MONTHLY BULLETIN

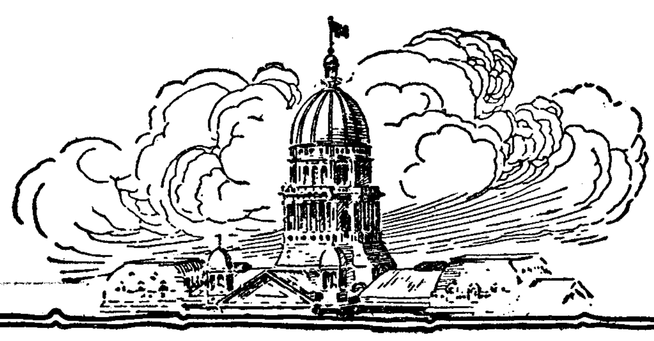
Issued by
EDWARD J. BARRETT
AUDITOR of PUBLIC ACCOUNTS
BANKING DEPARTMENT
State of Illinois

Vol. 16 SPRINGFIELD, ILL., JANUARY 1, 1941 No. 10

GOOD BYE—CARRY ON

As this is being written I am in the closing days of eight eventful, interesting and gratifying years as Auditor of Public Accounts of the State of Illinois. The electorate of this great State has decreed a change and I shall very shortly step aside and give place to my successor. In our political scheme, change is inevitable and while it is bound to bring with it disappointment to the individuals affected, I can only, as a real American should, applaud that genius of government that preserves for its citizens the right to make such changes at the will of the majority.

And yet I would be less than frank if I did not admit a genuine feeling of disappointment and regret in leaving this office conferred upon me by the people of Illinois eight years ago. It is an office that has brought to me interesting and unusual experiences, inspiring associations and a perspective of the economy of the State of Illinois that can be gained from no other point of view. One has only to occupy it but a very short time to become aware of the powerful economic forces ebbing and flowing around it. What I have heard, seen and learned in this office has immeasurably heightened my respect and admiration for, and confidence in, the people of our State, and that group of citizens that occupies such an important position in its economic pattern—the state bankers of Illinois.



As I assumed office eight years ago the crest of a wave of bank closings was sweeping the entire nation. It was being said that our entire economic structure was collapsing into chaos—that our colossal national business mechanism was in the process of disintegration, and there were many indications upon the surface of things that this was so. Just as panic seemed about to gain the upper hand the moratorium of March, 1933, came like a paralyzing blow—the merciful blow of a rescuer rendering helpless a frantic, struggling, drowning man that he might be brought to safety.

But even as the stroke fell, the bankers of Illinois sensing the psychology of the moment sprang into action and with plans and money, and whatever else it took, fell upon the task of restoring our banking system to all of the functions that had made it one of the most powerful and useful in the world. The energizing force behind all of this was an unshakable determination to carry on and keep faith with their depositors, cost what it might.

While the banks remained closed during the period of the moratorium, the men who guided their destinies went into almost furious action and for more than a month all of the resources of this office were taxed night and day in an attempt to cooperate with these bankers who were bending every effort toward restoring banking service to their communities as quickly as possible. The efforts and accomplishment of this period brought with them hardship, privation and at times bitter disappointment, but it was one of those periods of travail from which great accomplishments generally emerge.

During that troublesome period our banking system and general scheme of business was often compared unfavorably with the old, established systems of other countries where such a complete debacle as ours was said to be impossible. Yet we in Illinois had only to look around us at the vast industrial and agricultural empire built and financed by our banking system in less than a century, an accomplishment unsurpassed anywhere in the world. We knew what that banking system was and what it could do. With the lifting of the moratorium the impetus was given and our banking system resumed its functions with constantly increasing force.

When I say that the task of restoring the state banking system of Illinois revolved entirely around this office, I do not speak boastfully but only to show that I was in a position to see, as were few other men, the entire project of reconstruction and all the details of work, sacrifice and ingenuity that went into it. That is why I have an implicit confidence, born of experience, that the people of this State are equal to any task that lies ahead of them.

I cannot close this message without a sincere word of tribute to my administrative personnel during the past eight years. Their loyalty and devotion to the duties and objectives of this department have been such a considerable factor in its accomplishments. And I should like at this time to make special mention of the examining staff, the men who have gone out from this department and into your banks, and have kept me in close touch with your affairs; who particularly during the moratorium and subsequent reconstruction period worked endless hours and under trying conditions to do their part in the splendid accomplishments that we now enjoy.

Finally, I would like to express a thought that is paramount to all other convictions that I gained in this office. The state banking system of Illinois is entirely a creation of the people of Illinois. It is a vital part of their economy and can exert a powerful influence over the economic life of this State. When the economic needs of the people of Illinois require alterations, changes or amendments, legislative enactments, confirmed by referenda to the voters, will accomplish these things through the state banking system. It has faced its hour of trial and what we now have is, as I have said repeatedly, as good as any in the nation, and being what it is and with all of the possibilities that it holds for the good of the people of Illinois, I sincerely hope and urge that it be faithfully preserved.

EDWARD J. BARRETT,
Auditor of Public Accounts.

CONVERSION

Plainfield	Will	Plainfield State Bank into Plainfield National Bank	Nov. 16, 1940
Chicago	Cook	Personal Loan & Savings Bank into Industrial National Bank of Chicago	Nov. 30, 1940

CHANGE OF LOCATION

Sparland	Marshall	Sparland State Bank, from Sparland, Illinois, to Corner Second and Edwards Streets, Henry, Illinois	Dec. 3, 1940

NAME CHANGED

Sparland	Marshall	Sparland State Bank to Henry State Bank	Dec. 3, 1940

TRUST CERTIFICATE ISSUED

			Deposit.	
Cicero	Cook	Western National Bank of Cicero	$50,000	Dec. 2, 1940

TRUST CERTIFICATE CANCELLED

Cicero	Cook	Western State Bank of Cicero	Dec. 2, 1940

DISSOLVED

Chicago	Cook	Cheltenham Trust & Savings Bank (In receivership June 23, 1931. Dissolved by order of the Circuit Court of Cook County)	Oct. 24, 1940
Ohlman	Montgomery	Ohlman State Bank	Nov. 21, 1940
Prophetstown	Whiteside	Citizens State Bank of Prophetstown (In receivership January 5, 1932. Dissolved by order of the Circuit Court of Whiteside County)	Nov. 25, 1940
Chicago	Cook	Chatfield Trust & Savings Bank (In receivership July 1, 1932. Dissolved by order of the Circuit Court of Cook County)	Dec. 6, 1940
Hanna City	Peoria	Hanna City State Bank (In receivership July 2, 1932. Dissolved by order of the Circuit Court of Peoria County)	Dec. 12, 1940
La Prairie	Adams	La Prairie State Bank (In receivership February 25, 1933. Dissolved by order of the Circuit Court of Adams County)	Dec. 14, 1940
Polo	Ogle	Polo State Bank (In receivership February 26, 1932. Dissolved by order of the Circuit Court of Ogle County)	Dec. 14, 1940

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	458
Total	509

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(A-36490)

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

Vol. 16 SPRINGFIELD, ILL., FEBRUARY 1, 1941 No. 11

GREETINGS

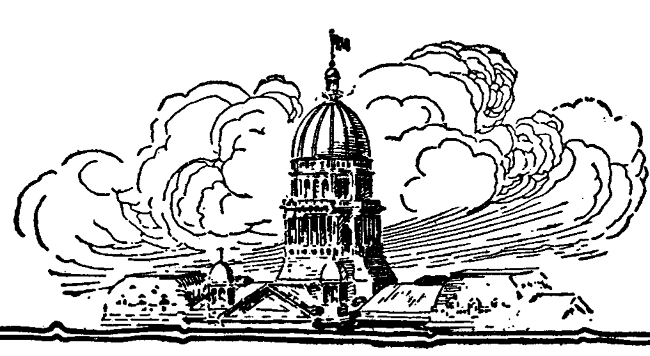
In this, my first Bulletin, I extend to the citizens of Illinois in general, and the State bankers in particular, a most cordial greeting.

In the short time that has elapsed since my inauguration, getting acquainted with the many activities of this busy office has permitted little more than a glance at its banking functions. I look forward to these activities as the most interesting to be encountered in the administration of this office.

Nearly all businessmen, whose experience has been outside of banking, encounter it so constantly that almost without knowing it they develop a keen interest in the banking business. I share that interest as well as a realization of the indispensability of banking to our economic life.

I am mindful of the fact that the office which I now hold represents the interest of the general public in the banking business. This interest, as it seems to me to be expressed in the banking laws of Illinois, charges the Auditor of Public Accounts with the duty of preventing the operation of unsafe or unsound banks. The law provides him with the facilities to ascertain where such banking exists. It shall be my purpose to develop these facilities of examination to the highest point of efficiency attainable with the least possible disturbance to the banks under my supervision and without interfering with objectives of all sound businessmen—to run a good business profitably.

ARTHUR C. LUEDER,
Auditor of Public Accounts.



REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS

NUMBER OF BANKS	525	Increase or Decrease	521	Increase or Decrease	517	Increase or Decrease	514	Increase or Decrease	509
DATE OF CALL	Dec. 30, 1939		March 26, 1940		June 29, 1940		Sept. 30, 1940		Dec. 31, 1940
RESOURCES:									
Cash and Due from Banks	$520,681,040.10	$—53,166,177.25	$467,514,862.85	$+67,710,088.10	$535,224,950.95	$+34,770,436.33	$569,995,387.28	$—15,226,270.67	$554,769,116.61
Outside Checks and Other Cash Items	13,614,576.23	—3,178,279.72	10,436,296.51	+2,333,198.73	12,769,495.24	—3,276,384.60	9,493,110.64	+5,549,844.97	15,042,955.61
U. S. Governments—Direct and Guaranteed	284,733,048.05	+13,082,139.24	297,815,187.29	—16,318,188.69	281,496,998.60	+7,289,272.05	288,786,270.65	+14,067,561.65	302,853,832.30
Other Bonds, Stocks and Securities	263,369,321.35	+3,394,534.07	266,763,855.42	—1,056,388.11	265,707,467.31	+1,823,341.37	267,530,808.68	+13,577,725.86	281,108,534.54
Loans and Discounts	291,695,260.94	+12,650,433.08	304,345,694.02	+4,622,129.10	308,967,823.12	+2,184,259.62	311,152,082.74	+5,647,853.21	316,799,935.95
Overdrafts	67,771.09	+5,043.44	72,814.53	—6,972.98	65,841.55	+17,567.57	83,409.12	—22,399.34	61,009.78
Banking House	11,607,799.47	—111,060.99	11,496,738.48	—151,100.38	11,345,638.10	+28,773.40	11,374,411.50	—256,369.09	11,118,042.41
Furniture and Fixtures	1,570,287.19	—6,436.03	1,563,851.16	—4,261.15	1,559,590.01	+27,296.64	1,586,886.65	—130,757.32	1,456,129.33
TOTAL—Bkg. House and Furniture and Fixtures	$13,178,086.66	$—117,497.02	$13,060,589.64	$—155,361.53	$12,905,228.11	$+56,070.04	$12,961,298.15	$—387,126.41	$12,574,171.74
Other Real Estate	$5,213,491.61	$—420,097.72	$4,793,393.89	$—387,102.26	$4,406,291.63	$—321,675.19	$4,084,616.44	$—411,611.85	$3,673,004.59
Customers' Liability—Letters of Credit	690,225.66	—6,707.19	683,518.47	—23,841.34	659,677.13	—165,174.79	494,502.34	—12,612.06	481,890.28
Customers' Liability—Acceptances	154,275.37	+40,628.62	194,903.99	—53,062.09	141,841.90	—36,174.07	105,667.83	+74,390.82	180,058.65
Other Resources	6,318,218.16	—595,336.01	5,722,882.15	—31,638.10	5,691,244.05	—747,309.46	4,943,934.59	+495,856.35	5,439,790.94
GRAND TOTAL RESOURCES	$1,399,715,315.22	$—28,311,316.46	$1,371,403,998.76	$+56,632,860.83	$1,428,036,859.59	$+41,594,228.87	$1,469,631,088.46	$+23,353,212.53	$1,492,984,300.99
LIABILITIES:									
Deposits									
Demand Deposits	$736,337,253.05	$—38,232,246.52	$698,105,006.53	$+57,322,733.08	$755,427,739.61	$+25,342,881.52	$780,770,621.13	$+27,215,601.09	$807,986,222.22
Time Deposits	410,113,302.70	+1,239,012.12	411,352,314.82	—2,189,442.39	409,162,872.43	+71,522.63	409,234,395.06	—215,626.14	409,018,768.92
Due to Banks	125,862,090.25	+7,440,416.63	133,302,506.88	+2,244,358.25	135,546,865.13	+14,437,550.73	149,984,415.86	+771,520.07	150,755,935.93
Deposits Secured by Pledge	$ 43,654,557.26	$ +580,094.41	$ 44,234,651.67	$ —6,335,791.67	$ 37,898,860.00	$—10,615,088.08	$ 27,283,771.92	$ +6,115,478.01	$ 33,399,249.93
Deposits not Secured by Pledge	1,228,658,088.74	—20,132,912.18	1,198,525,176.56	+63,713,440.61	1,262,238,617.17	+50,467,042.96	1,312,705,660.13	+21,656,017.01	1,334,361,677.14
TOTAL DEPOSITS	$1,272,312,646.00	$—29,552,817.77	$1,242,75[illegible]23	$+57,37[illegible]94	$1,300,137,477.17	$+39,851,954.88	$1,339,989,432.05	$+27,771,495.02	$1,367,760,927.07
Other Liabilities									
Bills Payable	$ 808,376.90	$ —12,186.80	$ 796,190.10	$ —29,655.29	$ 766,534.81	$ —62,328.16	$ 704,206.65	$ —61,384.07	$ 642,822.58
Re-Discounts									
Dividends Unpaid	530,907.51	—506,839.11	24,068.40	+276,484.54	300,552.94	—116,594.66	183,958.28	+278,512.72	462,471.00
Letters of Credit	690,575.66	—6,707.19	683,868.47	—23,841.34	660,027.13	—165,174.79	494,852.34	—13,712.06	481,140.28
Bank Acceptances	236,220.89	—24,268.91	211,[illegible].98	+10,[illegible].06	222,785.04	—47,486.52	175,298.52	+84,716.48	260,015.00
Other Liabilities	3,048,622.04	+125,731.43	3,17[illegible]47	—41[illegible]29	2,761,953.18	+310,552.27	3,072,505.45	+49,463.01	3,121,968.46
Capital Structure									
Capital Stock	46,310,550.00	—215,000.00	46,095,550.00	—300,000.00	45,795,550.00	—380,000.00	45,415,550.00	—2,245,000.00	43,170,550.00
Income Debentures	3,850,110.71	—309,139.25	3,540,971.46	—164,800.00	3,376,171.46	—119,895.40	3,256,276.06	—351,746.55	2,904,529.51
Surplus	29,802,705.28	+153,393.77	29,956,099.05	+74,456.23	30,030,555.28	+179,194.67	30,209,749.95	—276,044.67	29,933,705.28
Undivided Profits (Net)	19,698,627.96	+984,776.01	20,683,403.97	+74,822.66	20,758,226.63	+1,171,697.48	21,929,924.11	—990,892.31	20,939,031.80
Reserve Accounts	22,425,972.27	+1,051,741.36	23,477,713.63	—250,687.68	23,227,025.95	+972,309.10	24,199,335.05	—892,195.04	23,307,140.01
TOTAL CAPITAL STRUCTURE	$122,087,966.22	$+1,665,771.89	$123,753,738.11	$—566,208.79	$123,187,529.32	$+1,823,305.85	$125,010,835.17	$—4,755,878.57	$120,254,956.60
GRAND TOTAL LIABILITIES	$1,399,715,315.22	$—28,311,316.46	$1,371,403,998.76	$+56,632,860.83	$1,428,036,859.59	$+41,594,228.87	$1,469,631,088.46	$+23,353,212.53	$1,492,984,300.99
ANALYSIS—LOANS AND DISCOUNTS									
Commercial Paper	$ 24,591,388.16	$ +885,933.94	$ 25,477,322.10	$ —418,607.16	$ 25,058,714.94	$+5,606,453.94	$ 30,665,168.88	$—1,344,107.19	$ 29,321,061.69
Collateral Loans	55,218,583.09	—944,262.24	54,274,320.85	—3,725,630.13	50,548,690.72	+868,729.59	51,417,420.31	—890,583.94	50,526,836.37
Other Loans	153,304,861.33	+12,196,203.87	165,501,065.20	+6,223,809.18	171,724,874.38	—7,509,941.02	164,214,933.36	+5,426,871.09	169,641,804.45
Farm Loans	13,528,678.31	—151,270.19	13,377,408.12	—227,073.58	13,150,334.54	—133,077.01	13,017,257.53	—90,479.02	12,926,778.51
Other Real Estate Loans	45,051,750.05	+663,827.70	45,715,577.75	+2,769,630.79	48,485,208.54	+3,352,094.12	51,837,302.66	+2,546,152.27	54,383,454.93
TOTAL LOANS AND DISCOUNTS	$291,695,260.94	$+12,650,433.08	$3[illegible]02	$+4,62[illegible]	$308,967,823.12	$+2,184,259.62	$311,152,082.74	$+5,647,853.21	$316,799,935.95

CLOSED

Indianola	Vermilion	First State Bank and Trust Company of Indianola	Jan. 29, 1941

CAPITAL STOCK INCREASED

Chicago	Cook	University State Bank from $200,000 to $300,000	Jan. 17, 1941

CHANGE OF LOCATION

Crystal Lake	McHenry	Home State Bank of Crystal Lake, from 131 North Williams Street, Crystal Lake, Illinois, to 127 North Williams Street, Crystal Lake, Illinois	Jan. 24, 1941
Peoria	Peoria	Jefferson Trust and Savings Bank of Peoria, from 202 South Jefferson Street, Peoria, Illinois, to 123 South Jefferson Street, Peoria, Illinois	Jan. 16, 1941

DURATION EXTENDED

Hammond	Piatt	The State Bank of Hammond. Charter extended 50 years from September 23, 1941	Jan. 14, 1941
Collinsville	Madison	State Bank of Collinsville. Charter extended 50 years from June 15, 1941	Jan. 16, 1941
Campbell Hill	Jackson	First State Bank of Campbell Hill. Charter extended 20 years from December 24, 1941	Jan. 20, 1941
Industry	McDonough	State Bank of Industry. Charter extended 99 years from March 25, 1941	Jan. 20, 1941
Paw Paw	Lee	State Bank of Paw Paw, Illinois. Charter extended 20 years from June 28, 1941	Jan. 20, 1941

