for the mistrust of the old-line importer who thinks that the merchant should use his own capital and not the banker's? Very little—that was shown beyond doubt by the panic of 1907 and the bad times which followed. Failures among importers occurred but they were comparatively few—certainly nothing like what was feared. Bankers lost some money on commercial credits during that time but the amount was not very great. The merchandise imported by any but the strongest houses is usually all sold before the letter of credit is even applied for; and so, as long as the importer is honest, the banker takes little risk of not getting his money.

The commercial credit business as it has developed during the past few years has, in fact, become an integral part of our banking system and is growing more and more important all the time. It is a development, indeed, which is a long step toward the bringing about of those ideal relations between the banker and the business man which tend to use the accumulated savings of the country, not for speculation but for carrying on the country's legitimate business.

CHAPTER IV

FOREIGN EXCHANGE AND THE INTERNATIONAL SECURITY MARKET

210. *The three classes of international security dealings.*—Out of Europe's interest in American enterprise and constantly growing investment in American securities arises an immense volume of international security dealings. Estimates, as nearly reliable as can be made, place the amount of foreign-held American securities at five billion dollars. The maintenance alone of such an investment makes necessary dealings which run up into the hundreds of millions each year, affording, as well, an opportunity for speculative and arbitrating operations between the markets, the vast extent of which it is impossible even to estimate.

Security dealings between our own and the foreign markets resolve themselves, broadly speaking, into three classes. First, there is the business arising from replacement of maturing investments and the distribution to foreign buyers of new issues. Second, there are the great operations which accompany speculations of an international nature; cases, for instance, where foreign operators or banking houses, working on joint account with parties here, carry large lines of stocks or bonds. Third, there is a great volume of dealings arising from the never-ceasing efforts to "arbitrage" between various markets—to buy something in one city and at the same moment turn around and sell it in some other city at a higher price.

211. *Replacement of maturing investments.*—Taking the first class of dealings, it readily appears how great a volume of trading originates solely from the replacements of maturing bonds. Of the five billion dollars of "Americans" held abroad a considerable part consists of stocks, but it is safe to say that at least two-thirds of the total is made up of bonds. Furthermore, the great bulk of this foreign money went into our American bonds a number of years ago at the time when the development of the West and the construction of its railways was being so largely carried on with foreign capital. Each year a larger proportion of these bonds is coming due, and where renewals are not made, the way is opened for investment in something else.

American banking houses closely in touch with their foreign correspondents know just about what securities their friends and clients on the other side hold. The most careful watch is kept upon the maturity of these investments, and offerings and suggestions are usually governed by what the house here knows of its correspondents' liability to buy. A foreign holder, for instance, of Atchison serial debentures which run off in large amount during the next two years, is apt to have great quantities of various Atchison issues offered him during the time that his old Atchison bonds are maturing. He has shown preference for that kind of a bond, dealers here reason, and so that is the kind of a bond he is apt to want in substitution.

Knowledge of what investments are held by big capitalists abroad is, of course, an extremely valuable asset of the bond dealer here and is very hard to obtain. There are many cases where the foreign and domestic firms are so close to each other that the foreign firm simply sends lists of what it holds and what its clients own, but more often the banker here gets his information from the coupons which are regularly sent him for collection. That is, of course, an infallible indication of what bonds are being held for fixed investment and is a clew which the shrewd dealer here never fails to follow up and use for all it is worth.

Participation in syndicates, too, must be included in this first class of security dealings. More and more, as the financial relationship of our own and the foreign markets has been strengthened and developed have bankers here come to rely upon the participation of their foreign friends in any syndicates which they go into. It has always been the case that when blocks of first-class bonds were underwritten by powerful international houses here, a good part of the underwriting was for bankers on the other side. Now, however, it has come about that issues brought out even by relatively unimportant financial interests are being continually offered and placed on the other side in localities where American bonds not so long ago would not have had any market whatever.

212. *International speculations.*—Turning to the second class of international trading—speculative operations by foreign interests in our market—it appears that dealings of this kind at times foot up to an enormous total. There are, of course, countless forms in which operations of this kind are conducted, but they are pretty much all based upon the principle which the following example illustrates. An operator or banking house abroad has come to a cable agreement with its American representative that a certain stock can be profitably bought. The amount which is to be carried (joint account, usually) is fixed upon and the American firm goes ahead and buys the stock. But

instead of paying for the stock out of its own capital or borrowing the money from a bank, the American house is apt to raise the money by drawing sixty to ninety-day bills of exchange in pounds, marks, or francs, as the case may be, upon its foreign partner in the transaction. These "long" bills it sells in the exchange market, using the dollar proceeds to pay for the stocks which have been bought.

As the case then stands, the stocks have been bought and are being carried with money on which no interest is being paid. At the same time it must always be remembered that the American house has drawn and the foreign house has "accepted" ninety-day bills of exchange, and that in just three months the holders of the bills will come to the firm on which they are drawn and demand payment. By that time the American firm must have sent money across with which to meet the maturing bills.

But suppose that the parties in the transaction have not had the chance or have not seen fit to sell their stock before the bills of exchange come due in Europe. Where, then, is the American firm going to raise the money to send abroad to its correspondents? By "renewing" as they call it—selling more long bills and using the proceeds to send across to retire the first set of long bills. Suppose that in the first place £10,000 of ninety-day bills had been drawn and fell due November 30. Then, if the stock had not been sold, on November 30 the American house would draw £10,000 more of ninety-day bills and use the dollar proceeds to buy demand exchange to send to its foreign correspondent. The dollar proceeds of £10,000, "nineties," would, of course, not be enough to buy £10,000 of demand exchange the same day. The demand exchange would be apt to cost from three to four cents a pound sterling more than could be realized on the new set of "nineties," this difference representing the interest on the money.

As has been remarked, international speculative operations in stocks are of an infinite variety and involve all kinds of complicated foreign exchange transactions. Very often the stocks or bonds are not bought on joint account and instead of being "carried" here, are drawn against, and at once shipped to the other side. Sometimes, even in joint account transactions, it is found better to ship the stocks to a foreign market and borrow on them there. Operations of this sort, however, are more apt to come under the first class mentioned. Where stock is bought for a turn the whole transaction is likely to be along the line of the example which has been given.

