MONTHLY BULLETIN

Issued by
EDWARD J. BARRETT
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

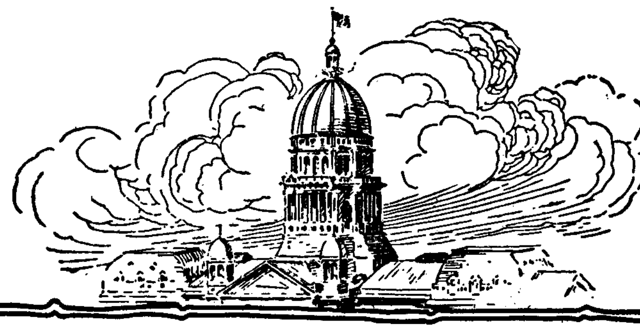
Vol. 11 **SPRINGFIELD, ILL., JANUARY 1, 1936** **No. 10**

DEPOSITS RISE

The pronounced increase in the deposits of State banks in Illinois, which was the feature of 1934, continued at a rapid rate during 1935. As of the close of business December 31, 1935, total deposits showed an increase of twenty-one per cent over December 31, 1934, and fifty-five per cent over December 31, 1933. They exceeded by twenty-three per cent the deposits of the State banks on December 31, 1932, the first comparable date before the banking Moratorium. In fact, deducting the deposit liabilities of the three large Chicago banks, which were converted into National banks or whose deposit liabilities were assumed by National banks in 1932 and 1933, the deposit liabilities of the State banks are greater than at any time since December 31, 1930. Total deposits in State banks on December 31, 1935, were approximately nine hundred seventy-one million dollars as against eight hundred one million dollars on December 31, 1934. Total resources increased from nine hundred twenty-six million dollars to one billion ninety-eight million dollars. Cash resources rose from two hundred fifty million dollars to two hundred eighty-three million dollars while loans and discounts contracted slightly from two hundred twenty-one million dollars to two hundred fifteen million dollars.

As of December 31, 1935, there were five hundred ninety-five State banks in operation as against six hundred eleven on December 31, 1934. During the year, four banks were reorganized and taken from receivership releasing approximately three million five hundred thousand dollars of deposits. One bank converted to a National institution and eighteen banks were liquidated, paying their depositors in full. One bank (with no deposit liability) was closed during the year.

No banks having deposit liabilities were closed during 1935.



BANK COLLECTION CODE DECLARED UNCONSTITUTIONAL

The case of "The People ex rel, Edward J. Barrett, Auditor of Public Accounts, v. The Union Bank and Trust Company.—(Arthur E. Crum, Receiver, Appellant, v. William L. O'Connell, Receiver, Appellee.)" was before the Supreme Court of this State on an appeal from a decree entered by the three Judges of the Circuit Court of Stephenson County sitting en banc. The decree found that Section 13 of "An act defining the relations between banks and their depositors with respect to the deposit and collection of checks and other instruments payable in money," (for convenience called the Bank Collection Code,) was unconstitutional.

"The appellant, Arthur E. Crum, as receiver of the First National Bank of Freeport, (hereafter called the National Bank), filed a petition in the trial court asking that he be allowed a preferred claim against the assets of the Union Bank and Trust Company, (hereafter called the State Bank), an insolvent Illinois banking corporation. His claim was based upon a draft for $6,890.75 drawn by the State Bank upon the Continental Illinois Bank and Trust Company of Chicago in favor of the National Bank. The draft was issued for the balance due the National Bank for clearings between it and the State Bank as of March 2, 1933. The receiver of the State Bank filed his motion to strike the petition for a preferred claim on the ground that section 13 above referred to was unconstitutional. The preference was denied, the claim was allowed as a common claim, and the court found the section invalid because it is in conflict with the pro rata distribution provision requirement enacted by Congress and with the decisions of the United States Supreme Court, since the section attempts to control the distribution of the assets of insolvent National banks. The court also found that from the title and the definitions contained in the act itself it is apparent that the legislature intended it to apply to both State and National banks, and that the legislature would not have passed the act if it had realized that it could not so operate; that the various provisions of the act are so connected and dependent upon each other that it cannot be presumed that the legislature would have enacted section 13 to secure its objects as against receivers of State banks if they could not be obtained as against receivers of National banks.

"The parties presented an agreed statement of facts, and have stipulated that if section 13 is constitutional the appellant is entitled to a preferred claim."

It was admitted by the appellant and the appellee that the Legislature was without authority to attempt to control the ratable distribution of the assets of insolvent National banks. "There remains, therefore, the single question, which is, Is this provision so related to and bound up with the subject matter of the act that without it the legislature would certainly not have passed the statute?"

In passing upon this question the Supreme Court said: "It is argued that this is a relief measure, designed to prevent the closing of banks by permitting them to draw drafts and checks instead of paying in cash items presented by agent collecting banks. While this may have been one purpose, it is equally evident that another purpose was to change the law which required actual presentment of items at the counter of a drawee bank for cash if liability for negligence was to be avoided by the collecting bank. It is apparent from a reading of the statute that certain rights formerly belonging to owners of such items were taken away and that in their stead these owners were to have a preference over common creditors under the circumstances and facts set out in the act. Without passing upon the question as to whether the rights, formerly held by a payee in a draft or check issued by or drawn upon a National bank would be destroyed by this act in view of the fact that he does not have a preferred claim, since the legislature has no control over distribution of National bank assets, certainly the legislature had no intention to create a situation where the rights of owners of commercial paper depend upon whether it is payable by or at a State or a National bank.

"This statute comprises one entire scheme or design. The rights taken away are compensated for by the preference attempted to be created in section 13 against the receivers of all insolvent banks. Similar statutes have been adopted by many other States. In discussing the effect of the invalidity of parts of a statute, we said in Chicago Motor Club v. Kinney, 329 Ill. 120, 134: 'Where the different objects of an act are so dependent upon or so mutually connected with each other in meaning or as conditions, considerations or compensations for each other that it cannot be presumed the legislature would have enacted the provisions designed to secure one of the objects without the provisions for the other, the invalidity of the latter renders the whole act void.'

"While it is true that a statute is presumed to be valid and that a construction will be adopted which would preserve the act rather than to adopt one which would render it invalid, if we resolve all doubts in favor of the validity of the act in question, still, with the invalid part of section 13 eliminated, it is not the act the legislature passed or intended to pass, and the act under review is void.

"For the reasons stated the decree of the circuit court of Stephenson County is affirmed."

CAPITAL STOCK DECREASED

Roodhouse ...Greene ....Roodhouse Bank, from $60,000 to $50,000 ....Nov. 27, 1935

CHANGE OF LOCATION

Bloomington ..McLean ......McLean County Bank, from 201 North Main Street, Bloomington, Illinois, to 119 North Main Street, Bloomington, Illinois..Nov. 18, 1935

DISSOLVED

Chicago ......Cook ....Michigan Avenue Trust Co. (Receiver appointed July 9, 1921)..Apr. 23, 1935

West Salem...Edwards ......West Salem State Bank (Receiver appointed Sept. 5, 1928)..May 18, 1935

Bone Gap......Edwards ......First State Bank of Bone Gap (Receiver appointed April 28, 1930) ....May 18, 1935

Owaneco .....Christian .....Eaton State Bank (In liquidation Sept. 12, 1931)................Nov. 16, 1935

Hidalgo ......Jasper ....Citizens State Bank of Hidalgo (Receiver appointed Sept. 12, 1930) ....Nov. 20, 1935

Yale ....Jasper ....State Bank of Yale (Receiver appointed Jan. 15, 1931).........Nov. 20, 1935

Bradford .....Stark ....Bradford Exchange State Bank (E. L. Clark, Receiver—discharged and liabilities liquidated) ....Dec. 16, 1935

Receiver appto. Aug. 5, 1932

IN LIQUIDATION

Carrollton ....Greene ....Greene County State Bank through Greene County National Bank in Carrollton.....Dec. 14, 1935

CONVERSION

Roodhouse ....Greene ....Roodhouse Bank into Roodhouse National Bank................Dec. 16, 1935

RECEIVER APPOINTED

Chicago ......Cook ....Home Bank and Trust Company —E. E. Mueller (Casimir E. Midowicz, Receiver—resigned).Dec. 4, 1935

TRUST CERTIFICATE CANCELLED

Chicago ......Cook ....South Chicago Savings Bank....Nov. 25, 1935

RECAPITULATION

	Reopened by Permit	Closed under Holiday	Total
State Banks in Chicago	37	1	38
State Banks in Cook County outside Chicago	33	1	34
State Banks in Illinois outside Cook County	525	..	525
Total	595	2	597

MONTHLY BULLETIN

Issued by
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BANKING DEPARTMENT
State *of* Illinois

Vol. 11 **SPRINGFIELD, ILL., FEBRUARY 1, 1936** **No. 11**

LOANS DECREASE

Loans and discounts decreased somewhat during 1935, despite the fact that deposits and cash reserves increased substantially during that period continuing the trend that has been evident for the last several years. The continued liquidation of "slow" and "doubtful" paper carried over from the depression period accounts in part for this condition but the absence of a normal demand for credit is largely responsible. This appears to be particularly true in the rural districts.

Many bankers state that there is no appreciable local demand for credit and that they cannot make desirable loans in their communities. However, in these same communities it is apparent that, while possibly the demand is not up to normal, the credit needs are being met in large part by outside agencies and that much desirable business is being lost by the local banker.

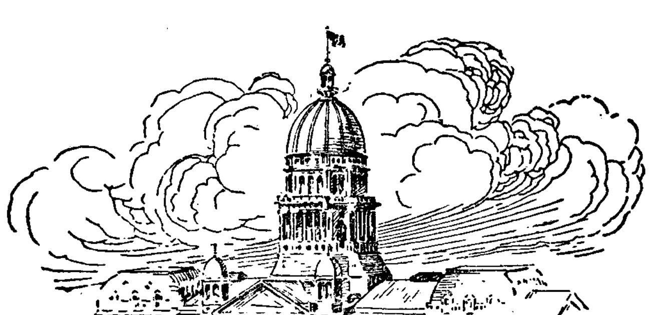
Of necessity many bankers during the period when they faced abnormal demands by depositors were forced to decline business which would have been accepted under ordinary conditions. A feeling has thus been engendered that banks will not make loans except on collateral of the utmost liquidity.