DISSOLVED

Chicago	Cook	Kaufman State Bank of Chicago (In receivership March 8, 1932. Dissolved by order of the Circuit Court of Cook County)	Dec. 5, 1940
McHenry	McHenry	Peoples State Bank of McHenry (In liquidation April 7, 1933)	Dec. 16, 1940
Sandwich	DeKalb	Farmers Trust and Savings Bank (In receivership January 5, 1932. Dissolved by order of the Circuit Court of DeKalb County)	Dec. 20, 1940
Elizabeth	JoDaviess	Elizabeth Exchange Bank (In receivership July 6, 1932. Dissolved by order of the Circuit Court of JoDaviess County)	Dec. 28, 1940
Hanover	JoDaviess	Hanover State Bank (In receivership September 26, 1931. Dissolved by order of the Circuit Court of JoDaviess County)	Dec. 28, 1940
Downs	McLean	Farmers State Bank of Downs (In receivership May 11, 1933. Dissolved by order of the Circuit Court of McLean County)	Dec. 30, 1940
Orion	Henry	Farmers State Bank of Orion (In receivership June 16, 1930. Dissolved by order of the Circuit Court of Henry County)	Dec. 30, 1940
West Point	Hancock	Farmers State Bank of West Point (In receivership October 3, 1933. Dissolved by order of the Circuit Court of Hancock County)	Dec. 30, 1940
Cabery	Ford	Farmers State Bank of Cabery (In receivership May 24, 1930. Dissolved by order of the Circuit Court of Ford County)	Dec. 31, 1940
Chicago	Cook	The Pullman Trust & Savings Bank (In liquidation May 2, 1932)	Dec. 31, 1940
Pana	Christian	H. N. Schuyler State Bank (In receivership April 21, 1930. Dissolved by order of the Circuit Court of Christian County)	Dec. 31, 1940
Evanston	Cook	Commercial Trust & Savings Bank of Evanston (In liquidation March 15, 1930)	Jan. 2, 1941
Frankfort	Will	The Citizens Bank of Frankfort (In receivership September 20, 1933. Dissolved by order of the Circuit Court of Will County)	Jan. 2, 1941
Johnston City	Williamson	The Citizens State Bank (In receivership July 7, 1930. Dissolved by order of the Circuit Court of Williamson County)	Jan. 7, 1941
Chicago	Cook	Madison and Kedzie State Bank (In receivership October 29, 1931. Dissolved by order of the Superior Court of Cook County)	Jan. 8, 1941
Chicago	Cook	West Thirty First State Bank (In liquidation August 30, 1939)	Jan. 10, 1941
Roseville	Warren	State Bank of Roseville (In liquidation May 3, 1926. Dissolved by order of the Circuit Court of Warren County)	Jan. 10, 1941
Tolono	Champaign	The Bank of Tolono (In liquidation November 12, 1940)	Jan. 16, 1941
Woodson	Morgan	Woodson State Bank (In liquidation January 9, 1928. Dissolved by order of the Circuit Court of Morgan County)	Jan. 27, 1941

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	457
Total	508

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BANKING DEPARTMENT
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Vol. 16 SPRINGFIELD, ILL., MARCH 1, 1941 No. 12

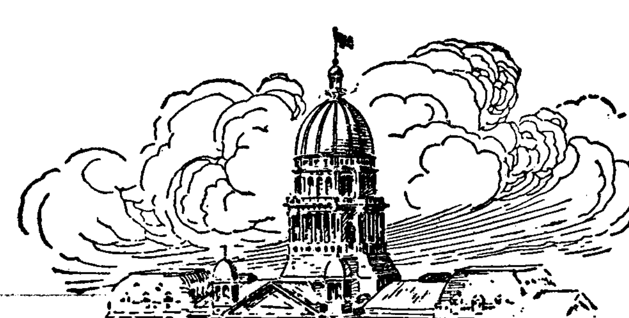
OPERATIONS 1939-1940

On the inner pages of this issue we submit our annual comparative analysis of operating results of active State banks in Illinois. In the Grand Total columns at the extreme right of the Exhibit we compare the results of the 502 banks that operated throughout the year with the results shown by the same 502 banks for 1939. It will be noted that while we are following exactly the same form as we did last year we have added Unit Averages for Total Income, Total Expense and Total Operating Net. These we have inserted parenthetically as they do not in any instance enter into the calculations.

These figures continue to develop two important trends in opposite directions. Income from Loans continues to rise while returns from the Bond account continue downward. In connection with the dwindling Investment returns it is significant to point out that during 1940 bond portfolios increased approximately 35 million, moving up in every quarter except the second. The Operating Expenses continue to rise and despite a saving of $500,000.00 in "Interest Paid," expenses ran about $350,000.00 ahead of 1939.

While the trend of losses is downward write-offs continue to bear a high ratio to Operating Net. It will be noted in Group No. 1 that losses exceed the Operating Net and run closely parallel in several other groups.

We should like at this time to invite any suggestions from our State bank readers that would in their opinion increase the value of this analysis.



OPERATING RESULTS FROM ALL ILLINOIS STATE BANKS
FOR THE YEARS 1939 AND 1940

	Group 1 Under $250,000		Group 2 $250,001 to $500,000		Group 3 $500,001 to $750,000		Group 4 $750,001 to $1,000,000		Group 5 $1,000,001 to $2,000,000		Group 6 $2,000,001 to $5,000,000		Group 7 $5,000,001 and Over		TOTAL	TOTAL
	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940
Number of Banks	137	116	146	148	82	87	42	32	49	59	36	35	29	28	502	502
Current Income																
Loans	$719,029	$607,288	$1,332,584	$1,330,567	$1,157,760	$1,250,109	$730,580	$597,829	$1,224,592	$1,411,074	$1,338,855	$1,449,869	$ 5,364,931	$5,075,084	$10,787,515	$11,718,304
Securities	222,332	150,302	471,003	402,248	504,397	431,066	386,669	254,811	728,067	674,630	1,384,137	1,036,712	10,403,080	9,932,045	13,788,017	12,881,487
Bank Balances	790	150	1,032	2,925		200	1,796	448	2,392	2,464	160	21,295	1,074	625	6,566	28,106
Exch. Coll. Com., etc.	46,120	39,911	90,611	82,123	106,221	106,280	63,911	55,365	86,390	92,065	128,983	127,190	828,618	625,448	1,171,371	1,126,284
Foreign Exchange	1			56			34	28			846	216	84,737	90,563	83,731	90,863
Service Charges	62,026	50,430	128,475	124,932	110,493	116,119	87,060	66,202	163,694	200,205	379,437	404,543	1,196,092	1,196,693	2,043,459	2,158,239
Trust Dept.	20,071	18,015	1,530	611	4,633	2,971	8,795	10,530	25,251	28,734	73,174	75,725	3,121,707	3,233,064	3,249,936	3,369,650
Miscellaneous	53,301	46,495	99,792	88,896	149,868	99,839	79,281	97,955	158,577	174,079	387,710	313,884	947,847	995,062	1,805,181	1,815,754
TOTAL	$1,123,670	$912,591	$2,125,027	$2,032,358	$2,033,372	$2,006,584	$1,358,126	$1,083,168	$2,388,963	$2,583,251	$3,693,302	$3,429,434	$21,948,086	$21,148,584	$32,935,776	$33,188,687
Unit Average	**(8,202)**	**(7,867)**	**(14,555)**	**(13,732)**	**(24,797)**	**(23,064)**	**(32,336)**	**(33,849)**	**(48,754)**	**(43,784)**	**(102,591)**	**(97,984)**	**(756,830)**	**(733,306)**		
Current Expenses																
Salaries	$368,040	$308,208	$631,531	$638,951	$549,584	$588,846	$378,335	$306,515	$666,993	$761,967	$1,137,475	$1,111,189	$6,923,187	$6,821,494	$10,207,096	$10,532,053
Int. Borrowings	3,762	3,495	199	5,885	90	6,493			2,502	2,269			7,078	2,664	13,631	20,807
Int. Bank Dept.		50		3,395	200	75			150	119		140	140	104	490	3,883
Int. Dem. Dep.	5		4,004	2,761	428	156	800	675	5,560		133		1,503	25,593	12,432	29,184
Int. Time Dep.	124,238	102,684	287,476	265,982	318,484	303,348	221,517	143,816	378,718	387,029	543,499	412,065	3,037,354	2,593,052	4,704,355	4,207,452
Int. Cap. Deb.	1,052	302	8,623	2,970	7,503	6,954	1,562	5,590	10,819	8,372	46,950	37,972	68,145	65,292	138,325	127,454
Taxes	71,813	67,701	117,633	129,249	102,730	128,026	79,929	64,076	139,950	172,625	160,688	158,599	1,091,097	1,132,748	1,651,346	1,852,995
Miscellaneous	230,049	192,374	392,636	379,523	346,818	378,782	244,106	194,435	425,264	477,201	739,865	758,676	3,882,412	4,014,542	5,879,755	6,389,470
TOTAL EXPENSE	$798,959	$674,814	$1,442,102	$1,428,716	$1,325,837	$1 [illegible] 80	$926,249	715,107	$1,629,956	$1,809,582	$2,628,610	$2,478,641	$15,010,916	$14,655,489	$22,607,430	$23,163,298
Unit Average	**(5,831)**	**(5,817)**	**(9,877)**	**(9,651)**	**(16,168)**	**(16,238)**	**(22,053)**	**(22,347)**	**(33,264)**	**(30,670)**	**(73,017)**	**(70,818)**	**(517,617)**	**(523,410)**		
OPERATING NET	$324,711	$237,777	$682,925	$603,642	$707,535	$[illegible],904	$431,877	$368,061	$759,007	$773,669	$1,064,692	$950,793	$6,937,170	$6,493,095	$10,328,346	$10,025,389
Unit Average	**(2,371)**	**(2,050)**	**(4,678)**	**(4,081)**	**(8,629)**	**(6,826)**	**(10,283)**	**(11,502)**	**(15,490)**	**(13,114)**	**(29,574)**	**(27,166)**	**(239,213)**	**(231,896)**		
Recoveries and Profits																
Recoveries Loans	$103,108	$83,932	$132,137	$128,806	$153,028	$170,496	$274,775	$83,780	$110,397	$201,097	$406,587	$209,837	$ 656,647	$1,132,573	$1,767,865	$2,010,523
Recoveries Securities	50,589	34,557	80,215	58,499	79,359	74,612	73,763	19,790	94,818	99,991	223,985	142,697	358,341	391,988	942,637	822,134
Profits Securities	69,229	29,269	146,781	87,430	171,474	97,057	136,704	61,521	296,380	159,043	358,812	333,367	1,952,990	1,388,332	3,076,051	2,156,020
Miscellaneous	25,452	32,449	81,622	87,471	61,357	73,290	27,855	79,470	92,927	221,547	322,941	212,533	578,141	711,259	1,081,482	1,418,019
Net—Plus Recoveries and Profits	$573,089	$417,984	$1,123,680	$965,848	$1,172,753	$1,009,359	$944,974	$612,622	$1,353,529	$1,455,347	$2,377,017	$1,849,227	$10,483,289	$10,117,247	$17,196,381	$16,432,085
Losses																
On Loans	$134,693	$128,618	$206,190	$135,746	$246,277	$142,882	$164,993	$54,497	$348,886	$210,131	$210,822	$177,121	$ 815,622	$ 281,733	$2,010,623	$1,130,728
On Securities	104,703	43,775	183,965	138,786	209,307	132,567	161,750	79,210	344,582	200,078	768,013	404,546	2,563,770	3,168,349	4,224,712	4,167,311
Bkg. Hse. Fur. and Fix.	56,303	48,920	102,305	99,843	82,831	[illegible]02	41,441	35,820	71,748	82,037	118,482	117,229	179,912	192,632	628,802	641,584
Miscellaneous	104,548	42,456	140,473	61,653	92,769	[illegible]52	151,382	98,760	195,000	146,834	329,327	190,564	860,618	571,510	1,826,095	1,179,107
TOTAL LOSSES	$400,247	$263,769	$632,933	$436,028	$631,184	$407,903	$519,566	$268,287	$960,216	$63[illegible],080	$1,426,644	$889,460	$4,419,922	$4,214,224	$8,690,232	$7,118,730
NET TO UNDIVIDED PROFITS	$172,842	$154,215	$490,747	$529,820	$541,569	$601,456	$425,408	$344,335	$393,313	$816,267	$950,373	$959,767	$6,063,367	$5,903,023	$8,506,149	$9,313,355
Capital, Surplus, Und. Prof., Reserves	$5,616,426	$4,709,628	$8,280,405	$8,313,605	$6,803,056	$7,234,742	$4,708,727	$3,679,380	$7,944,869	$9,089,146	$11,664,094	$10,63[illegible],790	$72,854,947	$73,438,654	$110,971,126	$116,865,342
TIME DEPOSITS	$7,223,661	$6,205,099	$18,158,855	$17,994,204	$21,031,563	$22 [illegible] 94	$14,596,712	[illegible]436,398	$28,813,667	$32,827,703	$54,568,437	$48,087,524	$265,701,592	$271,249,481	$3[illegible]0,545,295	$408,836,459
GROSS DEPOSITS	$22,648,640	$19,466,865	$51,024,705	$52,071,614	$49,654,341	$53,[illegible],308	$36,898,098	[illegible],912,560	$67,988,793	$79,457,511	$113,540,250	$115,934,334	$930,507,736	$1,019,799,132	$1,241,894,168	$1,366,838,085