213. *International arbitraging.*—Coming now to the third class of international security dealings, it appears that out of the maintaining of the parity of the various stock and bond markets arises a large volume of dealings. With cable facilities developed as they are now, it is evident that it is impossible for stocks in which there is any broad market to be selling very far apart on two different exchanges. Expert arbitrageurs are at hand in every market constantly receiving cable reports from other markets in which they work, and their operations continually tend to bring together prices and keep them on a parity.

Without becoming involved in the intricate details of arbitraging between stock exchanges, it may merely be said that on account of the difference in time the only part of our session in New York during which the London market is open is between 10 and 11 o'clock in the morning. During that time the same active stocks are being traded in on both exchanges at the same time. And during that hour there are a number of houses with direct connections at each end of the cable who are watching their chance to shave out a difference of anything from an eighth of a point to a point.

214. *Value of early news.*—If the arbitrageurs are so keen, why is there ever any difference in the parity, or a chance for any one to make money? Simply because the same influences affect the two markets differently and news often reaches one market before the other. Foreign political disturbances, for instance, are more likely to start selling movements among foreign speculative holders of American stocks than among speculators here. When a movement like that begins it will be easily seen where the arbitrageur's chance comes in. Stock is being pressed on the foreign market. Realizing that fact, he gets the best bid here and deducting the fraction he is willing to make, cables the bid to the other market. If he has sized up the movement right, the chances are that his bid will buy the stock and that he will be able to make the difference.

Strictly speaking, both ends of an arbitrage transaction are closed at the same time and no risk is taken. In actual practice, however, it continually happens that the chance to do a good stroke of business presents itself conditional to the arbitrageur's being willing to buy or sell in one market and wait a few minutes before closing the other end. This is particularly so in the less active stocks. Frequently it happens that shares of this kind are offered in a foreign market at such a concession from the last price here that the operator can be practically sure that if he takes the stock offered, the next bid here will enable him to get out at a good profit. In dealings of this kind there is naturally an element of risk and in bad markets considerable losses sometimes have to be taken. Success in that kind of arbitrage presupposes great skill and shrewdness on the part of the operator.

215. *Arbitrage profits.*—Straight arbitrage between two stock exchanges is a more or less exact operation, much more so than the great amount of arbitraging in bonds which is going on all the time. More difficult to put through, these deals are far more profitable than the shaving off of fractions in stocks. And realizing how big the outside market for American bonds in London has become, many prominent houses have men whose sole business it is to keep in touch with the market for international securities in New York and London and to put through trades between the two markets.

In theory the idea is the same as when bonds come into the Philadelphia market and a Philadelphia house offers them by wire in New York, half a point or a point higher. In actual practice, however, the case is very different, for the number of private wires into most of our big cities is such that there is not much chance for profit. But between New York and London there are comparatively few competitors in the field and cabling is too expensive a luxury to be indulged in freely.

Where the New York house has the right London connections this arbitrage business in bonds is exceedingly profitable. Even on fairly active bonds it is not at all unusual to make over a point net, while on bonds in which there is not a continually quoted market there is the opportunity to take much more. The element of risk, too, can be completely eliminated if the operator wishes, for firm bids and offers for cable reply are to be had in both markets. What is absolutely essential, of course, in business of this kind, is to have a man in charge of it who knows not only the market here but who knows exactly where the right bids and offers are to be found on the other side.

216. *Market influences.*—These are the three great classes of international security trading. Concerning their effect upon gold movement it is apparent that as foreign speculative stock operations are usually of a temporary nature, and as arbitrage transactions in stocks and bonds are evened up the same day, the first class of dealings is the only one which can exert any permanent influence on foreign exchange and the international money market. There are times, in fact, when the foreign exchange market is governed exclusively by international investment sales or purchases of securities. The trade balance, heavy exports of commodities, and such factors, seem to be completely ignored. What seems to be all-important is the fact that a selling movement is under way. Stocks are being sold and exchange to pay for them must be had. So the price of exchange goes up.

Such a rise in exchange is by no means necessarily due to stocks or bonds actually sold. Very frequently it is predicated upon what foreign exchange managers and dealers think of the chances of a continuation of the selling movement. Europe may sell 50,000 shares of investment stock here to-day and exchange will have to be found to pay for it. But what really regulates the price of that exchange is what the dealers think of the probability of the selling movement's going on. If they think that Europe's sales of to-day will be followed by continuing sales to-morrow and next week, they figure that exchange will have to be bought all along, and they will be loathe to draw on their balances. It not infrequently happens that bankers have good round balances abroad drawing but very moderate interest, but that it is impossible to buy drafts from them except at continually advancing rates. They figure exchange as rising, and simply decline to draw.

217. *International gold movements.*—When the rise has gone to the gold point and gold begins to go out, what the extent of any movement will be, depends very largely upon the extent of bankers' accumulated foreign balances. When the gold export point has once been established during any particular phase of the market, there is no use in bankers holding on to their balances abroad, because the price of exchange cannot rise measurably above the gold point. So that if there is any volume of accumulated exchange, at this stage it begins to come on the market and if there is enough of it, puts an end to the outflow of gold.

What influences great movements of gold perhaps more than anything else is a steady selling or buying of securities by one international market in another. Movements of this kind sometimes go on for weeks and months, are interrupted, and are resumed. It is when stocks and bonds are being bought by us on the foreign markets in quantity that foreign exchange is consistently strong, and when we are selling on a large scale that it is consistently weak. Other influences can be at work, but an actual movement in securities, either way, will always give the exchange market its real trend. And it is for that reason, more and more as the financial relationship between our own and the foreign markets is being developed, that the exchange market is coming to be looked upon as far and away the best tangible indication of what the international movement of securities actually is.

CHAPTER V.