Experience has shown that the great majority of the potential customers of the local banker would prefer to do business in their own community and with the men whom they feel understand their problems and in whose advice they have the fullest confidence.

An educational campaign regarding the proper use of local banking facilities should result in the safe and profitable employment of a reasonable amount of the funds allocated to the local field.

In certain instances it is found that bankers hesitate to improve the status of paper now on their books through fear of losing business and still further reducing earning assets.

An aggressive effort to secure good business will enable the bankers to increase their earning power and will put them in a position to handle their loans on a sound credit basis and to conduct their institutions profitably.



LOANING POLICIES

The Department has received many inquiries as to whether certain extensions of credit would be acceptable. We feel that it is not the province of the Department to advise or approve of specific loans or investments or to state definitely the amount which should be carried in the various types of assets. The investment policy of the bank should be outlined and supervised by its directors through its executive officers. Such a policy should be based on a bank's obligation to meet the normal requirements of its depositors and its investment policies should be so set up that even abnormal requirements can be met without strain. To that end it is necessary that an adequate cash reserve be maintained at all times and that a substantial secondary reserve be carried. The secondary reserve should consist of high grade readily marketable securities. Such investments should be made from the viewpoint of security and liquidity rather than yield.

A bank likewise has a duty and responsibility to serve the credit needs of its community and it should stand ready to meet such requirements. In establishing a loaning policy the directors should consider the old truism "the time to make a loan good is when it is made." Loans should be based on sound credit principles. Full investigation should be made as to the resources and liabilities of the borrower and to that end he should be required to furnish a financial statement. However, entire dependence should not be placed on the statement but full inquiry should be made as to the purpose of the loan and as to how and when it will be paid. Past financial history is of the utmost importance and should receive careful study together with present income and future possibilities.

Maturity is an important point. Consideration should be given to the nature of the borrower's business and maturity should be set at such a date as will allow the liquidation upon completion of the normal turnover. It is decidedly inadvisable to permit the borrower to assume an obligation which he cannot meet. The bankers should, therefore, endeavor to set maturities, which are within the capabilities of his customer, and then see to it that they are promptly met. Failure to meet an obligation should call for an immediate and thorough investigation. It may be determined that such failure is caused by temporary conditions and that it is advisable to extend the line or that extension may be granted upon obtaining security. It may, in some cases, be determined that immediate liquidation is advisable. In any case it is important that such matters receive prompt and thorough attention.

Real estate loans have been a source of considerable inquiry and in some quarters a disinclination to make such loans is evident. The usual real estate loan is, of course, for a longer maturity and in that sense is slow. However, a reasonable amount allocated for the purpose of making such loans appears to be justified. Practically the same yardstick might be applied to a real estate loan as to any other, namely, the soundness of the security and the ability of the borrower to pay. A practice which has come into favor recently, in connection with real estate loans, is the making of amortized loans providing prepayment of the principal at regular periods. The advantages of the closer contact and the gradual reduction of principal are obvious.

A policy which takes into consideration safety, liquidity and diversification, together with a well considered, firm, collection program, should profitably and securely solve the investment problem.

IN LIQUIDATION

Murphysboro ..Jackson ......Murphysboro Savings Bank through First National Bank of Murphysboro, Illinois.......Jan. 14, 1936

NAME CHANGED

Wilmette .....Cook ....Wilmette State Bank to The Wilmette State Bank..............Jan. 13, 1936

DISSOLVED

12-31-37

Chandlerville ..Cass ....Chandlerville State Bank (Receiver appointed May 7, 1930)..Dec. 16, 1935

Hinsdale .....DuPage ......Hinsdale State Bank (In Liquidation August 6, 1932)........Jan. 4, 1936

Keenes ....Wayne ....Farmers State Bank of Keenes (In Liquidation Nov. 20, 1930)..Jan. 8, 1936

Oakland ......Coles ....Citizens State Bank of Oakland (Receiver appointed Jan. 16, '31) Jan. 13, 1936

TRUST CERTIFICATES CANCELLED

Chicago ......Cook ....South Side Trust & Savings Bank..Jan. 2, 1936

Ottawa ....LaSalle .... First Trust Company of Ottawa, Illinois ....Jan.. 3, 1936

RECAPITULATION

	Reopened by Permit	Closed under Holiday	Total
State Banks in Chicago............................	37	1	38
State Banks in Cook County outside Chicago........	33	1	34
State Banks in Illinois outside Cook County.........	524	..	524
Total	594	2	596

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MONTHLY BULLETIN

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BANKING DEPARTMENT
State *of* Illinois

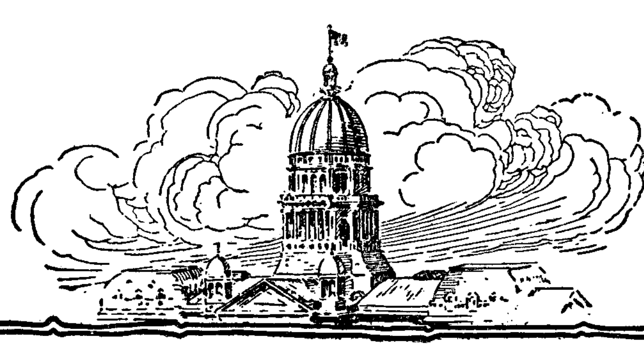
Vol. 11 SPRINGFIELD, ILL., MARCH 1, 1936 No. 12

EARNINGS

Earnings reports for the semi-annual period ending December 31, 1935, show that, while total profits are not as large as in some periods in the past, practically every bank in the State made an operating profit during that period in spite of the fact that profits on securities sold and recoveries were not included in the operating figures. The number of banks which incurred a deficit in operations was smaller than at any period of which the Department has a record.

A summary of the earnings reports classified as to earning assets is appended on the following pages. It will be noted that each group shows a profit from current operations as well as a net addition to profits, including profits on securities sold and recoveries less losses and depreciation charges.

Attention is called to the substantial income derived from service charges. Many banks have found that the institution of such charges has enabled them to operate profitably. The few banks which do not, as yet, require compensation for services rendered are meeting difficulty in keeping their earnings up to standard.



SUMMARY OF EARNINGS AND EXPENSES OF THE 595 STATE BANKS OF ILLINOIS FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 1935.

Group	1	2	3	4	5	6	7	Entire State
Number of banks	311	128	42	29	41	32	12	595
Classification (earning assets)	Under $250,000.00	$250,000.00 to $500,000.00	$500,000.00 to $750,000.00	$750,000.00 to $1,000,000.00	$1,000,000.00 to $2,000,000.00	$2,000,000.00 to $5,000,000.00	$5,000,000.00 and over.	Total of all groups.
Earnings from Current Operations:								
Interest and discount on loans	$830,181	$664,463	$360,458	$272,652	$530,790	$702,735	$1,687,629	$5,048,908
Interest and dividends on bonds, stocks and other securities	269,539	381,489	217,077	249,442	557,786	986,938	4,202,424	6,864,695
Interest on balances with other banks in U. S. and in foreign countries	982	4,730	91	1,931		1,682	456	9,872
Domestic exchange, collection charges, commissions, fees, etc	59,612	60,449	22,424	32,043	89,144	124,869	312,213	700,754
Foreign department, except interest on foreign loans and bank balances	69	19			5,353	40,901	14,764	61,106
Service charges on deposit accounts	74,037	75,548	40,585	42,689	169,545	293,919	265,749	962,072
Trust department	16,510	4,700	8,257	2,785	33,135	87,038	1,343,289	1,495,714
Other current earnings	64,428	57,690	24,993	40,415	144,719	242,502	325,504	900,251
Total current earnings	$1,315,358	$1,249,088	$673,885	$641,957	$1,530,472	$2,480,584	$8,152,028	$16,043,372
Current Expenses:								
Salaries and wages	$43[illegible] 301	$348,0[illegible]4	$177,459	$176,630	$435,310	$730,606	$2,448,267	$4,748,627
Interest and discount on borrowed money	4	8	5,610		11,154	16,773	2	45,896
Interest on deposits of other banks		[illegible]		139	837	408		1,461
Interest on other demand deposits	[illegible]8	2[illegible]	3,721	691	6,885	6,325	4,737	27,826
Interest on other time deposits	223,355	258,313	161,764	134,474	248,771	457,420	1,145,781	2,629,878
Interest on income debentures and/or capital notes	6,825	9,624	2,777	8,440	20,068	40,189	31,675	119,598
Taxes	34,002	30,088	11,439	8,842	51,915	62,255	621,628	820,169
Other current expenses	262,889	239,990	102,067	107,229	321,991	536,764	1,244,709	2,815,639
Total current expenses	$966,364	$896,978	$464,837	$436,445	$1,096,931	$1,850,740	$5,496,799	$11,209,094
Net earnings from current operations	$348,994	$352,110	$209,048	$205,512	$433,541	$629,844	$2,655,229	$4,834,278
Recoveries and Profits on Securities Sold:								
Recoveries on loans and discounts	$110,418	$134,632	$47,263	$48,456	$106,508	$141,368	$382,894	$ 971,539
Recoveries on bonds, stocks and other securities	101,459	177,959	72,339	70,946	73,691	160,478	88,079	744,951
Profits on securities sold	101,308	130,579	75,245	92,731	175,646	340,362	452,953	1,368,824
All other	53,843	33,453	35,598	21,993	64,696	958,892	399,110	1,567,585
Total net earnings, recoveries and profits on securities sold	$716,022	$828,733	$439,493	$439,638	$854,082	$2,230,944	$3,978,265	$9,487,177
Losses and depreciation charges	$428,627	$337,205	$180,283	$233,376	$569,408	$1,202,998	$2,966,138	$5,918,035
Net addition to profits	$287,395	$491,528	$259,210	$206,262	$284,674	$1,027,946	$1,012,127	$3,569,142
Earning assets	$43,075,859	$45,707,224	$25,626,436	$25,005,123	$56,207,640	$ 97,616,888	$480,358,006	$773,597,176
Capital, surplus, undivided profits and reserves	14,396,031	10,356,443	4,429,452	4,491,840	10,773,959	15,550,548	51,300,728	111,299,001
Time deposits	20,045,155	25,003,119	14,407,173	14,221,773	31,333,794	58,559,278	145,778,404	309,348,696
Gross deposits	54,990,440	56,651,588	31,816,824	33,278,399	68,671,218	123,797,141	598,906,475	968,112,085

NAME CHANGED.