NOTE: Figures used are dollars only. Size groupings are based upon total deposits.

CONVERSION

Chicago	Cook	Drexel State Bank of Chicago into Drexel National Bank	Jan. 4, 1941

RECEIVER APPOINTED

Indianola	Vermilion	First State Bank and Trust Company of Indianola—Wm. McFerren	Feb. 15, 1941

DISSOLVED

Bartonville	Peoria	Bartonville State Bank (In liquidation November 1, 1930. Dissolved by order of the Circuit Court of Peoria County)	Oct. 18, 1940
Ophiem	Henry	Ophiem State Bank (In liquidation November 30, 1928)	Nov. 14, 1940
Alsey	Scott	Alsey State Bank (In liquidation September 25, 1940)	Jan. 24, 1941
LaFayette	Stark	LaFayette State Bank (In receivership September 12, 1933. Dissolved by order of the Circuit Court of Stark County)	Feb. 10, 1941
Griggsville	Pike	Illinois Valley Bank (In liquidation December 6, 1928. Dissolved by order of the Circuit Court of Pike County)	Feb. 14, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	457
Total	507

7
(A-41910)

MONTHLY BULLETIN
Issued by
ARTHUR C. LUEDER
AUDITOR of PUBLIC ACCOUNTS
BANKING DEPARTMENT
State of Illinois

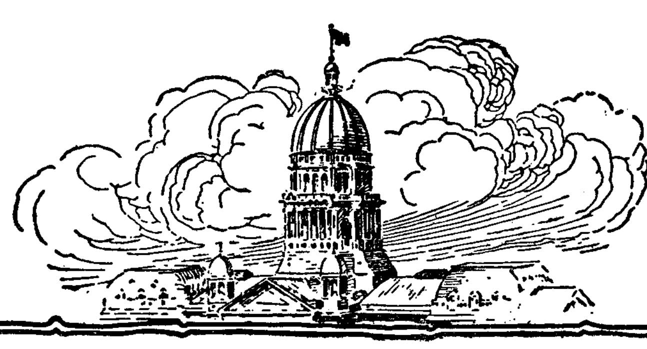
Vol. 17 SPRINGFIELD, ILL., APRIL 1, 1941 No. 1

EXCESS LOANS

This Department frequently receives inquiries from banks as to whether or not Section 10 of the Illinois Banking Act, which defines and penalizes Excess Loans, applies to the purchase of bonds and commercial paper in the open market. Such inquiries quite naturally arise from the fact that investment purchases are not specifically mentioned in the Act and that the loaning limit is based upon "* * * the total liabilities * * * for money borrowed * * *."

On several occasions bankers anxious to buy a particularly attractive issue of bonds or commercial paper in excess of their legal loaning limit, have strongly urged upon this Department that Section 10 would not apply to such investments and requesting a departmental ruling to that effect. As to a ruling by this Department we can only repeat what we have said many times before, that this Department has no authority to rule on such matters which are governed entirely by the provisions of the law. The question is, then—What is the law?

Several years ago we submitted the question to the Attorney General of Illinois who gave his opinion that Section 10 would apply to any investments exactly as it



does to loans; with the exception of the obligations of the United States Government and the State. That opinion is therefore the law to this Department until such a time as a court of competent jurisdiction rules upon the question.

The reasoning employed by the Attorney General in reaching his conclusion should be quite interesting to bank officers and directors who would incur a personal liability if the purchase of investments beyond the bank's legal loaning limit would violate Section 10. In view of the similarity of loans and investments and the further fact that loans are specifically described in the Law and investments are not, the Attorney General had to determine whether the law included investments without specifically naming them. In order to do this he first had to seek the intent and purpose of the Legislature in making Section 10 a part of the Banking Act. In doing this he cites several rules of statutory construction which are quite interesting even to laymen. We quote herewith several of the most pertinent in part:

LEWIS SUTHERLAND ON STATUTORY CONSTRUCTION

Section 347. "It is indispensable to a correct understanding of a statute to inquire first what is the subject of it, what object is intended to be accomplished by it. When the subject matter is once clearly ascertained and its general intent, a key is found to all its intricacies; general words may be restrained to it, and those of narrower import may be expanded to embrace and to effectuate that intent. When the intention can be collected from the statute, words may be modified, altered or supplied so as to obviate any repugnancy or inconsistency with such intention."

Section 348. "* * * The statute itself furnishes the best means of its exposition; and if the intent of the Act can clearly be ascertained from a reading of its provisions, and all its parts may be brought into harmony therewith, that intent will prevail without resorting to other aids of construction. The intention of an act will prevail over the literal sense of its terms * * * the true meaning of any clause or provisions is that which best accords with the subject and general purpose of the act and every other part * * *."

Section 376. "The mere literal construction of a section in a statute ought not to prevail if it is opposed to the intention of the Legislature apparent by the statute; and if the words are sufficiently flexible to admit of some other construction, it is to be adopted to effectuate that intention. The intent prevails over the letter and the letter will, if possible, be so read as to conform to the spirit of the act. 'While the intention of the Legislature must be ascertained from the words used to express it, the manifest reason and the obvious purpose of the law should not be sacrificed to a literal interpretation of such words.'"