THE MOVEMENT OF GOLD

218. *Production of gold.*—Underlying the whole question of gold movements—the passage from one market to another of great quantities of specie—is the fact that of the gold now annually produced, a good deal more than half originates in countries which have no great need for a circulating medium, and must be distributed to the banking centers of the countries which have and which produce no gold themselves. The production of gold in 1908 was $430,000,000, of which $150,000,000 originated in Africa and about $80,000,000 in Australasia. Practically all of this new gold has, in the first place, to make what might be called a primary movement from the mines to some center from which it can be redistributed. London is that center; has been from time immemorial. Imports of virgin gold into London between the years 1905 and 1908 inclusive amounted to $700,000,000. Of this amount London retained but $67,000,000. The remainder was all distributed to other countries—$205,000,000 to France, $170,000,000 to the United States, and the balance scattered among other countries.

It is important to note the conditions under which this distribution of gold takes place. The gold market in London is held every Monday morning. On that day there is a public auction of the new gold which has arrived during the past week. The brokers representing the various foreign banks and the local banks as well, come prepared to bid for the new gold according as the exchange on various points allows them. The Bank of England is required by law to buy all the gold offered it at the rate of 77 shillings, 9 pence per ounce (that is to say, gold of the fineness of British sovereigns, .916–2-3). Above this amount the brokers can bid according to the urgency of the demand on the part of the principals whom they represent. Gold very frequently sells very much above 77 shillings, 9 pence—during the panic of 1907, in fact, the rate went up as far as 78 shillings, 2 pence per ounce.

219. *Distribution of gold.*—But after the gold has been taken in London and sent to various foreign centers it does not follow that the distribution is complete. Financial conditions obtaining at those points may make it possible for the time being for representatives of bankers at those points to go into the London market and get gold by bidding for it, but later these conditions may so change as to necessitate a further readjustment. Frankfort, for instance, may be in a position to obtain a good part of the gold arriving during some week in London, but in a very short time it may come about that Paris may be able to draw most of that gold from Frankfort. And so there is a continuous movement set up, after the first radiating of the gold from London, which might well be called a secondary distribution. When exchange is high gold goes out and when exchange is low gold comes in. It may seem almost too elementary to mention this, but for a clear understanding of the various influences which govern gold movements it is indispensable that the idea should be firmly established how the movement takes place along the lines of exchange rates. When exchange on a point is high it indicates primarily a scarcity

of exchange and a great demand. Consequently when the demand comes to exceed the supply some other medium of exchange must be found and gold goes out. Conversely with regard to imports, when exchange on any point is exceedingly low, as for instance when it is possible to buy a pound sterling in New York at $4.84 or $4.83, gold naturally tends to come in. When a pound can be obtained at so low a rate it is possible to go into the foreign markets and pay a premium for gold. It is the simple idea that when a draft on any place, local or foreign, can be cheaply obtained, it is possible to go into that place and pay a high price for anything which you may happen to want to buy.

The difference between gold exports and imports is, after all, merely a matter of view point. We consider that we are shipping gold to London; London considers that she is importing gold from the United States. It is one and the same thing, merely a question as to how you look at it. Understanding the causes which make exchange high and thus causes gold to flow from one country to another is understanding the causes which govern both exports and imports of the metal.

220. *Small merchandise exports.*—As to the influences which tend to raise foreign exchange and thus cause gold to move, there are four main points to consider. The first may be stated as small merchandise exports resulting in a scarcity of exchange. The second has to do with low money here and the remitting of balances to points at which they can be more profitably employed. The third consideration has to do with high money at some foreign point which draws capital there and consequently raises the rate of exchange on that point. The fourth consideration is the international selling of securities.

With regard to the first question—that of exports and imports in their effect upon the gold movement—it may be considered that while the old school of economists overrated the importance of the merchandise trade balance, it is just as wrong to go to the other extreme and fail to recognize the enormously important influence which merchandise shipments do actually exert upon the movement of specie. Small exports mean small supplies of exchange. When exports are small, drawings of exchange against them are small, and, not having large balances on the other side, bankers are forced to charge a high rate of exchange for any bills which customers may want them to draw.

221. *Low money and remitting of balances.*—The second factor making for high exchange is low money. Money and exchange rates always work counter, that is to say, when money rates rise exchange rates decline, and vice versa. The reason is that when money is cheap at any given point, lending institutions send away their loanable funds to some other point, to accomplish which end they have to buy large quantities of exchange, thereby putting up rates. During a long period of cheap money there is almost a continuous demand for exchange by bankers who want to send away their money to points where a better return can be had for its use, and this demand almost invariably results in a continuously high level of exchange rates. Everybody wants to send funds away from a point where money is in such poor demand. Frequently the only way in which it can be sent is in the form of gold.

222. *High money rates.*—With regard to the third influence making for high exchange, when money is high at some foreign point, everybody in the business of lending money wants to remit to that point. Granted

that the financial center in question is one of importance, a place for instance in which it is possible to carry on large loaning operations, it is almost inevitable that exchange rates on that point will rise.

Just here attention ought perhaps to be given to the question of the manipulation of the foreign money markets in order to influence exchange rates upon them at outside points. The bank rate in a foreign market such as London or Paris, is of enormous importance in determining what the level of money there will be. The English bank rate, for instance, is of such importance that a rise in it of not more than one-half of 1 per cent is often enough to make a big difference in exchange on London all over the world. Outside exchange rates are singularly sensitive to the movement of the Bank of England rate, something which is probably accounted for by the fact that London is the financial center of the world, the point through which imports and exports all over the world are financed. London might be called the ganglion of the world's financial nerve system from which the slightest shock is reflected throughout commerce all over the earth. That being the case, the governors of the Bank of England, who have the making of the bank rate in charge, or the governors of the Bank of France, who have the power to influence their own market in like degree, are able to raise or lower most arbitrarily the level of money and thus cause a rise or fall at other cities in the foreign exchanges on London or Paris.