Bradford	Stark	Phenix Banking Company to Bradford Banking Company	Feb. 26, 1936

DISSOLVED.

Galatia	Saline	First State Bank of Galatia (Receiver appointed May 15, 1930)	Feb. 5, 1936
Flossmoor	Cook	Flossmoor State Bank (In liquidation May 8, 1935)	Feb. 11, 1936
Sigel	Shelby	Peoples State Bank of Sigel (In liquidation Mar. 1, 1932)	Feb. 13, 1936

RECAPITULATION.

	Reopened by permit.	Closed under holiday.	Total.
State Banks in Chicago	37	1	38
State Banks in Cook County outside Chicago	33	1	34
State Banks in Illinois outside Cook County	524	----	524
Total	594	2	596

MONTHLY BULLETIN

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BANKING DEPARTMENT
State *of* Illinois

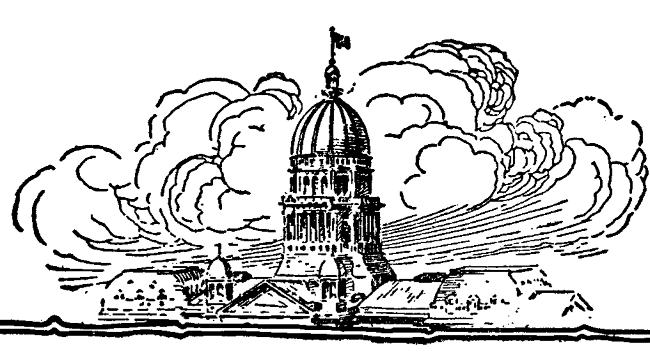
Vol. 12 SPRINGFIELD, ILL., APRIL 1, 1936 No. 1

NOTES

Promissory notes accepted for money loaned evidence one of the principal asset items of a bank.

Such notes should be negotiable and to be so, they must be in writing and signed by the maker or drawer; must contain an unconditional promise or order to pay a sum certain in money; must be payable on demand or at a fixed or determinable future time; must be payable to order or to bearer and where the instrument is addressed to a drawee, he must be named or otherwise indicated therein with reasonable certainty. If a note is drawn to the maker's own order, it is not complete until indorsed by him. If a note is made to bearer, it may be negotiated by delivery but if it is made payable to the order of someone, it should be indorsed and delivered. However, if a note is payable to order and transferred by delivery without indorsement, the transferree may recover the amount from the maker but such holder becomes a holder in due course only after the actual indorsement.

The use of a judgment by confession clause in notes has become a prevalent practice among banks. The holder of



such a note certainly enjoys an advantage which he would not otherwise have. By reason of such a provision, judgment may be taken on the note at any time and the holder is therefore in a position to act promptly if either conditions or acts of the parties to the instrument make desirable the taking of prompt action in order to protect the holder or to save the expenditure of large sums of money for legal expense. In addition, a note usually contains other provisions which inure to the benefit of the holder such as a clause stating that the note may, at the option of the holder, become due and payable before the date of maturity upon the happening of some contingency, for example: the insolvency of the debtor or if the holder considers himself insecure, etc. and clauses whereby the parties to the instrument waive notice of non-payment, agree to the extension of the time of payment and waive presentment for payment.

Any person or corporation, either in an individual or representative capacity, who is under no personal or political disability may become a party to a negotiable instrument. It is advisable that the note be filled in and signed in ink. Some persons may be wholly or partially disqualified by disability such as lunatics, alien enemies, infants and persons under guardianship. Members of a co-partnership may be bound by a note signed by one of the partners when the giving of such negotiable paper is within the scope of the partnership business. In such case, the signature of the firm, that is the name of the firm, should be written with the addition of "By________________". Of course, it is preferable to have the signatures of all the partners. A corporation may obligate itself as maker or drawer on a note unless given for a purpose which is clearly outside the express or implied powers of the corporation. When taking the note of a corporation, the following points should be considered:

1. Whether or not the officer or agent who signs on behalf of the corporation is competent in law to bind the company and in this connection, the bank should have for its protection a certified copy of a resolution of the Board of Directors authorizing the making of the loan and the execution of the note by the officer or agent in question and an investigation should be made to determine that there are no contrary provisions either in the charter of the corporation or in the By-laws.
2. In respect to the form of the signature of the corporation, the obligatory tenor of the note should indicate that the corporation is to be bound and the officer or agent should add to his name "For________________Company", or the name of the corporation should be signed and then the words, "By________________".

The extent of the liability of the various parties to a promissory note should be kept in mind. The maker of a negotiable instrument of course engages that he will pay it according to its tenor and in addition admits the existence of the payee and his then capacity to indorse. Co-signers are also liable as makers where the bank advances money to one of the makers in consideration of their signatures. Any person who places his signature on a note otherwise than as maker, drawer or acceptor is deemed to be an indorser unless he indicates by appropriate words his intention to be bound in some other capacity. If a person not otherwise a party to an instrument places thereon his signature in blank before delivery, he becomes liable as an indorser and if the payee in the note is a third person, he is liable to the payee and to all subsequent parties or if the instrument is made payable to bearer or to the order of the maker, he is liable to all parties subsequent to the maker or if he signs for the accommodation of the payee, he is liable to all parties subsequent to the payee. Where a person places his indorsement upon an instrument negotiable by delivery, he incurs all the liabilities of an indorser. Where a person negotiates a note by delivery or by a qualified indorsement, he warrants that the instrument is genuine and in all respects what it purports to be, that he has good title to it, that all prior parties had capacity to contract and that he has no knowledge of any fact which would impair the validity of the instrument. However, when the negotiation of the note is by delivery only, the warranty extends in favor of no holder other than the immediate transferee. Every indorser not an accommodating party, who indorses without qualifications, warrants to all subsequent holders in due course all of the things mentioned before as being warranted by a qualified indorsement and in addition warrants that the instrument is at the time of his indorsement a valid and subsisting obligation and also engages that on due presentment the note will be paid or if not and the necessary proceedings on dishonor are taken, he will pay the amount thereof to the holder or to any subsequent indorser who may be compelled to pay it.

Unless presentment for payment and notice of dishonor are waived, these steps must be taken in order to enforce the instrument against all parties including the indorsers.

In addition to loaning money in consideration of the execution of a promissory note by a person, banks may discount notes and in this connection it is of course highly advisable that the bank be a holder in due course of the instrument. A holder in due course holds the instrument free from any defect of title of prior parties and free from defenses available to prior parties among themselves except the defense of fraud or circumvention being used in obtaining the making or execution of the instrument or where it is given in pursuance of a gambling contract. A holder in due course is one who has taken the instrument under the following conditions:

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

IN LIQUIDATION.

Armstrong	Vermilion	Farmers State Bank of Armstrong	Mar. 14, 1936

DISSOLVED.

Kingston	DeKalb	Kingston State Bank (In liquidation July 1, 1930)	Mar. 7, 1936
Chicago	Cook	Franklin Trust and Savings Bank (In liquidation Feb. 7, 1931)	Mar. 13, 1936
Hillside	Cook	Hillside State Bank (In Suspension under Holiday)	Mar. 19, 1936

RECAPITULATION.

	Reopened by permit.	Closed under holiday.	Total.
State Banks in Chicago	37	1	38
State Banks in Cook County outside Chicago	33	----	33
State Banks in Illinois outside Cook County	523	----	523
Total	593	1	594

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AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

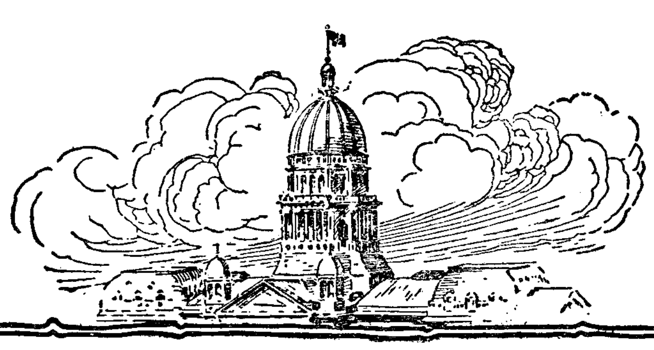
Vol. 12 SPRINGFIELD, ILL., MAY 1, 1936 No. 2

COLLATERAL

Collateral form notes should be used in all cases where loans are made based on collateral.

The note should contain the usual provisions of a judgment note and in addition a clause whereby the borrower pledges the collateral and a space for the same to be listed. There should also be provisions that the holder has the right to demand additional collateral if he, at any time, feels insecure and the right to sell the collateral if additional security is not provided or if payment is not made when due. The right to sell should be so stated as to permit the holder to sell at public or private sale or on a broker's board without notice to any party and the holder should also be permitted to bid at such sale.

Registered Government bonds should be assigned in ink in blank and if such bonds are owned by someone not a party to the instrument, a Power of Hypothecation should be furnished. When accepting stock as collateral, the certificate should be accompanied by a Power of Attorney or endorsed in ink and in the event that the stock is owned by someone not a party to the instrument, the certificate should be en-



dorsed in ink or a Power of Attorney obtained and a Power of Hypothecation. Whenever collateral is owned by a corporation a resolution of the Board of Directors of such corporation, authorizing and directing the officers to pledge the property, should be obtained. Accounts Receivable and all other choses in action should be properly assigned by a separate instrument.

Real estate and chattel notes and mortgages may be taken by the bank as collateral security and in such cases, the notes should be endorsed and the mortgage itself assigned to the bank and such assignments recorded. However, mortgages are usually taken as direct security from the borrower. In either case, where the security is a real estate mortgage, the bank should have in its files such instruments as will show that the mortgagor had good title and that the mortgage is actually whatever lien it purports to be on the property. In this connection, it is essential that the bank have an abstract of title brought down to date and an opinion by a competent attorney or abstractor or a title guarantee policy of a recognized title and guarantee company or a Torrens Certificate of Title. A Certificate of Appraisal should be on file signed by competent independent appraisers or by a committee of the Board of Directors consisting of at least three members. If the insurance on the property is not made payable to the mortgagee, a clause should be added to the policy providing that if any loss occurs covered by the insurance, during the time of the indebtedness, such payments as are made under the policy will be made to the holder of the mortgage. It is the better practice to record extensions of real estate loans, and it is well to note that all mortgages which on July 1, 1940 are twenty years or more past due of record will cease by limitation. Extension agreements continue the lien of the mortgage on the real estate for a period of ten years from and after the time the indebtedness will be due as shown by such recorded extension agreement.