The opinion points out that the foregoing rules are sustained by the United States courts and the courts of last resort of many States. To these citations he adds the provision of Section 1 of Chapter 131 of the Illinois Revised Statutes on construction of statutes which provides in part "all general provisions, terms, phrases and expressions shall be literally construed in order that the true intent and meaning of the legislature may be fully carried out * * *." He points out that Section 10 was evidently designed to compel diversification of loans so as to spread the liabilities of debtors of the bank and minimize its losses by reason of the non-payment of any such liabilities. He states that "the legislature sought to afford all protection possible to banks by prohibiting loaning of money or the acquisition of liabilities in such a large amount to a single individual corporaton or partnership as would have the effect of jeopardizing the interests of the depositors of the bank." While the Attorney General's opinion did not go into the similarity between loans and investments we cannot escape the feeling that the practical results of both transactions would be exactly the same within the purview of Section 10. Each transaction involves a debt and the debt is purchased by the bank either directly from the debtor or some intermediary and in each case there is a liability for money borrowed.

Discussed also in this opinion was the applicability of the provisions of Section 10 to municipal corporations, the State and the United States. He includes municipal corporations under the fifth rule of statutory construction outlined under Section 1, Chapter 131, of the Illinois Revised Statutes wherein it is provided that "the word person or persons as well as all words referring to or importing persons, may extend and be applied to bodies politic and corporate as well as individuals." In reasoning on this point the Attorney General makes some very interesting observations. He begins by stating "The use of the word person, partnership or corporation means and includes every borrower or person or corporation contracting a liability to any such bank or association. If it does not so mean what was the purpose of the enactment? It would be an absurd construction to apply the section to certain borrowers for the protection of stockholders and depositors and not to apply it to other borrowers with the result that no protection at all be afforded. * * * The inconvenience of borrowers where they happen to be municipal corporations ought not to be weighed against the true purpose of protecting deposits. * * * Loans made by banks to municipal corporations and the purchase of municipal securities by banks operate just as effectively to drain or deplete the deposits and surplus of the bank as loans made to individuals and private corporations."

The sovereignty of a municipal corporation has at times been raised to exclude municipal obligations from the Provisions of Section 10. The Attorney General said on this point, "A municipal corporation is not the sovereign. It is merely a creature of the sovereign just as a private corporation is." The opinion does, however, recognize the sovereignty of the State and the United States Government in exempting the obligations of both from the provisions of Section 10. He acknowledges a considerable number of court decisions, both for and against the proposition that the government of the United States is a "person" but he goes on to explain that such a determination can only be reached in view of surrounding circumstances and the best interests of the government and on this question he reaches the very practical conclusion that * * * the statute is designed to restrict and limit the bank in its loaning power and is not operative upon the sovereign. But in a larger sense the rights and interests of the sovereign are affected, in limiting the market for securities of the sovereign. The essence of the Attorney General's opinion on this subject might be summarized as follows: That the obligations of all debtors come within the purview of Section 10 with the exception of the United States Government and the State.

Our purpose in discussing this subject in such detail is to point out to officers and directors of Illinois State Banks the path of reasoning that the courts might follow in applying the provisions of Section 10 to bond investments and commercial paper, even though they are not specifically mentioned in the Law.

IN LIQUIDATION

Pesotum ...Champaign..The Farmers & Merchants Bank of Pesotum.Feb. 13, 1941

Lacon ......Marshall ...Lacon State Bank through First National Bank of Lacon............................Feb. 24, 1941

CAPITAL STOCK INCREASED

Harvard ....McHenry ...First State Bank of Harvard from $50,000 to $80,000 ....Mar. 13, 1941

CHANGE OF LOCATION

Benton .....Franklin ...Bank of Benton, from 208 Public Square, Benton, Illinois, to 400-401 Public Square, Benton, Illinois ....Mar. 20, 1941

DISSOLVED

Galva ......Henry ......Farmers Co-Operative State Bank of Galva, Illinois (In receivership June 30, 1931. Dissolved by order of the Circuit Court of Henry County).........................Mar. 10, 1941

Urbana .....Champaign..The Urbana Banking Company (In receivership November 1, 1929. Dissolved by order of the Circuit Court of Champaign County) ....Mar. 13, 1941

Bluford ....Jefferson ...Bluford State Bank (In receivership February 10, 1933. Dissolved by order of the Circuit Court of Jefferson County)........Mar. 25, 1941

Farmington .Fulton ......Alfred C. Steenburg & Co. (In receivership February 29, 1932. Dissolved by order of the Circuit Court of Fulton County)......Mar. 27, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	455
Total	505

NOTE: Effective April 1, 1941, Otto C. Woerter appointed Receiver of 202 banks to fill vacancy caused by resignation of Charles H. Albers.

7
(A-43139)

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

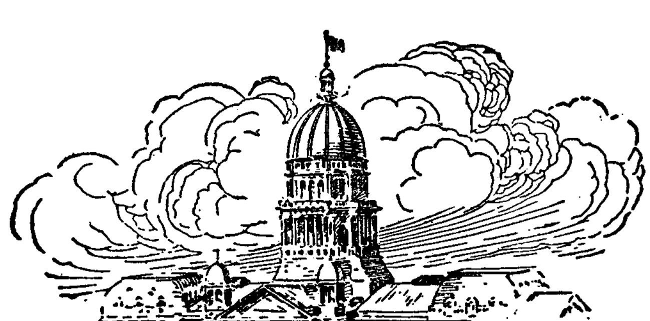
State *of* Illinois

Vol. 17 SPRINGFIELD, ILL., MAY 1, 1941 No. 2

MANAGEMENT

During the past ten years a great deal has been written and said about bank management and the indispensability of sound and experienced direction to any bank that hopes to succeed. During all of this time, however, we have not heard or read a great deal as to where sound and experienced bank management is to come from. The need has been well established; but what about the supply?

Great financial institutions, both large and small, have always recognized this problem. In our opinion much of their greatness is due to the fact that they did recognize it and solve it at the very beginnings of their careers. Through the adoption of policies of fair dealing and encouragement toward their employees they have attracted into their organizations the right kind of young men who have devoted their careers to their banks. By engaging careers instead of just hiring help the great banks build up the kind of operating staffs that keep them constantly supplied with the calibre of management that they need to maintain them always on an even keel, always sound and always profitable. Banks generally recognized as great financial institutions have without exception maintained such personnel policies for thirty, forty, fifty years and upward, dealing without wavering with



fluctuating trends, changing economic conditions and financial crises. And we wish to emphasize at this point that in speaking of great financial institutions we are not referring solely to the "giants." We have State banks in Illinois with footings under one-half million that have consistently demonstrated their "class" and greatness over a long period of years. We in this Department are in a position to know that they and their larger contemporaries have one important policy in common and that is scrupulous care in the selection and maintenance of their operating staffs.

As we see it there are only two solutions to this problem both of which we have stated above. The Boards of Directors will either engage careers or hire help. In engaging a career they acquire the type of individual who is thinking about a career, a successful career, and what it takes to build one. His objective will be clear and he will thoroughly understand what he will have to do to attain it. He will be smart enough to consolidate the banks interest with his own and recognize all things affecting the bank as affecting him. If such an individual never owns a share of stock in the bank his interest will be more than proprietory. It will be that close personal interest that any individual takes in the results of his own labor, particularly when that labor is the building of his career. With an operating staff made up of that kind of men there can be little question as to the future of the bank.

To build that kind of a staff requires the inducement that is as old as mankind itself—reward, reward in the form of good pay, certain advancement and proper working environment. If a messenger, office boy or minor clerk on being taken into the bank is given clearly to understand that only he, himself, through his own shortcomings, dishonesty or lack of dilligence, can stand in the way of becoming president, it will be fairly certain that if he lives he will either become president or will drop out pretty early in the game.

The other method of maintaining an operating staff might be characterized as "the dollar now" policy. A clerk, teller, bookkeeper or assistant cashier is needed. The executive officer is told by the Board to take applications for the particular job to be filled and the most important question on the application is "state minimum salary required." This means that the general employment situation is expected to bring in a competent person at a rock-bottom salary. Now when all jobs are filled in this manner and promotions and salary increases are not automatic, a minimum payroll will result. Under this scheme such personal characteristics as honesty, integrity and fidelity are simply questions for the bonding company to worry about. The object is to get people to do the required work as cheaply as possible.

The thing that gives encouragement to such a policy is the temporary success that often rewards it. This is particularly true when a bank following it, has an especially able chief executive supported perhaps by several outstanding "key men" who are in a position to watch and supervise the work of a number of employees whose attitude is, to say the least, indifferent. Many banks operating under such and similar arrangements are able to develop and handle a large volume of business and show excellent earnings and do so consistently over a period of years. Paradoxically such banks are weakest at their strongest points; for when they lose their chief executive or one or more important key men, the dependence on that particular position is so great that all or a large portion of the bank's activities feels the strain of the vacancy. And further, an error in filling such a vacancy, which can very easily occur, may seriously affect a considerable portion of the bank's activities for a long time or until such an error can be detected and corrected.

In contrast with this, a personnel policy that builds the operating staff carefully from the bottom reduces the importance of any individual position. With the death or retirement of the chief executive, the line moves up and every position is filled by a man who has been training for it for several years at least. Having been trained in that particular bank, he not only knows every technical detail of the job he is moving into, but he knows its problems and their solutions. Not only that, he knows all of the people with whom he will have to deal and the proper way to do business with each; and they will know him. Such a change, even though it involves the entire organization will not ordinarily cause even the slightest ripple in the bank's operation.