223. *International trading in securities.*—The fourth consideration making for high exchange has reference to the selling of securities by one market in another. When Europe sells stocks, for instance, we buy, and when we buy we have to pay for what we have

bought. It is well worth while to note the relation between exchange rates and the movement of some of the international stocks. A sudden selling movement by London of, say, forty or fifty thousand shares of high-priced stocks is very often enough to give a sharp upturn to exchange rates here. As an underlying and continued influence the trade balance or low money here, or high money there, may have a much more powerful effect, but this question of a sudden demand for exchange to pay for forty or fifty thousand shares of stock is enough to cause astonishingly sharp swings in the exchange market—often enough, in fact, to push the rate just above the gold export point.

224. *Methods of moving gold.*—Turning from the discussion of reasons why gold moves from one country to another to the way in which it moves, shipments may be divided into two broad classes, direct and indirect. In the first case the gold is shipped straight to the point to which it is desired to transfer the balance. In the other case the gold is shipped to some third place for the purpose of buying exchange upon the place to which the balance is actually to be transferred.

Taking up direct shipments first, the operation is about as follows: A banker, finding exchange conditions favorable, decides to ship, say, £40,000 to London. He goes to the assay office, buys the gold and ships it to his foreign correspondent, at the same time drawing bills of exchange against the newly created balance. If one can sell these bills of exchange for more dollars than it cost him to buy the gold, pay the charges on it, and ship it across, he makes the difference.

The following tables show the operation in detail. The first table shows what it costs to get the gold out of the assay office and send it to Europe. The other tables show what amount of foreign currency would be realized in case the metal were sent to either England, France, or Germany, and the rate at which the American banker shipping the gold would have to sell his reimbursing drafts in order to come out even on the transaction:

COST OF BUYING AND SHIPPING GOLD.

10,000 ounces bar gold, .993 fine, at $20.6718325 per ounce 1,000 fine	$205,271.29
Plus premium, United States assay office, 4–100 per cent	82.08
	$205,353.37
Packing, cartage, etc., 5 kegs at $2.25 per keg	11.25
Freight, 5-32 per cent	320.75
Insurance, 1-20 per cent, less 10 per cent	92.34
	$205,777.71

CREDITED IN GREAT BRITAIN.

10,000 ounces gold, .993 fine, at 77s. 9d. per ounce standard		£42,112–10–0
Less 1–40 per cent commission	£10–10–0	
Petties	1–18–0	12– 8–0
		£42,100– 2–0

To come out even, drafts must be sold at 488.78.

CREDITED IN FRANCE.

10,000 ounces gold .993 fine, 3437 francs per kilogram		Fcs. 1,061,542.10
Less 1–40 per cent commission	Fcs. 262.50	
Petties	47.00	309.50
		Fcs. 1,061,232.60

To come out even, drafts must be sold at 515.766.

CREDITED IN GERMANY.

10,000 ounces gold .993 fine at 2784 marks per kilogram		Mks. 859,858.30
Less 1–40 per cent commission	Mks. 215.00	
Petties	37.60	252.60
		Mks. 859,605.70

To come out even, drafts must be sold at 95.754.

225. *Indirect methods of moving gold.*—Indirect shipments are of great variety but are all founded on the idea of sending gold to some point where it can

be used to buy, cheaply, exchange on some other point. Of these transactions, the one best known is the so called "triangular operation" in which the gold is shipped to Paris for the purpose of buying exchange on London. The succession of steps is as follows: The metal is shipped to the French capital; exchange on London is purchased with the proceeds; this exchange is then remitted to London for credit of the American shipper of the gold; the shipper draws his sterling draft on London against the newly created balance.

The full details of an actual shipment are as follows:

48,500 ounces bar gold .995 fine at $20.5684		$997,567
Freight, 1/8 per cent	$1,247	
Insurance, 4½ c. per $100	450	
Assay office charge 4 c. per $100	400	
Interest 6 days at 2 per cent	333	
(From time gold is shipped to Paris until the drafts on London can be sold.)		
Cartage and packing	60	
Com. in Paris	250	2,740
		$1,000,307
Banque de France buys gold .995 fine at fcs. 3419.81 per kilo (= 106.3705 francs per troy ounce)		
48,500 ounces at fcs. 106.3705 = fcs. 5,158,969.		
Fcs. 5,158,969 at 25.10 = £205,536.		
£205,536 at 486.70 =		1,000,342
Profit	$	35

Conditions under which there is practically no profit or loss.	New York Exchange on London	486.70
	Paris Exchange on London	25.10
	Money in New York	2 per cent

226. *Profits on shipments.*—Under ordinary circumstances, if a banker makes between $500 and $1,000 on a million dollar shipment he considers himself very well paid. Considering all the trouble which the earning of this amount involves, the business is not overattractive. The fact is mentioned, not to show that gold exports are not important but rather to show why it is that a great many bankers will not go in for them.

A number of houses in fact never undertake gold shipments under ordinary circumstances.

There is further to be considered the over-draft which results from a shipment of this kind and which at times makes a strain on a firm's credit. It is to be borne in mind that the drafts which are sold on London at the beginning of the operation are immediately sent over there by the buyer. On the other hand the gold which goes to Paris takes some time to arrive there and even after its arrival one or two days must be allowed for assaying and crediting it, so that the "cover" for the drafts which have been drawn on London does not arrive in London until three or four days after the drafts have been presented. Naturally an over-draft of this amount is only possible where the house in London and the house in New York are closely affiliated. When the drafts are drawn the New York house advises by cable that gold has been shipped to Paris for cover. But even at that, unless the London house has explicit faith in its New York correspondent it will hardly be willing to pay out a million dollars even with the certainty of reimbursement within three days.

For this reason the business of shipping gold is coming to be more and more confined to a few bankers who have the facilities, whose managers are adept in figuring out any possible profit, and who are willing, both for the sake of the advertising and of the sometimes very small profit, to go to the trouble which gold shipments necessarily involve.

APPENDIX

NEW YORK STOCK EXCHANGE

RULES FOR DELIVERY

(Art. XXV, Sec. 3, constitution.)