Any conveyance of real property to secure a debt will be construed as a mortgage. Therefore, the acceptance of such conveyance as collateral does not, as appears to be a rather general opinion, give the holder title to the property and obviate the necessity of foreclosure; as a matter of fact, the holder of a note so secured would be in a better position by accepting a mortgage than by accepting a deed, since in the event that it became necessary to acquire title, the legal procedure would probably be more expensive and involved than would be the case in foreclosing a mortgage.

Where a chattel mortgage is given either as collateral or direct security there should appear upon the face of the note a statement to the effect that the note is secured by a chattel mortgage. The mortgage will be a valid lien from the time it is filed for record until ninety days after the maturity of the debt as shown by the terms of the mortgage or by an extension, but is may be extended for a period of one year by filing for record an affidavit of the mortgagor and mortgagee in which the interest of the mortgagee in the property, the amount remaining unpaid and the time when the same will become due is set out. The maturity of the indebtedness should be carefully described in the mortgage. The mortgagee may purchase the property at its own sale if the mortgage contains a clause authorizing the sheriff to execute power of sale. The mortgage must be filed for record within ten days of its execution and the property covered by the chattel mortgage may not be sold unless the mortgage is recorded at least five days prior to the sale. A chattel mortgage on the necessary household goods, wearing apparel or mechanic's tools of any person or family must be foreclosed in a court of record. If it is intended that the property is to remain in the possession of the grantor, the chattel mortgage should recite such fact.

Where a mortgage is given to secure future advances, the amount of the first advance should be stated and then the provision that the mortgage is given to secure future advances to be made by the mortgagee not to exceed a certain amount.

PERMIT ISSUED.

			Capital.	Surplus.	Reserve.	Date.
Mount Carmel	Wabash	Security Bank of Mount Carmel, 400 Market Street	$50,000	$10,000	$10,000	Apr. 29, 1936

CAPITAL STOCK DECREASED.

McLean.........McLean....McLean State Bank & Trust Co. from $60,000 to $50,000....Apr. 2, 1936

CHANGE OF PAR VALUE OF CAPITAL STOCK.

McLean.........McLean....McLean State Bank & Trust Co. from $100 to $83⅓.........Apr. 2, 1936

CHANGE OF LOCATION.

Chicago.........Cook......Banco di Napoli Trust Company of Chicago, from 906 South Halsted Street, Chicago, Illinois, to 1601 West Roosevelt Road, Chicago, Illinois.........Jan. 21, 1936

RECAPITULATION.

	Reopened by permit.	Closed under holiday.	Total.
State Banks in Chicago	37	1	38
State Banks in Cook County outside Chicago	33	----	33
State Banks in Illinois outside Cook County	523	----	523
Total	593	1	594

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(5524)

MONTHLY BULLETIN

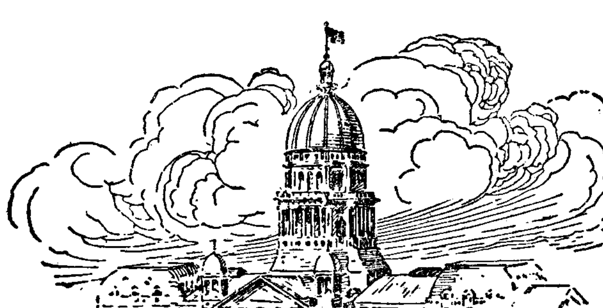
Issued by
EDWARD J. BARRETT
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

Vol. 12 **SPRINGFIELD, ILL., JUNE 1, 1936** **No. 3**

BY-LAWS

In connection with examinations made by this Department, it is noted that the by-laws of some banks contain certain provisions which are not consistent with our banking law and in other instances that the bank's by-laws are in some respects antiquated or inadequate. Where this is the case, the by-laws should be revised. In order to assist in the matter of such revision the Department has prepared a booklet containing "Model By-Laws", a copy of which will be furnished upon request.

Section 4 of the Banking Law of this State provides that the directors may make by-laws (not inconsistent with the Act) for the government of the bank or association and accordingly, care should be taken to see that the by-laws do not conflict with the law. The inconsistency most frequently found is a provision that vacancies in the Board of Directors may be filled by vote of the remaining directors. This is, no doubt, due to the fact that the Banking Act previously contained such a provision and at that time this was incorporated in the by-laws. However, the present law makes no provision for the election of directors except by vote of stockholders and Section 3 of the law provides that no director shall be elected unless he shall have received votes representing at least a majority of the shares of the association.



Therefore, any provision in the by-laws which purports to give the directors the right to fill a vacancy is invalid.

In the matter of vacancies the "Model By-Laws" contain the following paragraph, which complies with the law:

> "Vacancies in the board of directors caused by death, resignation or otherwise, may be filled by election, as above provided, at a regular or special meeting of the stockholders called in the manner outlined in Section 2 of these By-Laws, and shall not be filled in any other manner."

Section 4 of the Banking Law, also, specifics that:

> "* * * there shall be an annual meeting of the stockholders for the election of directors each year on the first Monday in January unless some other date shall be fixed by the by-laws of the association."

The by-laws after stating the name, capital structure, duration, etc., should set the time and place of the annual meeting of stockholders, the manner in which notice of the meeting is to be given to each stockholder and the reports which the officers are to submit at such meetings.

It is important, also, that provision be made for special meetings of shareholders, the manner in which such special meetings shall be called and the length of time before the date fixed for the meeting that notice shall be given to the stockholders. The by-laws, also, should provide that such meeting may be called upon order of a majority of the directors or a request, in writing, of stockholders representing a specified portion of the bank's capital stock as it is possible that a situation could arise where a majority of the directors, due to vacancies, would not be available to call a special meeting of stockholders.

If the by-laws state the number of directors this must be in agreement with the legal number of directors as determined by action of the subscribers to the stock at the time of the organization of the bank or as changed under the provisions of Section 12 of the Banking Act and attention is called to the fact that the legal number of directors cannot be changed by vote of the directors but only by compliance with the procedure specified in Section 12 of the law.

The method of election of the directors as outlined in the by-laws and their qualification must be in accordance with the requirements of the law which are as follows:

> "* * * and the voting may be done by person, or by proxy, and at such election the subscribers or stockholders shall have the right to vote for the number of shares owned or subscribed by him for as many persons as there are directors to be elected, or to accumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares of stock shall equal, or to distribute them on the same principle among as many candidates as he shall deem proper."

> "Every director of any bank or association organized under the provisions of this Act must own in his own right, free of any lien or encumbrance, shares of the capital stock of the bank or association of which he is a director, the aggregate par value of which shall not be less than one thousand dollars ($1,000) and stock certificates evidencing the capital stock of such bank or association of which he is a director, the aggregate par value of which shall not be less than one thousand dollars ($1,000) issued in his name, shall be filed unendorsed and unassigned by him with the cashier of such bank or association during his term as director."

The by-laws should provide that the directors shall hold regular meetings at least once each month and that there shall be present at each meeting a quorum which shall consist of a majority of the directors as this is a requirement of the law. In addition, provision should be made for special meetings of directors and the method of calling them. The order of business at directors' meetings, also, should be set forth.

In the "Model By-Laws" the directors' duties are enumerated and include the general management of the bank, causing suitable books of record to be kept, electing the President, appointing the necessary officers and employees, fixing their compensation, seeing to it that they are properly bonded and that their duties are faithfully performed, appointing an executive committee, designing the form of note and certificate to be used, fixing the loaning rate and the rate of interest to be paid on deposits, examining all loans made or securities purchased, causing an appraisal of all real estate security to be made, seeing to it that no loans are made to officers, directors or employees without first complying with the requirements of the law, causing an appraisement of all real estate holdings to be made at least annually, appointing a committee of stockholders or a certified public accountant to audit the books of the bank at least once each year and conducting the bank's business within the limitations of the Banking Act and in accordance with the rules and requirements of the supervising authority.

The duties of the executive committee and of the executive officers should be set forth and provision should be made as to the method of approval of loans and of the transfer of stock and of borrowing money. If the bank has a savings department or trust department or safe-deposit vaults, these matters should be covered in the by-laws. In addition the office hours, fiscal year and official seal should be specified. A provision should, also, be made as to how the by-laws may be amended.

Officers and directors are urged to familiarize themselves with the by-laws of their bank and to check them to ascertain that they are adequate and not inconsistent with the banking law. If there is any question as to their completeness or the validity of any of their provisions, request should be made to this Department for a copy of the pamphlet containing "Model By-Laws" and where necessary the proper revisions should be made.

IN LIQUIDATION.

Moweaqua	Shelby	State Bank of Moweaqua	May 23, 1936

CAPITAL STOCK INCREASED.

Summit (Argo P. O.)	Cook	Argo State Bank, From $75,000 to $100,000	May 7, 1936
Oak Park	Cook	Prairie State Bank, From $100,000 to $200,000	May 28, 1936

DISSOLVED.

Joy	Mercer	O. A. Bridgford & Co's. Farmers Bank (In liquidation Nov. 14, 1931)	May 11, 1936
Illiana	Vermilion	Illiana State Bank (Receiver appointed June 28, 1930)	May 21, 1936

RECAPITULATION.

	Reopened by permit.	Closed under holiday.	Total.
State Banks in Chicago	37	1	38
State Banks in Cook County outside Chicago	33	--	33
State Banks in Illinois outside Cook County	522	--	522
Total	592	1	593

MONTHLY BULLETIN

Issued by
EDWARD J. BARRETT
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

Vol. 12 SPRINGFIELD, ILL., JULY 1, 1936 **No. 4**

OFFICIAL PUBLICATION

Some time ago the Auditor of Public Accounts announced a ruling which has resulted in a considerable saving to Illinois State Banks in the publication of their call reports.