One of the most ominous of the discouragements looming in front of the young bank clerk is the possibility of someone cutting in from the top. By that we mean the son of the president or a director or some important depositor just out of college given the title and salary of an assistant cashier. Let the reader put himself in the place of a fifteen or twenty year veteran who is just behind the "cutterinner" who sees an inestimable handicap thrown into his path and with the added distasteful prospect of having to wet-nurse the newcomer along, for several years at least, to keep him out of trouble—and like it. Let the reader add to that the feelings and the attitude of the men on down the line, every one of whom has by that one move received a distinct set-back. Then add further the thoughts and worries of the senior officers who have nothing more to recommend them than life-times of faithful service, wondering when the fair-haired boy will move gracefully around them. Just a little thought on that situation will convey a fair idea of the disturbing effect cutting in causes in a banking institution. Such a change may not cause a ripple on the surface but if one could examine way down into the roots of the bank the damage found would be startling. And usually it does not stop even there but extends out to the bank's clientele, a large number of whom are almost sure to feel hurt and disappointed at seeing the frustration of the career of some clerk or teller with whom they have daily done business for years. Directors have often been deluded into thinking that changes of that kind have not hurt their banks simply because the effect was not immediately apparent. We pause here to recall an Illinois bank that made just that kind of a change in the early twenty's. Within five years every one of its career officers and window men had drifted out of the organization and five years after that they closed. Before closing they paid off most of their deposits and the receiver fell just a little short of completing the job. In that community the down-fall of the bank is commonly dated from the time the organization began to disintegrate and they have figures to prove it.

The Illinois Bankers Association has for for over ten years done some splendid educational work through its sponsorship of the American Institute of Banking, The Rutgers University School for Graduate Work and the summer conferences at the University of Illinois. Certainly the banking profession, the banks that cooperated and the ambitious individuals who have taken advantage of these opportunities have benefited greatly from their activities but we still do not think that the taproot of the matter has been reached, nor do we think it will be until bank directorates as a whole give their own personnels the thought and study they deserve.

CONVERSION

Quincy.........Adams......Illinois State Bank of Quincy into Illinois National Bank of Quincy.............Mar. 31, 1941

IN LIQUIDATION

West Point.....Hancock....State Bank of West Point...............Apr. 3, 1941

CAPITAL STOCK INCREASED

East Alton..... Madison.... Illinois State Bank of East Alton from $50,000 to $100,000....................Apr. 9, 1941

TRUST CERTIFICATE ISSUED

Quincy.........Adams......Illinois National Bank of Quincy—Deposit $125,000 ....Apr. 1, 1941

TRUST CERTIFICATE CANCELLED

Quincy.........Adams......Illinois State Bank of Quincy............Apr. 1, 1941

Hillsboro.......Montgomery.The Montgomery County Bank...........Apr. 21, 1941

DISSOLVED

Havana........Mason......Mason County Bank (In receivership February 9, 1932. Dissolved by order of the Circuit Court of Mason County)....Mar. 27, 1941

Chicago........Cook....... Madison Square State Bank (In receivership June 30, 1932. Dissolved by order of the Superior Court of Cook County).Mar. 28, 1941

Downers Grove. DuPage.....Downers Grove State Bank (In receivership November 23, 1931. Dissolved by order of the Circuit Court of DuPage County) ....Mar. 28, 1941

Homewood.....Cook....... Homewood State Bank (In receivership August 2, 1932. Dissolved by order of the Circuit Court of Cook County)....Mar. 28, 1941

Lombard.......DuPage.....South Lombard Trust and Savings Bank (In receivership December 20, 1932. Dissolved by order of the Circuit Court of DuPage County) ....Mar. 28, 1941

Villa Park.....DuPage.....State Bank of Villa Park (In receivership October 31, 1932. Dissolved by order of the Circuit Court of DuPage County)..Mar. 28, 1941

Waukegan.....Lake....... Security Savings Bank (In liquidation October 2, 1926. Dissolved by order of the Circuit Court of Lake County)....Mar. 29, 1941

Mechanicsburg. Sangamon..Farmers State Bank of Mechanicsburg (In receivership January 27, 1933. Dissolved by order of the Circuit Court of Sangamon County) ....Apr. 2, 1941

Madison.......Madison....Tri-City State Bank (In receivership October 7, 1930. Dissolved by order of the Circuit Court of Madison County)..Apr. 2, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	453
Total	503

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

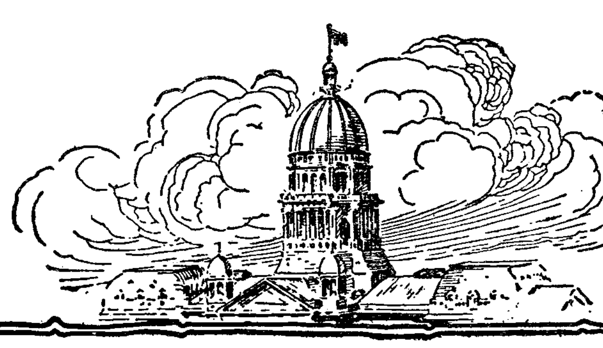
Vol. 17 SPRINGFIELD, ILL., JUNE 1, 1941 No. 3

DEFENSE BONDS

One of the cruel scourges of our pioneer western society of eighty or ninety years ago was the outlaw who lived by his wits, ruthlessness and dexterity with a six shooter. Singly and in gangs he and his kind preyed upon individuals, whole communities and commerce. The passing years have retouched such careers with romantic colors but they were in fact a savage, wolfish lot and constituted a real menace to the westward movement of our civilization.

One by one those marauding careers were brought to a close and as often as not by some peace-loving farmer, herdsman, miner, or woodsman who grudgingly spent hard earned dollars, dust or nuggets for shooting irons and ammunition and took valuable hours away from his work learning how to draw second but shoot first.

The same kind of a menace is again running beserk in our community of nations and our venerable peace-loving Uncle Samuel has got to get himself heeled up with shooting hardware and get back his old nimbleness in handling it. So once again we are going to have to spend our hard earned dollars, dust or nuggets to match fighting tools with the outlaws. That is the purpose of Defense Bonds. We have got to sell them, and lots of them.



The banking system of the nation is the fastest and most efficient channel for these bonds from the Treasury to the public. They did the same kind of a job beautifully in 1917 and 1918 and they will do it again in 1941. This Department is hand and glove in this movement with the State bankers of Illinois. Let's not quibble for an instant over technicalities but get down to the business of selling the bonds and work out the details as we go along. There may be debatable questions of national policy but it is an undebatable fact that Uncle needs to get into shooting form and be right smart about it. This Department will be very proud to march with its State banks in the vanguard of this movement.

BLIND SIDE

New stories of bank defalcations seldom fail to contain the added fillip that the peculations of the embezzler were carried on for months or years concealed from the bank examiners. And the thing that puts the barb in this shaft is that the statement is literally true. Nearly all of the defalcations of recent years have been where the examiners could discover them IF they were permitted to go one step farther in the examination. But they have not been allowed to take that step which leaves a broad and fertile field open to the embezzler and has become known among bank examiners as the "blind side" of the examination.

This borderline where the examiner stops and the embezzler goes to work is the individual accounts of the customers, both depositors and borrowers. The examiner carefully balances the depositors' accounts against the general ledger controls and accounts for all of the notes but, with the exceptions of a few public deposits, he has no way of knowing that the individual accounts making up these two large groups of liabilities and assets are correct. Up to the present time the examiner has not been permitted direct contact with the customers to verify their balances and until such verification is obtained at reasonable intervals the majority of bank examinations must have a "blind side." There are a few exceptions among the largest banks that through multiple handling of each deposit plus passbook entry and ledger posting through a locked machine, plus a daily independent audit of deposit transactions, have just about completely eliminated all possibility of embezzlement through this channel. Beyond these few exceptions, however, most banks are vulnerable.

More than one Grand Jury in investigating embezzlements have expressed amazement at learning that examiners do not verify depository accounts beyond public funds and our excuses for not doing so have never particularly impressed them. The primary reason, we believe, is fear of the effect on the bank through spreading alarm among depositors by the use of departmental circulars. No supervisory authority wants to even risk hurting a bank through his examination. Then from another supervisory standpoint there is the amount of staff expansion that would necessarily result from the immense amount of detail involved. It does not seem at all unlikely, however, that at some future time circumstances may arise that may force this Department, by legislation or otherwise, to close these gaps in our work and this is a possibility that we do not relish. We have never thought that a direct contact of that kind between an examining department and the banks' customers would have a salutory effect on banks and banking. We are, on the other hand, convinced that such a contact between the bank and its customers would have a very beneficial effect and if properly maintained would probably forestall any possibility of departmental verification of depositors' and borrowers' balances.