1. Securities admitted to dealings upon the New York Stock Exchange, Registered and Transferable in the Borough of Manhattan, City of New York, in conformity with the requirements of Section I, Art. XXXIII, of the Constitution, are a delivery:—

(a) Certificates of stock for 100 shares or odd lots aggregating 100 shares, with irrevocable assignment for each certificate, and the name of a member or his firm, registered and doing business in the Borough of Manhattan. Certificates for the exact amount or aggregating the amount of an odd lot.

(b) Or with irrevocable assignment witnessed by, or correctness of signature guaranteed by such member or his firm.

(c) Or with irrevocable assignment and power of substitution and a separate guarantee by such member or his firm, for each power of substitution.

(d) Coupon bonds payable to bearer, in denominations of \$500 or \$1,000 each, with proper coupons of the bond's number securely attached. Small bonds, under \$500, only in special transactions. The money value of a missing coupon may be substituted only with the consent of the Committee on Securities for each delivery.

(e) Registerable coupon bonds in denominations of \$500 or \$1,000 registered to bearer, or when transfer books are closed, with an assignment to bearer for each bond by a member or his firm or witnessed by a member, or the correctness of the signature guaranteed by a member of his firm, registered and doing business in the Borough of Manhattan.

(f) Registered bonds in denominations not exceeding $10,000 properly assigned.

2. Securities contracted for in amounts exceeding 100 shares of stock or $10,000 in bonds, may be tendered in lots of 100 shares of stock or $10,000 in bonds, or any multiple of either, and must be accepted and paid for as delivered.

3. Securities with Assignment, or Power of Substitution, signed by an insolvent, are not a delivery. During the close of transfer books, such securities held by others than the insolvent, are a delivery if accompanied by an affidavit for each certificate or bond, that said securities were held on a date prior to the insolvency.

Securities with Assignment or with Power of Substitution, guaranteed by a member or his firm, suspended for insolvency, are not a delivery and must be reguaranteed by a solvent member or his firm.

4. Securities in the name of a deceased person, or a firm that has ceased to exist are not a delivery, except during the closing of the transfer books. The assignment must be proved or acknowledged before a notary public. (Form No. 3, for witness 10 and 11.)

Securities with either the assignment or any power of substitution witnessed by a deceased person are not a delivery.

5. Securities assigned, or a Power of Substitution by a firm that has dissolved and is succeeded by one of the same name, are a delivery, when the new firm shall have signed the statement "Execution guaranteed," under a date subsequent to the formation of the new firm.

6. Securities in the name of a corporation or an institution or in a name with official designation, are not a delivery, unless Assignment is sworn to before a Notary Public. The

Notary Public must also make a deposition that he has seen the minutes of the institution authorizing the person or persons signing to make the Assignment. (Forms 8 and 9.) A certified copy of the resolutions of the proper authorities of the Company in whose name the security stands, authorizing the Assignment, and giving date of adoption, must accompany the security.

7. Securities with an Assignment or a Power of Substitution signed by Trustees, Guardians, Infants, Executors, Administrators, Assignees and Receivers in Bankruptcy, Agents or Attorneys are not a delivery.

8. Securities assigned by a *Married Woman* are not a delivery. A joint assignment and acknowledgment by husband and wife before a Notary Public will make such security a delivery only *while the transfer books are closed.* (Form No. 4.)

9. Securities in the name of an *Unmarried Woman,* with the prefix "Miss," are a delivery without notarial acknowledgment, when signed "Miss."

10. Securities in the name of an *Unmarried Woman* (without the prefix "Miss"), or a *Widow* are a delivery only when the Assignment is acknowledged before a Notary Public. (Form No. 5.)

11. Securities of a Company whose transfer books are closed indefinitely for any reason, legal or otherwise, the Assignment and each Power of Substitution must be acknowledged before a Notary Public. (Forms No. 2, 3, for witness 10 and 11.)

12. Securities in the name of Foreign Residents are not a delivery on the day the transfer books are closed for payment of a Dividend or Registered interest, *and reclamation can only be made on that day.*

13. Securities in the name of Foreign Residents must be accompanied by an acknowledgment before a United States Consul or J. S. Morgan & Co., London, when required by transfer agents.

Several companies having transfer offices at Grand Central Station, New York, make this requirement.

14. Certificate of stock on which the name of a transferee

has been filled in error, may be made a delivery during the closing of the transfer books by ruling of the Committee on Securities. Necessary form of release, cancellation and reassignment will be furnished on application to the Committee on Securities.

15. An endorsement by a member or his firm registered and doing business in the Borough of Manhattan, or the signature as a witness by such a member, of a signature to an Assignment or a Power of Substitution, is a guarantee of its correctness. Each Power of Substitution, as well as the Assignment, must be so guaranteed or witnessed.

16. The Receiver of Stock may demand delivery by transfer when the transfer books are open, and must give ample time in which to make transfer. The Seller may demand payment for the securities at the time and place of transfer. The Seller may make delivery by transfer when personal liability attaches to ownership.

17. When a claim is made for a dividend on Stock after the transfer books have been closed, the party in whose name the Stock stands may require from the claimant presentation of the certificate, a written statement that he was the holder of the stock at the time of the closing of the books, a guarantee against any future demand for the same and the privilege to record on the certificate evidence of the payment by Cash or Due Bill.

18. "*Coupon Bonds issued to Bearer, having an endorsement upon them not properly pertaining to them as a security, must be sold specifically as 'Endorsed Bonds,' and are not a delivery, except as 'Endorsed Bonds.'*" *Extract from Resolutions of Governing Committee, adopted May 23, 1883.*

A definite name of a person, firm, corporation, an association, etc., such as "John Smith," "Brown, Jones & Co.," "Consolidated Bank" appearing upon a coupon bond, and not placed there for any purpose of the Company by any of its officers, implies ownership, and is an "Endorsed Bond" under the above resolution.

19. Any endorsement on a coupon bond, stating that it has

been deposited with a State for bank circulation or insurance requirement, may be released and release acknowledged before a Notary Public; it will then be a delivery as a "Released Endorsed Bond."