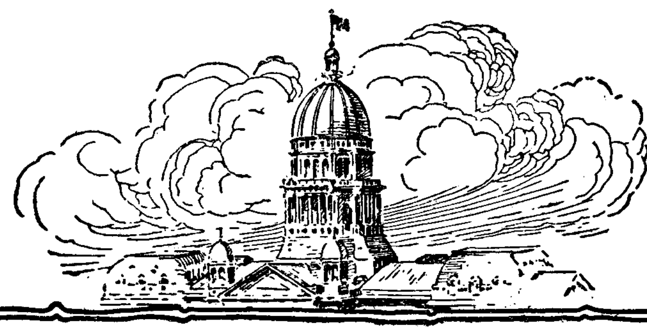
The previous regulation had been that all items on the call report form be published, the word "None" being inserted where no figures appear.

Under the new regulation based on an opinion of the Attorney General, while the word "None" must be shown on all lines on which no figures appear in the report to the Auditor, it is not necessary that blank lines be published in the "Official Publication".

Attention is again directed to the instructions printed on Form No. 9: "Publisher's Certificate", which are as follows: "Published report must be an exact copy, items and amounts, of report transmitted to Auditor. It must be published in the same form, and the same order of items as given on the reverse side of this sheet, including the words (official publication), the full title and location of bank, the affidavit of president or cashier, the attestation of the two directors, and the notary's certificate, including the word (Seal). All items after which no figures are to be inserted may be left blank. BLANK ITEMS NEED NOT BE PUBLISHED".

It is recommended that the newspaper proof of the "Official Publication" submitted by the newspaper to the bank prior to publication be carefully reviewed in the light of these instructions to determine that the report, when published, is correct and complete in every detail.

It has been noted that some banks still publish all items of the balance sheet and memorandum, including those items after which no figures appear. All banks are urged to take advantage of the new ruling which will result in a considerable saving in the publication of their call reports.



DIVIDENDS

A number of banks have made inquiry recently as to the attitude of this Department regarding the payment of dividends to stockholders at the close of this six month period; also as to the requirements of the law relative to deducting statutory bad debts and increasing surplus before payment of dividends.

Accordingly, we quote below Section 11½ of the Banking Act:

"No bank or banking association organized under this Act shall during the time it shall continue its banking operations withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. If losses have at any time been sustained by any such bank or banking association equal to or exceeding its undivided profits then on hand, no dividends shall be made; and no dividends shall ever be made by any such bank or banking association while it continues its banking operations to an amount greater than its net profits then on hand, deducting first therefrom its losses and bad debts. All debts due to any bank or banking association on which interest is past due and unpaid for a period of six months, unless the same are well secured and in process of collection, shall be considered bad debts within the meaning of this section, but nothing in this section shall prevent a reduction of the capital stock of a bank or banking association under Section 12 hereof.

"Subject to the provisions of this Act the directors of any bank or banking association may from time to time declare a dividend of so much of the net profits of such bank or banking association as they shall judge expedient, but each bank or banking association shall, before the declaration of a dividend, carry one-tenth part of its net profits since the date of the declaration of the last preceding dividend to its surplus fund until the same shall amount to twenty per cent of its capital stock."

As will be noted from the above, no dividends may be paid without first deducting from net profits on hand all losses and bad debts as defined in this section of the law. In addition, it is necessary, before the declaration of a dividend to carry one-tenth of the net profits since the date of declaration of the last preceding dividend to surplus until the same amounts to at least twenty per cent of capital stock.

The Board of Directors who have the responsibility in the matter of dividends should, of course, see to it that all of the requirements of the statute are complied with before a dividend is declared. It is important, also, that all assets be depreciated where necessary and that liberal reserves be provided for any possible losses, for possible bond depreciation and for any other contingencies which may arise.

If the Board definitely ascertains that the payment of a dividend is legal, that the bank is in a proper position to pay a dividend and a dividend is, therefore, declared, Form No. 55 should be requested from this office and this form should then be executed, in duplicate, one copy to be forwarded to the Department and a like copy to be retained in the files of the bank.

REPORTS OF EARNINGS, EXPENSES AND DIVIDENDS

Earnings, Expenses and Dividends report forms for the six month period ended June 30, have recently been forwarded by the Department. These forms should be executed as promptly as possible after the closing of the books on June 30, and the original report mailed to this office within five days after that date. The duplicate copy should be retained in the files of the bank to facilitate checking by the Examiner.

The prompt filing of a correct and complete return will permit the compilation of useful statistical information from these reports. While the report form remains identical with that used for the year of 1935, we again recommend that the instructions contained in our letter and printed on the back of the report form be reviewed before preparation of the report is begun. Special care should be taken to determine that each section of the report is in balance and that the instructions covering the reconcilement appearing at the bottom of the report form have been carefully followed.

These instructions as printed in a previous bulletin are repeated below for your guidance:

The Reconcilement appearing after Section 3 of the form: The figures shown in column one of the reconcilement should agree with the figures appearing in column three of the reconcilement of the previous report and items of the first and third columns must agree with corresponding items on reports of condition of even dates unless the Call Report is made on an accrual basis. Undivided profits at the beginning of the period must agree with Item 7 of the current report and with Item 10 of the previous report. The net difference to be shown in column 2 of the reconcilement after Item 3, Surplus, will represent the difference between the amounts shown after Item 8 (c), Withdrawals From Surplus Account, and Item 9 (c), Transfers to Surplus Account. This will be true of the net difference in reserve accounts as reflected in the reconcilement and as shown in Section 3 of the report.

We solicit your cooperation in the submission of prompt and carefully compiled reports of Earnings, Expenses and Dividends.

CONVERSION

Chicago	Cook	Howard Avenue Trust & Savings Bank into The North Shore National Bank of Chicago	June 13, 1936

IN LIQUIDATION

Flat Rock	Crawford	The Peoples State Bank of Flat Rock through Crawford County State Bank, Robinson	June 17, 1936
Sailor Springs	Clay	Sailor Springs Banking Co.	June 30, 1936

DISSOLVED

Niles	Cook	State Bank of Niles (In Liquidation May 19, 1933)	June 3, 1936
Murphysboro	Jackson	Citizens' State and Savings Bank (In Liquidation Nov. 4, 1930)	June 4, 1936
Armstrong	Vermilion	Farmers State Bank of Armstrong (In Liquidation Mar. 14, 1936)	June 5, 1936
Littleton	Schuyler	Littleton State Bank (In Liquidation Dec. 31, 1931)	June 20, 1936

RECAPITULATION

	Reopened by permit.	Closed under holiday.	Total.
State Banks in Chicago	36	1	37
State Banks in Cook County outside Chicago	33	--	33
State Banks in Illinois outside Cook County	520	--	520
Total	589	1	590

MONTHLY BULLETIN

Issued by

EDWARD J. BARRETT

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

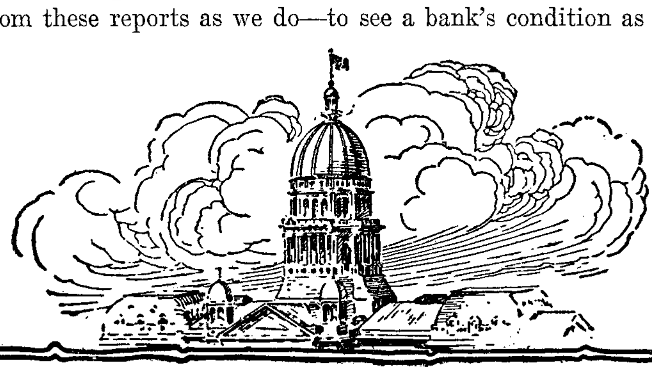
Vol. 12 SPRINGFIELD, ILL., AUGUST 1, 1936 No. 5

NEW EXAMINATION REPORT

This Department will very shortly place into use a new examination report form. This form has been completely revised and rearranged, condensed and simplified in order to increase its value to bank officers and directors.

In addition to making our reports more easily read and understood, we will undertake, through the medium of this bulletin, to analyze and explain the various forms used in the report—the features of condition brought out by each form and questionnaires and the bearing of each upon the general condition of the bank.

Beginning with this issue and continuing until our objective has been fully covered, we intend each month to place in the hands of every Illinois State bank director a copy of this bulletin; each ensuing issue of which will contain an explanatory article covering the various exhibits and features of our report. In these articles technical terms and phrases will be carefully avoided and each subject covered in the simplest language possible. In short, we are going to attempt to make it possible for each bank director to learn as much from these reports as we do—to see a bank's condition as we



see it. We urge that directors receiving these bulletins save them for future reference as they are very apt to contain the answers to many questions that will arise in the future study of our examination reports.

In arranging this report, we set the conclusions or results of the examination in the first three pages. On the first page of the report proper we place an exhibit of the Resources and Liabilities at book value, or what is commonly known as "A Condensed Statement." On the following page we review the bank's Earnings for the period under examination, and on the third page we show the results of our examiner's appraisal of assets.

In the balance of the report following, the detailed review of assets and records appears; upon which the examiner's conclusions are based. Therefore the reader of our new report will see, first, a summary of the general condition of the bank and, secondly, a detailed analysis of condition.

During the past three years our State banks in Illinois have accomplished a vast improvement in asset condition. This condition must be preserved or improved where necessary. In our opinion the surest way to accomplish this lies through increasing the thoroughness and accuracy of internal supervision and by that we mean the supervision of bank operation by an interested and well informed Board of Directors.

Bank managements will find in our new report access to a large amount of valuable information about their bank; which, if carefully studied and frequently reviewed, will enable them to formulate policies and direct operations with a higher degree of accuracy and certainty.

Occasionally bank directors and officers, reading our reports, will find themselves in disagreement with our examiners' opinions, classifications and conclusions. Such differences of opinion should not be allowed to impair the value of the report but should be used as a basis for frank discussion and inquiry and the facts upon which the examiners' opinions are based should be carefully analyzed. In this connection we find that disagreement occurs most frequently when an examiner is inclined to disregard the personal element underlying local loans. We do not question the value or importance of the personal element entering into a large number of bank loans, but it is unquestionably an intangible element and should not greatly influence the conservative viewpoint of an examination.

The important fact for bank managements to recognize is that the factual information contained in these reports has been obtained from the assets, records, and files of the bank or in verbal discussion with active officers and employees. This information is assembled by an examiner who is a stranger to the community, and whose sole purpose is to obtain facts. These facts are then systematically arranged in the report so as to give the fullest value to their meaning.