Customer balance verification, while it does involve considerable detail, is not a complicated procedure and even the detail can be so organized and managed that it will not take a great deal of the directors' time. The important step is for the directors or committee in charge of verification to obtain a correct list of depositors, one that is in absolute balance with the general ledger control accounts. The essential point is to obtain and balance the list entirely independent of the bank personnel. Stenographic assistance may be utilized to compile these lists but these should be checked and verified with the records by the directors or examining committee. The same procedure is true of the notes. From that point on it is merely a matter of getting out circulars to the depositors and borrowers showing the amount of their balances on deposit or balances due on their notes on the date of examination. These circulars can be prepared entirely by stenographic assistance but before mailing should be again checked with the list originally compiled. Each circular should contain a stamped envelope addressed so as to return it to the chairman of the committee at a point outside of the bank. Eighty per cent of the verification should be back within thirty days. If not, a second request should go out to those not reporting. The first circularization, like any new undertaking, may seem difficult and cumbersome, problems may develop and the percentage of returns may be disappointing. It may be advisable to use two or three tracers to impress upon depositors and borrowers the importance of checking and verifying their balances. However, when this is made an annual event there can be little doubt that each ensuing circularization will improve in efficiency and results. Several banks during the past five years have conducted directors' verification of customers' accounts with the percentage of returns surprisingly high and results very gratifying. The several boards of directors involved all reported very favorable comments from their customers.

It does seem strange that after years of bank examination experience there should remain open to officers and clerks of dishonest inclinations so large and easy a field in which to steal with an excellent chance of escaping detection for a long period of time. A bank officer or employee so disposed with access to both cash and depositors' ledgers can embezzle the bank's capital structure several times over and only an accident will ever show him up. That accident, of course, is bound to happen but it may take years and by that time the score is usually more than enough to wipe out all of the protection the bank has in the way of surety bond and capital structure. Or, if the embezzler is a skillful penman he can deal out enough forged notes to cover a good sized defalcation under examination. As pointed out above the largest banks have been able to accomplish prevention. In smaller banks, however, that cannot be departmentalized and where each employee daily covers many phases of the bank's operations prevention is all but impossible but detection much easier. We are firmly convinced that any bank whose board of directors conducts a well planned verification of depositors and borrowers balances annually will have very few and very small embezzlements, if any.

We think that it is in the best interests of banks and banking that the boards of directors undertake this important task and this Department is not only willing but anxious to aid in such work in any way we can. We shall be glad to outline for any board of directors or examining committee a practical procedure and the forms required and we should be proud indeed to have the State bankers of Illinois take the initiative to eliminate the "blind side" from bank examination.

CAPITAL STOCK INCREASED

Millbrook....... Kendall..... Farmers State Bank of Millbrook from $15,000 to $25,000........................ Apr. 29, 1941

CHANGE OF LOCATION

Jacksonville.... Morgan...... The Farmers State Bank and Trust Company from 27 South Side Square, Jacksonville, Illinois, to 2 West Side Square, Jacksonville, Illinois .... May 2, 1941

DISSOLVED

Stillwell........ Hancock.... Farmers Bank of Stillwell (In receivership February 27, 1933. Dissolved by order of the Circuit Court of Hancock County).. Apr. 28, 1941

Cabery.......... Ford........ Cabery State Bank (In liquidation March 14, 1929. Dissolved by order of the Circuit Court of Ford County)............ May 13, 1941

Peoria.......... Peoria....... Home Savings and State Bank (In liquidation May 10, 1930. Dissolved by order of the Circuit Court of Peoria County).... May 16, 1941

DeKalb......... DeKalb...... The First Trust & Savings Bank of DeKalb (In receivership September 28, 1933. Dissolved by order of the Circuit Court of DeKalb County) .... May 23, 1941

Paxton......... Ford........ Paxton State Bank (In receivership August 11, 1932. Dissolved by order of the Circuit Court of Ford County)............ May 27, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	453
Total	503

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

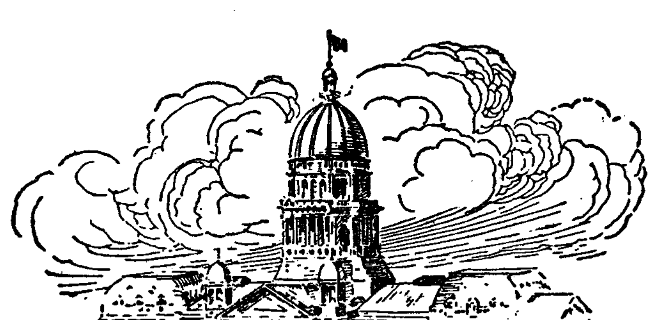
Vol. 17 SPRINGFIELD, ILL., JULY 1, 1941 No. 4

IMPORTANT DECISION

The Supreme Court of Illinois last month handed down a decision that is very likely to reverse the trend of State banking in Illinois from diminution to expansion. This ruling upheld the Circuit Court of Sangamon in dismissing a petition for an injunction to restrain the Secretary of State from engrossing, filing, declaring or publishing the amendments to Sections 11 and 12 of the Banking Act adopted at the referendum held in conjunction with the last election.

While these amendments made three changes in Sections 11 and 12, only two are important, the third being a minor change to clarify phraseology. The amendment to Section 11 reduced the minimum capital requirement from \$50,000.00 to \$25,000.00 for banks to be organized in cities, villages or incorporated towns of 2500 population or less where there is no other bank.

The change in Section 12 removes former limitations on changing bank locations. Prior to the adoption of this amendment banks were prohibited from moving their locations outside of the corporate limits within which they were organized and if they were organized in unincorporated territory they could not move outside of a five mile radius from their chartered locations nor move into incorporated territory.



These amendments were adopted by the Sixty-first General Assembly in 1939 and being amendments to the Banking Act the Constitution required their submission to a popular referendum for ratification at the next General Election following their adoption by the Legislature. This was done at the November election in 1940.

The law provides that whenever any constitutional amendment or other proposition required by law to be voted upon before its adoption, shall be submitted to the people, "It shall be the duty of the Secretary of State to prepare a statement setting forth in detail the section or sections of the constitution or law sought to be amended by said vote, together with such statements and suggestions as may be necessary for a proper understanding of said proposition, which said statements and suggestions shall be submitted to the Attorney General for his approval." The Secretary of State is then directed, on receiving such approval, to certify said statements and suggestions to each county clerk, and the county clerks are directed to have them published and posted at the same time, in the same manner and at the same places that the sample ballots and instructions to voters are required by law to be posted.

It will be recalled that the ballot used at the last election contained the banking amendments proposed in the following language: "Shall an Act to amend Sections 11 and 12 of 'An Act to revise the law with relation to banks and banking', approved June 23, 1919, as amended be adopted?" This proposition was boxed to permit of a "Yes" or "No" vote. Immediately above the proposition the ballot contained the "statements and suggestions" explaining in very clear language the substance of the amendments as follows:

The purpose of the foregoing Act is:

(1) Permits organization of banks within the city, village or incorporated town of 2500 or less inhabitants with a capital stock of \$25,000.00, provided no bank exists in such place at the time application to organize is filed with the State Auditor.

(2) Requires the Board of Directors, Managers or Trustees of any corporation having banking powers to call a special meeting of the stockholders for the purpose of changing the par value of the bank shares. Prohibits the change of the place of business of any bank or banking institution without first complying with the requirements of this Act.

In that form the amendments were submitted to the voters and the subsequent canvass of the votes showed ratification.

Last January a bill for injunction was filed with the Circuit Court of Sangamon County alleging among other things that the "Statements and Suggestions" were placed upon the ballot without authority of law and that they were inaccurate and misleading. A hearing was held and the Court dismissed the complaint. An appeal was taken directly to the Supreme Court on the Constitutional question involved.

The opinion begins with a detailed review of the ballot and summarizes the issue in the following language:

> "It is urged that because of this insertion, the ballot was not in the form prescribed by the General Assembly, and therefore, the election was invalid and the proposed amendments to the Banking act were void. This statement was put on the ballots by the various county clerks at the direction of the Secretary of State. It is conceded no athority was conferred on the Secretary of State to include the statement and suggestions on the ballot. The controverted issue is whether this was mere surplusage or whether it rendered the election invalid."

The opinion then enters into a review of leading cases wherein elections were voided for ballot defects and reaches the following conclusion:

> "It is clear from a consideration of the above cases that not every deviation from the form of ballot prescribed by the applicable statute will render an election void. The reason underlying the cases holding the elections void is that the voter was not given as clear an alternative to vote for or against the proposition by the ballot used as he would have had if the statute had been followed and the proposition stated in both the affirmative and negative. If the alternative is plain and it is equally evident what the voter is voting for or against, from the proposition as stated in the ballot used, and the only deviation from the statute is that the voter is given more information than the statute requires, the election will be held valid."

The opinion concedes that the Secretary of State overstepped his authority in placing the explanatory "statements and suggestions" on the ballot used by the voter but goes on to point out that the obvious purpose of the statute was to enlighten the voters as to the contents of the proposed amendments in order that they might vote on them more intelligently. The Court then declares that the error was on the side of giving the voters more information, which if not stated so as to mislead them affords no ground for declaring the election void.

The ruling then deals with appellants argument that the "statements and suggestions" were inaccurate and unfair pointing out that the only statement claimed to be misleading was the one reading: "Requires the board of directors . . . to call a special meeting of the stockholders for the purpose of changing the par value of the bank shares." The Court found nothing in that statement to mislead the voters, and neither does this Department. The word "permits" instead of "requires" would have been the better choice; for the statute as amended provides that the board of directors may call a special meeting of the stockholders for certain specific purposes or any of such proposals, except dissolution, may be submitted to a regular annual stockholders meeting.