"RIGHTS TO SUBSCRIBE."

20. Assignments of "Rights" with the signature of the assignor witnessed and guaranteed in the same manner as other assignments as provided in these rules, are a delivery:—

(a) An assignment of the "Rights" accruing on each 100 shares; or, Assignment of "Rights" on odd lots aggregating the "Rights" on 100 shares.

(b) An Assignment for the exact amount, or Assignments aggregating the amount, on a sale of the "Rights" accruing on an odd lot of stock.

21. Assignments of "Rights" in the name of a *Married Woman, Widow,* or an *Unmarried Woman* are a delivery without notarial acknowledgment.

22. Assignments of "Rights" made by a deceased person or a firm that has ceased to exist are not a delivery, and must be taken back by the party delivering them.

23. Assignments of "Rights" signed by Trustees, &c., or for corporations, &c., are not a delivery until passed by the Committee on Securities.

24. "Rights" may be dealt in after a day to be fixed by the Committee on Securities. Warrants for rights are deliverable upon a subsequent day to be fixed by the Committee; after said day all dealings shall be as in other securities.

25. Due Bills for "Rights" accompanying stock, which by ruling of the Committee on Securities, does *not sell* "Ex-Rights" at the closing of the books, must be redeemed on a day fixed by the Committee on Securities.

26. Contracts in Warrants for "Rights" may be enforced "under the rule."

Reference is made to Section 2 of Article XXXII of the Constitution for method of settlement of contracts carrying

"Rights" other than those covered by 24 and 25 of these Rules, and also for Rights accruing during the pendency of a contract.

RECLAMATIONS.

27. Reclamation for irregularity in a security, when such irregularity affects only its currency in the market, must be made within ten days from day of delivery of the security. (Article XXIX, Constitution.) A security with any irregularity having been delivered may be returned up to 2:15 o'clock P. M., to the party who delivered it, who must immediately give the party presenting it either the security in proper form for delivery, or pay the market price of the security, and assume all liability for non-delivery. In the latter case, the security in proper form may be delivered to the claimant before 2:15 P. M., and the amount paid shall be returned.

SIGNATURES TO ASSIGNMENTS AND DUE BILLS.

28. *The signature to an Assignment or a Power of Substitution must be technically correct*, i. e., it must correspond in every particular, without any change, with the name in which the security is issued, and the name of the Attorney or Substitute.

The date of an Assignment or a Power of Substitution must be legible, and any correction properly noted by the signer.

(a) *Titles* must be prefixed or affixed to signatures exactly as they are in the name in which the security is issued.
(b) "Brothers" or "Bros." must be written as it appears in the security.
(c) "And" or "&" "Company" or "Co." may be written either way.
(d) "Mr.," "Messrs.," "Esq.," or the *Residence or business Address* of an individual or firm need not be made part of the signature.
(e) Due Bills must be signed by a member or a firm registered and doing business in the Borough of Manhattan.

The Committee rcommends:—

That Transfer Agents be given the exact form of the names to which securities are to be transferred.

That the signatures of all members and the firm signatures of each of the partners in a member's firm doing business in the Borough of Manhattan be filed with transfer offices in order to secure promptness of transfer of securities.

ASSIGNMENTS AND NOTARIAL ACKNOWLEDGMENTS.

A detached Assignment of a security must contain provision for the appointment *irrevocable* of an attorney, and substitute, and a full description of the security, i. e., name of Company, Issue, Certificate or Bond Number and amount (the latter written in words and numerals), and *must* be acknowledged before a Notary Public with seal and date. This description must be in the same handwriting as the other facts stated. A separate Assignment must accompany each certificate or bond.

In the acknowledgment of an Assignment or a Power of Substitution in the name of an individual, the Notary Public must certify with seal and date that he knows the person signing to be the person named in the security, or in the Power of Substitution, and that the signer acknowledged his signature.

An Assignment or Power of Substitution in the name of a firm, the Notary Public must certify that he knows the person and knows him to be, or to have been on the date of the execution, a member of the firm, and that he acknowledged that he executed the Assignment or Power of Substitution as the act and deed of the firm.

In proving, before a Notary Public, an Assignment or Power of Substitution, the witness must make deposition that he knows the person who executed the Assignment or Power of Substitution to be the person named in the security or Assignment, and saw the signer execute the same. For Assignments of Securities in the name of a firm, the witness must make deposition that he knows the party signing to be (or to have been at the date of execution) a member of the firm.

Any alteration in the wording of an assignment must be stated over the signature of the party signing.

Any alteration in a Notarial Acknowledgment must be noted by signature of the Notary.

QUIZ QUESTIONS

(*The numbers refer to the numbered sections in the text.*)

PART I

BANKING PRACTICE

CHAPTER I

1. What is meant by a financial institution?

2. Distinguish between an individual and a private banker.

3. What are the functions of a bank of discount?

4. In what ways does a trust company differ from a national bank?

5. What is a savings bank?

6. For what purposes do building and loan associations exist?

7. Define a mortgage, loan and investment corporation.

8. What is a safe deposit company?

CHAPTER II

9. What amount of capital is required of a national bank? What forms must be sent to the Comptroller of the Currency in order to organize a national bank?

10. Give the main points covered by the articles of association of a national bank.

11. Describe the form of organization certificate.

12. What are the duties of bank directors?

13. What is the most important committee of the board of directors? What are its duties?

14. What is meant by a majority of the board of directors? Has a director the power to bind the bank in a transaction?

15. Is it good or bad policy for directors to borrow of their own institution? Why?

16. What general actions should be provided for in the by-laws?

17. May a national bank transact business before its capital is paid in? What are the provisions of the National Bank Act in regard thereto? What are the provisions in the New York law?

18. What is the provision in the National Bank Act with regard to deposit of bonds?

19. To what extent may banks issue circulating notes?

20. How would you proceed to organize a state bank?

CHAPTER III

21. Describe the organization of the staff of a country bank of discount.

22. How is the staff of a large city bank of discount organized.

23. What are the usual duties of managers of branches of large city banks or trust companies? What general rules would you lay down in respect to the accounting of a large city bank having branches?