Usually when our report is sent to the bank it is accompanied by a letter of comment. This letter is based upon a thorough analysis of the examination report made in this Department. Its purpose is to point out to the management conditions disclosed in the report that should receive special attention. This comment should be given more than a casual reading. In order to derive the greatest value from this office review, each part should be carefully studied and traced to its origin in the report proper.

Occasionally our comment will be found emphasized in tone to a degree of pointed comment and criticism. When such is encountered it should be understood that our attitude is wholly impersonal and not calculated to embarrass anyone but to forcefully express our concern over a condition that our experience tells us may become troublesome and result in loss. It should be borne in mind that our experience covers a large number of banks operating under a wide variety of conditions in the examination of which we are in a position to gather and give out a large amount of practical and valuable information. It is but natural that when we have an opportunity to observe in one bank an error in operation and its results, where similar circumstances become apparent in another bank we would promptly warn them away from the danger.

It is suggested that arrangements be made in all banks for easy access on the part of the directors to our examination report, in order that the directors may be able to come in and study its contents privately. It is obvious that a cursory reading of this report at directors' meetings only will convey little more than a vague understanding of the report, and the individual director should make it a point to visit the bank at opportune times for the purpose of giving this important matter careful study.

We hope that the State bankers of Illinois will join with this Department in undertaking to strengthen and improve the most effective of all bank supervision—the supervision that comes from within.

If any questions arise in connection with our new report, or ensuing bulletin articles, any individual or group may feel free to communicate with this Department or call for personal conference.

RECEIVERS APPOINTED

Chicago	Cook	City State Bank of Chicago—William L. O'Connell (Abel Davis, Receiver—resigned)	June 17, 1936
Chicago	Cook	Progressive State Bank—William L. O'Connell (Chicago Title and Trust Company, Receiver—resigned)	June 17, 1936
Glencoe	Cook	Glencoe State Bank—William L. O'Connell (Chicago Title and Trust Company, Receiver—resigned)	June 17, 1936

NOTE.—Effective July 24, 1936, Charles H. Albers appointed Receiver to fill all vacancies in receivership caused by the death of Mr. William L. O'Connell.

DISSOLVED

Greenup	Cumberland	First State Bank of Greenup (Receiver appointed May 26, 1930)	July 11, 1936
Moweaqua	Shelby	State Bank of Moweaqua (In Liquidation May 23, 1936)	July 24, 1936

TRUST CERTIFICATES CANCELLED

Glen Ellyn	DuPage	DuPage Trust Company	July 10, 1936
Chicago	Cook	Second Security Bank of Chicago	July 20, 1936
Chicago	Cook	Boulevard Bridge Bank of Chicago	July 29, 1936

RECAPITULATION

	Reopened by permit	Closed under holiday	Total
State Banks in Chicago	36	1	37
State Banks in Cook County outside Chicago	33	--	33
State Banks in Illinois outside Cook County	520	--	520
Total	589	1	590

(10487)

MONTHLY BULLETIN
Issued by
EDWARD J. BARRETT
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

Vol. 12 SPRINGFIELD, ILL., SEPTEMBER 1, 1936 No. 6

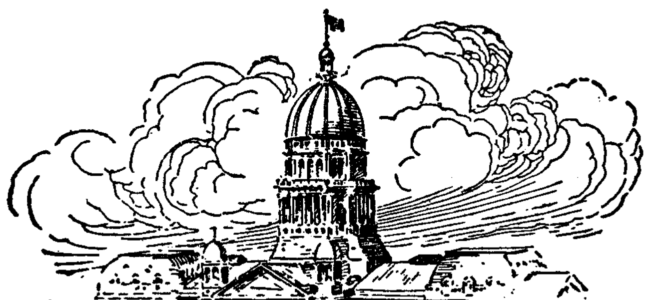
THE BANK STATEMENT

In this article we will endeavor to give a very elementary review of the bank statement which is the first exhibit appearing in our new report form.

We know of many individuals who are reluctant to study financial statements for the reason that they do not fully understand the purposes, the designs, and the terms used. We shall, therefore, confine this article to the elementary principles of a bank statement.

The statement must be divided into two parts—the first being a list of the bank's property, said list showing the totals of the various kinds of property owned by the bank. This list is commonly entitled "Resources" or "Assets" and the essential classes of Assets are—Cash, Bonds, Notes, Real Estate, Banking House and Fixtures, etc.

The second part of the statement, set opposite or just below the Resources or Assets, is a list of the bank's liabilities, or debts. This list falls into two main divisions—the amounts owing to the bank's creditors which, in the main, are the depositors, and the amounts owing to the owners, or



stockholders. It might be well to say here that whenever an individual deposits money or anything of value for credit upon the books of the bank, said depositor loses legal title to the money or the thing of value deposited and the bank becomes indebted to the depositor, and the depositor becomes a creditor of the bank for the deposit. It is for that reason that the depositors are legal creditors of the bank. The depositors, therefore, may be identified as the principal creditors of the bank, although a bank can become indebted to creditors for money borrowed (bills payable) and for notes discounted and endorsed with recourse.

The owners', or stockholders', share of the bank is represented by the various Capital accounts, i. e., Capital, Surplus, Undivided Profits, Reserves. The sum total of all these accounts, regardless of how they are divided, represents the owners' share of the bank as, regardless of their division, they represent the stockholders' original investment in the business plus earnings and minus losses. Therefore, if the bank statement shows a Capital of $100,000.00, a Surplus of $50,000.00, an Undivided Profits account of $20,000.00, and Reserve accounts of $50,000.00, the owners' share in that bank is $220,000.00.

A number of Reserve accounts may be established for special purposes, such as Reserves for Bond Depreciation, Interest, Taxes, Building Depreciation, Furniture and Fixtures Depreciation, etc., but until they are used, they remain as a part of the bank's proprietorship.

A very simple way to visualize a bank statement is to consider its property, or Resources, or Assets, as divided between two groups. First, the creditors (depositors) and, secondly, the owners (stockholders). And a simple way to explain the fact that the total Resources and total Liabilities are always the same, or in balance, would be to say that the creditors are entitled to a certain amount of the bank's property, and the owners are entitled to the balance. This balance is bound to continue for, as the creditors' share is increased by additional deposits, the bank's property will increase by the amount of those deposits and as the creditors' share is decreased by the withdrawal of deposits, an equal amount is withdrawn from the bank's property. The same is true with the owners' share; as the bank profits by its operation, the owners' share will increase and an equal amount will be added to the bank's property, and, as expenses are paid and losses incurred, the owners' share will decrease and, likewise, the bank's property.

A bank's creditors, or the depositors, in examining a bank statement, are interested mainly in two things, and these should be the first consideration of a bank director in reviewing the statement of his own bank. The first consideration is the bank's liquidity and by that is meant the amount of the bank's resources, or property, that can be readily converted into cash to meet depositors' demands. To ascertain this, the depositor will add the amount of cash, the total balances due from banks, and the total of bonds; he will compare the sum total of this addition to the total of deposits and the percentage of the deposits represented by cash, balances due from banks, and bonds will show the depositor the liquidity of the bank. He will then examine the Capital structure, or the owners' share of the bank, which will show the amount of surplus property over and above the creditors', or depositors', claims, and the larger this margin of surplus property, as shown by the total Capital structure, appears, the more secure will the depositor feel as to the safety of his deposit.

A statement review becomes much more enlightening when it is compared with a previous statement wherein comparison of any particular class of assets with the showings of the previous statement, will disclose whether that particular type of asset is increasing or decreasing, and particular attention should be devoted to the following accounts:

Overdrafts
Other Real Estate
Other Resources

Increasing trends in any of these accounts should be carefully investigated.

In comparing statements, the total of the Capital accounts should be compared and if the totals show a decreasing trend, the reason for same should be ascertained.

We know of many directors whose first interest in reviewing a statement, is the trend of deposits, which is a matter of secondary importance in reviewing a bank statement. Directors, in examining a statement of their bank, should first consider the quality and value of the assets and, secondly, their earning power.

In the next month's issue of this Bulletin, we shall discuss the bank's Operating Statement, which appears on the second page of our new report form, and this will deal with one of the most important factors in a bank's condition—its earning power.

REOPENED

Cloverdale......DuPage..........Cloverdale State Bank (Receiver discharged and bank reopened by order of the Circuit Court of Sangamon County)..............................Aug. 4, 1936

CONVERSION

Chicago..........Cook...............The Upper Avenue Bank into Upper Avenue National Bank of Chicago..................................July 31, 1936

IN LIQUIDATION

Thornton.......Cook..............The Thornton State Bank.....................................Aug. 5, 1936

CAPITAL STOCK INCREASED

Zion................Lake................The First State Bank of Zion City from $50,000 to $100,000...Aug. 5, 1936

DISSOLVED

Hanover........JoDaviess......Hanover Union State Bank (Receiver appointed Nov. 14, 1921)...Aug. 5, 1936

Galesburg......Knox..............Peoples Trust and Savings Bank (In Liquidation June 29, 1929)..Aug. 11, 1936

Dixon............Lee..................Dixon Trust and Savings Bank (In Liquidation Nov. 23, 1929)..Aug. 11, 1936

Havana..........Mason...........Havana State Bank (In Liquidation Dec. 17, 1930)...Aug. 12, 1936

RECEIVERS APPOINTED

Ramsey..........Fayette..........Peoples State Bank of Ramsey—Jonathan M. Brown (Don Connor, Receiver—resigned)......Aug. 4, 1936

Danvers..........McLean..........Farmers State Bank of Danvers—Charles H. Albers (E. M. Evans, Receiver—deceased).....Aug. 24, 1936

TRUST CERTIFICATE CANCELLED

Chicago..........Cook.............Security Bank of Chicago......................................Aug. 8, 1936

RECAPITULATION

	Reopened by permit	Closed under holiday	Total
State Banks in Chicago	35	1	36
State Banks in Cook County outside Chicago	32	....	32
State Banks in Illinois outside Cook County	521	....	521
Total	588	1	589

MONTHLY BULLETIN

Issued by

EDWARD J. BARRETT

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 12 SPRINGFIELD, ILL., OCTOBER 1, 1936 No. 7

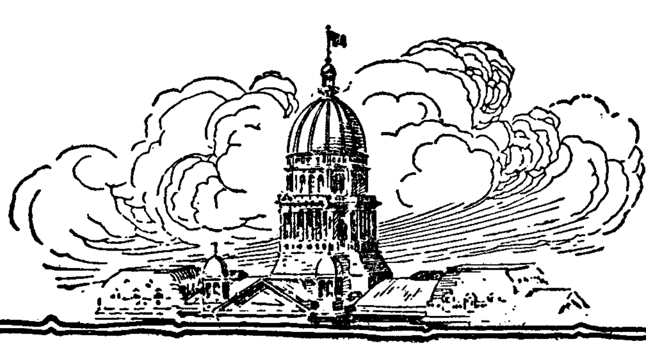
THE OPERATING STATEMENT

On the second page of our new examination report form, we submit the Operating, or "Profit and Loss" statement, and show all of the changes that have taken place in the Capital or Ownership account since our previous examination. This page is divided into three sections: Section 1, showing the Earnings and Expenses; Section 2, showing the Recoveries, Profits and Losses, and Section 3, showing what has taken place in the Undivided Profits account.

Section 1

On the right-hand side of this section, we show the normal income from the bank's investments and earnings from its operation, and on the left side we show the normal expenses of operating the bank. If, as is normally the case, the total of income and earnings exceeds the expenses, the amount of the excess represents the bank's net profit from operations for the period. If the total of operating expenses exceeds the total of income and earnings, then the amount of the excess represents an operating loss for the period.

If a net profit has been made the amount is entered at the bottom of the Expense column (left side) to balance the section, and is then carried forward to Section 2, and entered at the head of the Profit column (right side.)



If the result is an operating loss, the amount is entered at the bottom of the Earnings and Income column (right side) to balance section, and then carried forward to the head of the Loss column (left side) in Section 2.

Section 2.

After bringing forward into this section the Net Profit or Loss from Section 1, we add Recoveries from assets previously charged off and abnormal, or exceptional profits, on the right side, and losses of the same character on the left side. If the total profits (right side) exceed the total losses (left side) the result is a profit for the period, after all expenses have been accounted for.

The Net Profit or Net Loss from this section is carried forward to Section 3 in the same manner as Net Profit or Loss was brought from Section 1 into Section 2.

With the completion of Section 2, all of the bank's operations have been accounted for and Section 3 brings the result into the Undivided Profits account and shows what has taken place in that account since the previous examination.

Section 3.

If the result, or balance, brought forward from Section 2 shows a profit we carry the amount forward to the head of the right-hand column. If a loss, the amount is carried forward to the head of the left-hand column. We then bring in the amount of Undivided Profits on hand at the previous examination in order to determine the gross amount going into the Undivided Profits account during the period. If a net loss is brought forward in Section 3, the Undivided Profits account is reduced by that amount.

There are only two entries in this section that affect the owners' share of the bank and they are: payments made to Deferred Certificate holders or Dividends distributed to stockholders, and the owners' share of the bank is reduced by the amount disbursed on account of each of the foregoing.

Very frequently in reviewing this section, transfers to the Undivided Profits account from Reserve account, and from the Undivided Profits account to Reserve account, will be reported, and it is important to say here that such transactions do not affect the owners' share of the bank for they are merely transfers from one account to the other—or, to put it as simply as possible, taking money out of one pocket and putting it in another. The Director, therefore, in reviewing Section 3 should not allow figures involved in transfers to confuse his understanding of Sections 1 and 2, which show the complete results of the bank's operation for the period.

When studying Section 1, it should be borne in mind that the income and expenses shown are normal and constant, and the net result of operations shown in this section is a very accurate indication as to the extent to which the bank is succeeding or failing as a business enterprise.

It is quite possible that large recoveries and bond profits in Section 2 can overcome an unfavorable showing in Section 1 in any given period, but the profits shown in Section 2 are not normal or constant, and cannot be depended upon. If the net results, or profits, from operations as shown by Section 1 are weak, or an actual loss is shown, then no time should be lost in learning the reason. Two common causes which weaken earning power are a large investment in unproductive assets, and a large amount of interest-bearing deposits. Excessive operating expenses and lack of return from services rendered to customers, are also factors that can noticeably strengthen or weaken the bank's earning power.

Successful bank operation, like any other business, requires that the management watch carefully its receipts and expenditures, keeping the former at a maximum figure that sound assets can produce, and holding operating expenses down to the actual needs of the business.

When examining Section 2, it is important for the Directors to know in detail what assets have been charged off as losses, and why they became losses; whether the cause lies with the bank's loaning or investment policy, or a laxity in the handling of assets. Bank Directors should insist upon a detailed record of all charged-off assets, and review it frequently, so that no possibility of recovering as much as possible may be overlooked. The Recoveries shown in the right-hand column of Section 2 should also be checked against the record of charged-off assets.

When bond profits are large, it is important to know what kind of bonds have produced the profits. Bank Directors should be on the alert to detect large bond profits derived from trading in low grade speculative issues.

Just below the Operating statement, we show a condensed Operating record covering a period of five years. The two important columns to follow in this record are the Gross Earnings and the Net Earnings, and the reason for any noticeable variation from one year to another in these two columns, should be inquired into.

In the form at the bottom of the page, we show the trend of deposits over a five-year period, and these should be compared with the Gross and Net earnings for their corresponding years in the five-year operating record, which comparison will show whether the bank's present volume of business is maintaining its normal return of profits.

Twice each year, on June 30th and December 31st, every State bank in Illinois files with this Department an Operating statement covering the preceding six months, and a copy of this report is on file in the bank. It is very similar in design to the form we have just been discussing—being divided into sections, and each section covering the same ground described in this Bulletin.

Directors should also review these reports as soon as they are available as they cover similar fiscal periods, and give a very comprehensive trend on the bank's operations.

CONVERSION

Zion................Lake................The First State Bank of Zion City into The Citizens National Bank of Zion....................Sept. 3, 1936

IN LIQUIDATION

Versailles........Brown............Versailles State Bank...Sept. 22, 1936

DISSOLVED

Minier...........Tazewell........Minier State Bank (Receiver appointed January 28, 1932. Dissolved by order of Circuit Court of Tazewell County)........Aug. 31, 1936

Enfield...........White.............Citizens State Bank of Enfield (In liquidation March 14, 1928)......................................Sept. 8, 1936

TRUST CERTIFICATE CANCELLED

Chicago..........Cook..............Liberty Trust and Savings Bank......................Sept. 22, 1936

RECAPITULATION

	Reopened by permit	Closed under holiday	Total
State Banks in Chicago	35	1	36
State Banks in Cook County outside Chicago	32	....	32
State Banks in Illinois outside Cook County	519	....	519
Total	586	1	587

MONTHLY BULLETIN
Issued by
EDWARD J. BARRETT
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

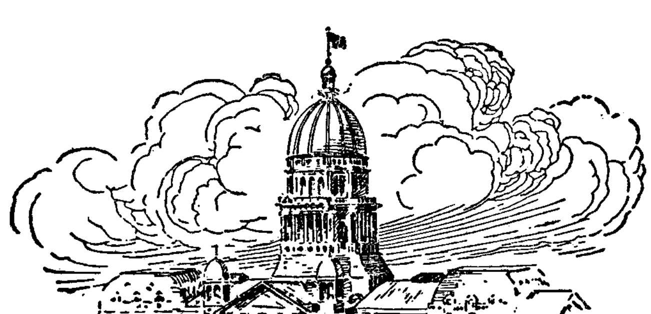
Vol. 12 SPRINGFIELD, ILL., NOVEMBER 1, 1936 No. 8

ANALYSIS OF LIQUIDITY

On the third page of our new examination report form, we submit a very thorough analysis of liquidity.

A simple definition of liquidity is to say that it is the percentage of a bank's unsecured deposits that can be paid in cash upon demand. This percentage is determined on the basis of the so-called liquid assets in the bank consisting of cash on hand, cash balances, due from banks, unpledged bonds at market value, readily salable commercial paper, call loans adequately secured by marketable collateral, readily salable banker's acceptances, etc.

A bank's liquid assets are commonly divided into two groups—the Primary Reserve and the Secondary Reserve. Primary Reserve consists of the cash on hand, balances due on demand from all banks in the United States, exchanges for Clearing House, and items in transit that will clear within twenty-four hours. In other words, this reserve is almost entirely made up of cash and is immediately available to the bank's use at book value.



The Secondary Reserve, if needed to meet an emergency, must be taken to market and sold, and is worth for reserve purposes what the market is willing to pay for it. For that reason this reserve is always computed on the basis of current market quotations.

In following this analysis of liquidity we set up the total Primary Reserve and deduct first, reciprocal bank balances which are balances in a correspondent bank, which also carries a balance or deposit account in the bank under examination and which on demand might claim set-off. Secondly, we deduct balances due to the Trust Department and trust checks outstanding for the reason that under the law the cash in any Illinois State bank belongs first to its trust creditors and, secondly, to its common creditors.

After making the foregoing deduction we have a net Primary Reserve which is the cash available to pay common creditors.

We then set up the unsecured deposits, or common claims, against the bank exclusive of trust liabilities and deduct therefrom the amount of reciprocal bank balances which were previously deducted from the cash reserve. In this section of the form we then have the net Primary Reserve and the unsecured deposits, or common creditors.

In the third from the last line on the opposite side of this form, we show the ratio of the net Primary Reserve to the unsecured deposits, or, in other words, the percentage of cash immediately available to pay common claims.

On the right-hand side of this form we set up the market value of all of the unpledged bonds of the bank and include bonds pledged with the State Auditor to secure trust Liabilities—the reason for this inclusion being that trust claims were previously deducted from the Primary Reserve, and, therefore, the bonds pledged would be available for Secondary Reserve purposes. To this figure, we add what may be considered as marketable purchased paper, call loans, brokers' loans, bankers' acceptances and time deposits due from banks in the United States, and we have the total of the bank's unpledged Secondary Reserve.

On the second line from the bottom on the right-hand side of this form, we show the ratio of the unpledged Secondary Reserve to the bank's unsecured deposits.