24. What are the legitimate functions of a savings bank?

25. Show why a trust company is not likely to be organized in country districts.

26. Into what departments is a large city trust company divided? What kind of business is handled by each department?

CHAPTER IV

27. Describe an old style general ledger.

28. What is a three column ledger?

29. What is a Boston ledger and what are some of the advantages and disadvantages found in its use?

30. What accounts should appear on the general ledger of a national bank? Of a state bank?

31. Wherein will the accounts on the general ledger of a trust company differ from those of a state bank?

32. Describe the form of a daily statement.

33. Where should accounts with banks be carried?

34. What is a controlling account and how is it used in bank accounting?

35. Suggest a substitute for the old fashioned journal.

36. What is the usual method of handling the expense account? Suggest a method of handling petty expense items.

37. How do overdrafts usually appear on the daily statement?

38. What are the principal books required in a trust company?

39. How is a depositor in a savings bank identified by the teller?

40. Describe some of the processes of checking the postings in a savings bank.

41. Describe the method of daily balancing.

42. When are the ledgers proved in a savings bank?

43. What is the usual practice in crediting and paying interest?

44 and 45. Discuss loose leaf and card ledgers for savings banks.

46. What does the general ledger of a savings bank contain?

47. What detail is essential to a good mortgage record?

CHAPTER V

48. How would you proceed to formulate a process of figuring the reserves required under the law?

49. Describe a form of reserve record.

50. How do the Comptroller of the Currency and state superintendents of banks know the condition of institutions under their charge?

51. What are the different items required in the reports to the New York Clearing House and State Superintendent of Banks?

52. What is a stock ledger? Why is it kept?

53. How should cancelled certificates of stock be filed?

54. Describe a form of stock transfer book.

CHAPTER VI

55. What is a certificate of deposit ana what financial institution makes the greatest use of them?

56. What kind of record of certificates of deposit would you keep in a small bank?

57. Describe a form of record to be kept outside the general ledger.

58. A certificate of deposit for $100,000, carrying interest at the rate of 3½ per cent. per annum will not be due until one year from date. What provision would you make for accrued interest?

59. A holder of a certificate of deposit for $5,000 pre-

sents it and requests a partial payment of $1,000. It has been running for two months and carries interest at the rate of 3 per cent. per annum. What course would you pursue?

60. How would you file paid and cancelled certificates?

61. What is a cashier's check? Show standing in liabilities.

62. Why does a bank receive deposits?

63. Describe the old style ledger.

64. Describe the Cincinnati ledger.

65. Describe the interest ledger.

66. Describe the three column Boston ledger.

67. What is the most compact form of ledger? Describe it.

68. Describe a form of record keeping for calculation of interest where Boston ledgers are used.

69. What are some of the important advantages of the Boston principle? When using a Boston ledger, how would you provide for recording the detail of the accounts?

70. Describe a card ledger.

71. What are the advantages and disadvantages of loose leaf ledgers?

72. What is a good substitute for a loose leaf ledger?

73. How would you prove a Cincinnati ledger with the general ledger? A Boston ledger with the general ledger?

74. How would you provide for inactive accounts on a Boston ledger?

75. What is a certified check?

76. What is its standing in the liabilities?

77. Give an example of a good record for certified checks.

78. How would you prove the certified check register with the general ledger?

79. If a certified check is lost or destroyed and the depositor makes a request to have the amount thereof credited to his account, what course would you pursue?

80. What are debit and credit books and for what purpose are they used?

CHAPTER VII

81. What are the duties of the paying teller? How are bills arranged for convenience in handling?

82. Describe methods of arranging coin.

83. Who should pass on signatures of checks?

84. What is meant by a stop payment notice? Who should be responsible for refusing checks on which payment has been stopped?

85. Suggest a good method of handling the clerk's pay roll.

86. Describe the precautions which should be used in the shipment of money.

87. Discuss the paying teller's records.

88. What are the duties of the receiving teller?

89. What are the items which make up the total of deposits?

90, 91 and 92. Describe the method of listing items for the clearing house. Route items. Checks on selves.

93. What debits are made by the receiving teller?

94. Who acknowledges receipt of items left for collection and how is it done?

95. How long should the receiving teller hold the cash he receives?

96. What are the duties of a note teller?

97. Show by illustration, a sight draft. A sight draft after acceptance.

98. What is a time draft?

99. Discuss collateral drafts. What would you do with collaterals attached to a draft in case of delay in payment or acceptance?

100. What are the duties of messengers?

101. What records should be kept by the note teller?

102. What are the duties of a mail teller?

103. What information should a remittance letter contain?

104. What kinds of items may a mail teller receive and how does he dispose of them?

105. What is the loan department?

106. Name the different kinds of loans.

107. What is a discount? Illustrate by example.

108. Describe three forms of notes.

109. What is an offering book?

110. Describe various ways of posting discounts.

111. What is a discount tickler? How may the tickler and journal be combined?

112. What is a bill book? Show a form.

113. What is the best method of filing notes?

114. Describe the method of collecting notes when due.

115. What is an endorsement? Name and discuss the different kinds.

116. What precautions should be taken in accepting the signature of an officer of a corporation?

117. May a corporation endorse for accommodation? Why?

118. Define single name paper. Double name paper.

CHAPTER VIII

119. What is a collateral loan? What are the three grand divisions of collateral loans?

120. What is the difference between a collateral note and a general loan and collateral agreement?

121. What is a call loan?

122. What are some of the dangers to be guarded against, in handling a large number of Wall Street call loans? What is meant by margin on a loan?

123. How are Wall Street loans filed?

124. What is a loan card and why is the record kept in this way?

125. How can loan records be kept, where changes in collateral are infrequent?

126. What is meant by a substitution? What are the points that need watching in making substitutions?

127. Suggest an improvement in filing stocks.

128. Is a national bank privileged to loan on real estate security? Why? Has a trust company this privilege? Why? What are the two ways of loaning on real estate security? Give a list of the documents necessary in each case to make a good loan.

129. Discuss the following points in connection with bonds and mortgages: Proof of title, insurance, recording, mortgage record, investments for estates, etc., loans on note secured by bond and mortgage and blanket mortgages.

130. Why should care be taken in loans on warehouse receipts?

131. How may a loan be made on the security of accounts receivable?

132. What is purchased paper? Why is it advisable to keep a part of the funds invested in this class of loan?

133. What would be a good loan on an insurance policy?

134. Discuss care of securities for customers of the bank.

135. Explain the workings of a department for purchasing and selling stocks and bonds for customers.

136. What is meant by transfer of stock? By registry of bonds? How would you fill out the assignment on the back of a stock certificate for delivery after sale? How would you assign the stock, so that you would feel secure in sending it by mail?

137. If you received instructions by open wire, from a regular customer, to pay money, how would you satisfy yourself that the message was genuine? What is meant by a message in code?

138. What is meant by participations in loans?

CHAPTER IX

139. What is a credit department?

140. Name some of the important points that would assist you in determining how much money you would loan a customer.

141. What do you think of personal investigation?

142. What is an agency report?

143 and 144. How is credit information filed?

145. What points are to be considered in determining the value of a depositor's account?

CHAPTER X

146. What are the functions of the collection department?

147. Where does the collection department get its items?

148. What is a collection register?

149. Describe a simple system for handling a large number of collection items.

150. Describe a form for advice of payment of collection items.

CHAPTER XI

151. What is a coupon? Describe the method of receiving and collecting.

152. Describe method of paying coupons and records pertaining thereto.

153. Discuss care of stationery and supplies.

154. Discuss filing of incoming letters.

155. Discuss filing of outgoing letters.

156. How should paid checks be filed? What is the danger of allowing the bookkeeper to file them?

157. What disposition should be made of old records?

158. Describe a form for acknowledging remittances.

159. Discuss the treatment of employés.

CHAPTER XII

160. What are the duties of officers in a country bank?

161. How are the duties of officers assigned in a city bank?

162. Discuss methods of handling investments.

163. Describe a system for caring for bond investments in a trust company.

164. What records are used in a safe deposit company?

165. What is the minute book?

CHAPTER XIII

166. Discuss periodic audits.

167. Explain a simple method of accruing interest receivable day by day.

168. How can clerks be trained for efficient work?

169 and 170. Discuss bank advertising and soliciting.

PART II

FOREIGN EXCHANGE

CHAPTER I

171. What determines the fixed par of exchange between any two given countries?

172. Of what importance is the fixed par of exchange?

173. A cotton merchant in the United States has sold 100 bales of cotton to a spinner in Liverpool, Eng. Explain how the payment is effected.

174. What is the difference between "discountable" and "rebatable" commercial long bills?

175. In a general way, which is the safer, a commercial bill drawn against cotton, or a commercial bill drawn against meat? Why?

176. Why are "clean" bills a risky kind of exchange in which to deal?

177. Assume that bonds have been sold by a banker in New York to a banker in London. Explain how they will be paid for.

178. What are the three main classes of "bankers' long bills"?

179. Why do international loaning operations bring long bills of exchange into existence?

180. How do "finance bills" differ from bills originating as a result of foreign loaning operations?

181. What are the main limitations to the issuing of finance bills?

CHAPTER II.

182. Explain the operation of a banker's selling demand exchange against a remittance of demand exchange.

183. Does the credit of the drawer of a commercial bill have much of an effect on the rate of exchange at which it can be sold?

184. Why must bankers who make a practice of selling "cables" keep good balances abroad?

185. What fixes the difference in the rate of exchange between "cables" and "demand"?

186–7. Explain the operation of a banker's selling demand bills against remittances of long bills. When long bills are remitted, when does the balance abroad become available?

188. Why are different bills of the same kind discounted abroad at varying rates?

189–90. Explain how foreign money is loaned in the American market.

191. How is it that foreign money can be loaned out here without any actual cash being sent over?

192. What is meant by the "risk of exchange" on foreign loans?

193. Show why profits made out of this kind of business are large.

194. What is meant by investing money in exchange?

195. Show the principal benefit of investing money in exchange.

196. In the above operation, long bills remitted abroad are not discounted. Why not?

197. What is the reason for "arbitraging" in exchange?

198. Without giving exact figures, explain an arbitrage operation in foreign exchange.

199. Why is great skill required for operations of this kind?

CHAPTER III

200. Why is commercial credit business growing in volume?

201. What is the primary purpose of a commercial credit?

202. How does the shipper of the merchandise get his money?

203. What part does the credit of the importer play?

204. Explain the general purpose of a "trust receipt."

205. What is the great advantage of a commercial credit to an importer to merchandise?

206. What is its advantage to the shipper of the goods?

207. In a commercial credit transaction the banker puts up no actual money, and yet the shipper of the merchandise receives his money at once. Where does it come from?

208. What are export credits?

209. What influence does the issue of commercial credits exert on the stability of the commercial structure?

CHAPTER IV

210. What are the main divisions of dealings in exchange originating from international security trading?

211. Explain how the replacing of maturing investments held abroad gives rise to foreign exchange transactions.

212. Show the usual method of financing international speculation in securities.

213. Define "arbitrage" as applied to securities.

214. Why is there ever any difference in the price of the same security in two different markets?

215. What constitutes a fair profit in stock arbitrage? In bond arbitrage?

216. Why do operations of this sort at times so strongly influence the exchange market?

217. Why is the exchange market so good an indicator of the trend of international security dealings?

CHAPTER V

218. Why is there a "primary" movement of gold?

219. What is the secondary distribution?

220. Why do small exports result in high exchange rates?

221. Point out the influence of low money rates on foreign exchange.

222. How do high money rates affect the exchange market?

223. Show how international buying and selling movements of securities affect the exchange market.

224. What is a "direct" movement of gold?

225. An indirect movement?

226. Why is the business of shipping gold concentrated in the hands of a few bankers?

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