We now have established the percentage of the bank's unsecured deposits or common claims that are in the form of cash or Primary Reserve, and the percentage available in the form of Secondary Reserve, and in the last line we show the combined total of Primary and Secondary Reserves which establishes the total liquidity of the bank. For example, if the computations on the left-hand side of the form show that 20% of the bank's unsecured deposits were in the form of cash and the computations on the right-hand side of the form show that the market value of the bank's Secondary Reserve was 50% of the bank's unsecured deposits, the combination of these two reserves would show in the last line that 70% of the bank's unsecured deposits, or common claims, could be paid out immediately upon demand.

It shall not be our purpose in this article to discuss standards or Reserve requirements, but we do want to impress upon Illinois State Bank Directors the importance of liquidity to their banks. That liquidity is an important factor in a bank's condition was brought home in an unforgettable manner in 1930, 1931 and 1932. We learned from that experience that no matter how sound a bank's investment portfolio was that continuation in business depended upon ability to meet depositors' demands and while that experience might rightly be considered as an unfair test, the blunt fact remains that we had to meet it and as continuation in business under all circumstances is the ambition of every bank management, liquidity remains as the most vital factor in a bank's condition.

LOAN FOUNDATIONS

When a real estate loan is submitted to a Board of Directors, or its Loan Committee, for approval, one of their first concerns should be as to whether the applicant has a clear merchantable title to the property that he offers to pledge as security. And it is not unreasonable to request him to submit written evidence from competent authority that his title to the property offered in pledge is clear and merchantable.

Concerns and lending agencies who specialize in real estate loans make this a matter of invariable routine but banks are frequently quite negligent in this respect. Real estate loans made without definitely establishing borrowers' merchantable title to security pledged, in the form of a competent written opinion, leave the most important factor a matter of presumption and guess work.

When corporations borrow, the Board of Directors should require satisfactory evidence of their right to borrow and the authorized extent of their borrowing in the form of Directors' resolutions.

When municipal corporations borrow either in the form of tax anticipation warrants or otherwise, their right to borrow, and the validity of their warrant issue should be established in each instance by competent legal opinion.

Bank managements neglecting to take the precautions above pointed out are taking unwarranted risks in the investment of bank funds, which should be eliminated at the time such loans are made.

CHARTER ISSUED

			Capital.	Surplus.	Reserve.	Date.
Mount Carmel	Wabash	Security Bank of Mount Carmel. 400 Market Street. L. F. Henneberger, Pres. John E. Williams, Cash.	$50,000	$10,000	$10,000	Oct. 31, 1936

CAPITAL STOCK INCREASED

Winnetka........Cook.......State Bank of Winnetka, from $75,000 to $100,000...........Oct. 20, 1936

CHANGE OF LOCATION

Zion..............Lake.......Zion Bank, from Zion Department Store Building, Elijah Avenue, Zion, Illinois, to 2700 Elijah Avenue, Zion. Illinois.............Oct. 28, 1936

TRUST CERTIFICATE CANCELLED

Philadelphia, Pa............Bank of North America and Trust Company...............Oct. 28, 1936

RECAPITULATION

	Reopened by Permit.	Closed under holiday.	Total.
State Banks in Chicago	35	1	36
State Banks in Cook County outside Chicago	32	----	32
State Banks in Illinois outside Cook County	520	----	520
Total	587	1	588

MONTHLY BULLETIN

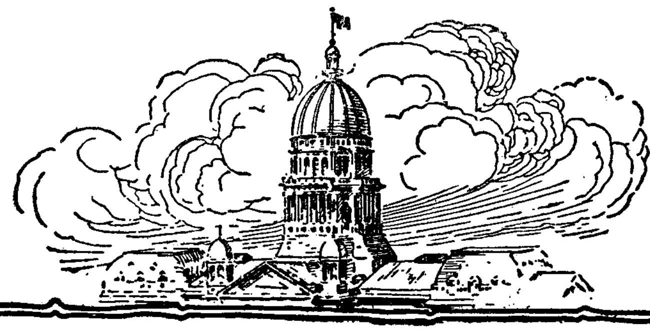
Issued by
EDWARD J. BARRETT
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

Vol. 12 SPRINGFIELD, ILL., DECEMBER 1, 1936 No. 9

EXAMINER'S APPRAISAL OF ASSETS

The second exhibit on the third page of our new examination report form is the most important feature of the examination for it is into this form that the Examiner is able to condense the elements that will, in his opinion, cause difficulty and possible loss to the bank.

On the left hand side of this form we list the asset or property accounts of the bank such as Loans and Discounts, Real Estate Loans, Accounts Receivable, Overdrafts, Bonds and Securities, Banking House, Furniture and Fixtures, Other Real Estate, Cash Items, Shortages, Claims and Judgments, Unpaid Bills, Deferred Expense, etc. Running across the page to the right are three columns, the first entitled Slow, the second Doubtful, and the third Estimated Losses. We are thus able to show at a glance how much of any one of the above named groups of assets are Slow, Doubtful or Estimated as Losses.



Loans and Discounts

The amount of this group of assets entered by the Examiner in the Slow column means that while the items making up this total appear to be sound and ultimately collectible, they will be difficult and will require a considerable period of time to collect. The total entered by the Examiner in the Doubtful column indicates that in his opinion, the items making up said total will not be collected in full, that some loss is probable, the amount of which is undeterminable on date of examination. The amount of Loans and Discounts entered by the Examiner into the Estimated Loss column indicates that in his opinion, the items making up this total cannot be collected.

The foregoing explanation also applies generally to Real Estate Loans, Accounts Receivable, Overdrafts and Cash Items.

Bonds and Securities

Generally speaking, we appraise the bank's Bonds and Securities account from two angles. First we ascertain the market value of each item from the current quotations recorded in the National Security Exchanges. Secondly, we grade the bonds according to the rating standards used by the leading bond analytical services of the country. The result of this test divides the Bond Account into two main groups; the first group containing sound bank investments and the second group containing criticized bank investments. If the market quotations obtained on the first group show that the bonds are currently quoted at more than book value, the difference between the bank's book value and the quoted value is entered into a fourth column in the form which we shall explain later. If, on the other hand, the quoted value is less than the bank's book value, the difference is entered in the Doubtful column. Where the second group shows a quoted value of higher than the bank's book value, the difference is also entered into the fourth column above mentioned. If the quoted value is less than the bank's book value, the amount is entered in the Estimated Loss column. Occasionally we will find in a Bond Account non-quoted items in default which are indicated as of sound recoverable value although slow as to the collectibility and these will be classified in the Slow column.

Banking House and Furniture and Fixtures

Both of these asset accounts being necessary to the conduct of the bank's business and ordinarily not disposable while the bank continues as a going concern, are slow but if in the Examiner's opinion the value at which they are carried upon the bank's books is reasonable and sound and both are being annually depreciated, they will not be classified as Slow. If, however, they appear to be over-valued and should be depreciated, the Examiner will indicate his opinion of the depreciation that should be taken by either a Doubtful or Loss classification.

Other Real Estate—Claims and Judgments

When assets are encountered in these two accounts, they will invariably be classified as Slow at best unless reliable evidence is submitted to the Examiner that collection or sale will be very shortly accomplished. Where appraisals or other evidence submitted to the Examiner indicates doubt as to complete liquidation of book value, a Doubtful classification wholly or in part will be indicated and where circumstances establish a definite loss, the amount will be entered in the loss column.

The fourth column hereinabove referred to is entitled "Estimated Value of Assets not shown on books" which enables the Examiner to appraise and show the estimated recoverable value of assets previously charged off. Into this column is also entered bond appreciation or the amount by which the quoted value of bonds exceeds the bank's book value.

After the Examiner has completed his Slow, Doubtful and Estimated Loss entries covering the asset accounts, he totals each column to arrive at a grand total. He then brings down the grand total of Doubtful assets into a box below the Slow column to which he adds the grand total of Estimated Losses and the resultant total discloses the amount of unsound assets in the bank. Set directly opposite this box on the right hand side of the page the Examiner enters the amount of Surplus, Undivided Profits and Reserve Accounts applicable to losses for these three accounts must absorb the loss from the unsound assets. If the total of unsound assets exceeds the total of Surplus, Undivided Profits and Reserves, the bank is facing Capital impairment and the amount by which the total of unsound assets exceeds total Surplus, Undivided Profits and Reserves, indicates the amount of Capital impairment. The amount by which Surplus, Undivided Profits and Reserves exceeds unsound assets is the amount of protection that the Capital Account has against impairment.

If the bank is requested to charge off unsound assets, it means that the bank must remove the assets designated from their statement and this is usually done through the Undivided Profits or Reserve Accounts by reducing either of said accounts to the extent of the amount of items charged off. This preserves the balance in the statement as explained in our September 1st Bulletin.

It should be remembered that this particular form now under discussion, contains only totals and the details making up these totals will be found in the detailed section of the report. For instance, in order to learn the items making up the Slow, Doubtful and Estimated Loss entries shown on this form, it will merely be necessary to turn to the exhibit of Loans farther on in the report where the particular items so classified are shown in detail and this is true of all of the other accounts shown in this form.

CONVERSION

			Date.
Winnetka	Cook	State Bank of Winnetka into The First National Bank of Winnetka	Oct. 31, 1936
Sterling	Whiteside	Central Trust & Savings Bank, Sterling, into The Central National Bank of Sterling	Nov. 2, 1936

DISSOLVED

Chicago	Cook	Public State Bank (In liquidation July 22, 1930)	Nov. 4, 1936
Hurst	Williamson	Hurst State Bank (Receiver appointed May 16, 1930. Dissolved by Order of Circuit Court of Williamson County)	Nov. 16, 1936
Cambria	Williamson	Cambria State Bank (Receiver appointed June 2, 1930. Dissolved by Order of Circuit Court of Williamson County)	Nov. 16, 1936
Brownfield	Pope	Union State Bank of Brownfield (Receiver appointed January 7, 1931. Dissolved by Order of Circuit Court of Pope County)	Nov. 16, 1936
Joppa	Massac	Joppa State Bank (In Receivership January 26, 1931. Dissolved by Order of Circuit Court of Massac County)	Nov. 20, 1936

RECAPITULATION

	Reopened by Permit.	Closed under holiday.	Total.
State Banks in Chicago	35	1	36
State Banks in Cook County outside Chicago	31	---	31
State Banks in Illinois outside Cook County	519	---	519
Total	585	1	586

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