The effect of this decision will be to clear the way for the establishment of state banking facilities in a number of small communities where they are badly needed but where the volume of business does not warrant a \$50,000.00 capital investment. We know from experience that there are a number of sound and well managed small banks capitalized at \$25,000.00 and banks of this size can now be provided where they are needed either through new organizations or removal of existing banks from one location to another. In our opinion these amendments are good legislation and recall an observation that we made in this Bulletin some months ago which we quote in part:

> "The State banking system of Illinois is entirely a creation of the people of Illinois. It is a vital part of their economy and can exert a powerful influence over the economic life of this State. When the economic needs of the people of Illinois require alterations, changes or amendments legislative enactments confirmed by referenda to the voters will accomplish these things through the State banking system."

These amendments represented economic needs which were supplied by our own Illinois Legislature.

CAPITAL STOCK INCREASED

DuQuoin	Perry	DuQuoin State Bank from $50,000 to $100,000	June 16, 1941

IN LIQUIDATION

Cypress	Johnson	Farmers and Merchants State Bank of Cypress, Illinois	Apr. 21, 1941
Plymouth	Hancock	Plymouth State Bank of Plymouth	June 9, 1941

DISSOLVED

Pesotum	Champaign	The Farmers & Merchants Bank of Pesotum. (In liquidation February 13, 1941)	Mar. 13, 1941
Amboy	Lee	Amboy State Bank. (In receivership January 5, 1932. Dissolved by order of the Circuit Court of Lee County)	May 27, 1941
Loraine	Adams	Peoples State Bank of Loraine. (In receivership June 1, 1932. Dissolved by order of the Circuit Court of Adams County)	May 28, 1941
Stockton	JoDaviess	Peoples State Bank of Stockton. (In receivership November 21, 1932. Dissolved by order of the Circuit Court of JoDaviess County)	May 28, 1941
Brighton	Macoupin	Brighton State Bank	May 29, 1941
Washburn	Woodford	Peoples State Bank of Washburn. (In liquidation June 19, 1930)	June 5, 1941
Loraine	Adams	Farmers State Bank of Loraine. (In liquidation November 22, 1924)	June 16, 1941
Assumption	Christian	Illinois State Bank. (In receivership February 14, 1933. Dissolved by order of the Circuit Court of Christian County)	June 23, 1941
Springfield	Sangamon	Jeffersons State Bank. (In liquidation March 28, 1927. Dissolved by order of the Circuit Court of Sangamon County)	June 25, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	450
Total	500

MONTHLY BULLETIN

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Vol. 17 SPRINGFIELD, ILL., AUGUST 1, 1941 No. 5

MID-YEAR CALL

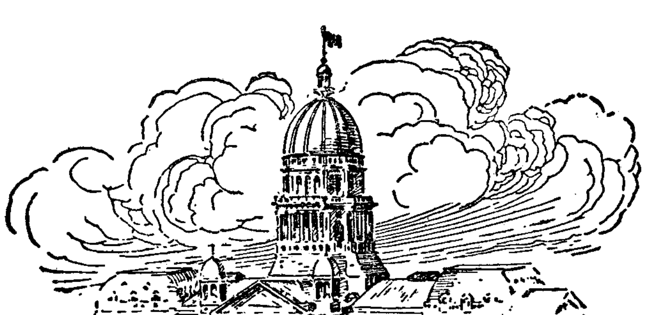
On the inner pages we submit a resume of Call Report figures showing the account changes through each bank call from June 29, 1940, to June 30, 1941.

Despite a reduction of 17 banks during that period, we had a substantial increase in totals—deposits going up 105 million. 50 million of this new money went into bonds, 44 million to borrowers and 11 million stayed in the Cash account. Bond buying was rather evenly divided with 29 million going into governments and 21 million to other investments.

Loans, at 352 million, have reached their peak figure since the moratorium of 1933. A backward look at this account shows that the low point of post-moratorium liquidation was not reached until June 29, 1935, at 209 million dollars. A gaining trend ensued that brought loans up to 292 million on September 30, 1937. At that point a reversal set in that sent the loan totals down to 252 million on June 30, 1938, showing a loss of 40 million. Since that time, despite the loss of 57 banks, 100 million dollars has been added to the net totals.

The record of money lending during the past twelve months is one of steadily gaining momentum with each quarterly increase practically doubling its predecessor. Most active of the loan groups was counter loans which, after losing 7½ million in the third quarter of 1940, recovered to show a gain of nearly 20 million for the entire year.

Farm loans appear to have reached not only a low but a stagnation point. The high of this group was reached at the end of 1933 when 616 banks reported a total of 18½ million since when a steadily decreasing trend brought the group down to a low of 13 million dollars at the end of 1940 held by 509 banks.



REVIEW OF CALL REPORTS

COVERING A[illegible] ILLINOI[illegible] [illegible]TATE BANKS

NUMBER OF BANKS	517	Increase or Decrease	514	Increase or Decrease	509	Increase or Decrease	503	Increase or Decrease	500
DATE OF CALL	June 29, 1940		Sept. 30, 1940		Dec. 31, 1940		Apr. 4, 1941		June 30, 1941
RESOURCES:									
Cash and Due from Banks	$535,224,950.95	$+34,770,436.33	$569,995,387.28	$—15,226,270.67	$554,769,116.61	$—44,611,763.82	$510,157,352.79	$+37,825,135.29	$547,982,488.08
Outside Checks and Other Cash Items	12,769,495.24	—3,276,384.60	9,493,110.64	+5,549,844.97	15,042,955.61	—581,481.93	14,461,473.68	+781,876.04	15,243,349.72
U. S. Governments—Direct and Guaranteed	281,496,998.60	+7,289,272.05	288,786,270.65	+14,067,561.65	302,853,832.30	—32,479,868.50	270,373,963.80	+39,188,293.09	309,562,256.89
Other Bonds, Stocks and Securities	265,707,467.31	+1,823,341.37	267,530,808.68	+13,577,725.86	281,108,534.54	+704,383.93	281,812,918.47	+3,825,824.11	285,638,742.58
Loans and Discounts	308,967,823.12	+2,184,259.62	311,152,082.74	+5,647,853.21	316,799,935.95	+12,023,074.14	328,823,010.09	+23,240,106.09	352,063,116.18
Overdrafts	65,841.55	+17,567.57	83,409.12	—22,399.34	61,009.78	+17,955.26	78,965.04	+9,098.56	88,063.60
Banking House	11,345,638.10	+28,773.40	11,374,411.50	—256,369.09	11,118,042.41	—274,261.27	10,843,781.14	—1,361.65	10,842,419.49
Furniture and Fixtures	1,559,590.01	+27,296.64	1,586,886.65	—130,757.32	1,456,129.33	—25,628.93	1,430,500.40	+16,730.83	1,447,231.23
TOTAL—Bkg. House and Furniture and Fixtures	$12,905,228.11	$+56,070.04	$12,961,298.15	$—387,126.41	$12,574,171.74	$—299,890.20	$12,274,281.54	$+15,369.18	$12,289,650.72
Other Real Estate	$4,406,291.63	$—321,675.19	$4,084,616.44	$—411,611.85	$3,673,004.59	$—276,869.55	$3,396,135.04	$—289,199.96	$3,106,935.08
Customers' Liability—Letters of Credit	659,677.13	—165,174.79	494,502.34	—12,612.06	481,890.28	+133,595.55	615,485.83	+4,420.12	619,905.95
Customers' Liability—Acceptances	141,841.90	—36,174.07	105,667.83	+74,390.82	180,058.65	+21,712.44	201,771.09	—28,809.10	172,961.99
Other Resources	5,691,244.05	—747,309.46	4,943,934.59	+495,856.35	5,439,790.94	—53,671.55	5,386,119.39	+354,359.25	5,740,478.64
GRAND TOTAL RESOURCES	$1,428,036,859.59	$+41,594,228.87	$1,469,631,088.46	$+23,353,212.53	$1,492,984,300.99	$—65,402,824.23	$1,427,581,476.76	$+104,926,472.67	$1,532,507,949.43
LIABILITIES:									
Deposits									
Demand Deposits	$755,427,739.61	$+25,342,881.52	$780,770,621.13	$+27,215,601.09	$807,986,222.22	$—78,211,173.36	$729,775,048.86	$+118,989,404.44	$848,764,453.30
Time Deposits	409,162,872.43	+71,522.63	409,234,395.06	—215,626.14	409,018,768.92	—7,874,593.91	401,144,175.01	—394,256.33	400,749,918.68
Due to Banks	135,546,865.13	+14,437,550.73	149,984,415.86	+771,520.07	150,755,935.93	+18,858,862.76	169,614,798.69	—14,108,429.78	155,506,368.91
Deposits Secured by Pledge	$ 37,898,860.00	$—10,615,088.08	$ 27,283,771.92	$ +6,115,478.01	$ 33,399,249.93	$ —3,092,356.35	$ 30,306,893.58	$ +97,977.70	$ 30,404,871.28
Deposits not Secured by Pledge	1,262,238,617.17	+50,467,042.96	1,312,705[illegible]13	+21,656[illegible]01	1,334,361,677.14	—64,134,548.16	1,270,227,128.98	+104,388,740.63	1,374,615,869.61
TOTAL DEPOSITS	$1,300,137,477.17	$+39,851,954.88	$1,339,989,[illegible]05	$+27,77[illegible]02	$1,367,760,927.07	$—67,226,904.51	$1,300,534,022.56	$+104,486,718.33	$1,405,020,740.89
Other Liabilities									
Bills Payable	$ 766,534.81	$ —62,328.16	$ 704,206.65	$ —61,384.07	$ 642,822.58	$ —66,269.36	$ 576,553.22	$ —10,344.50	$ 566,208.72
Re-Discounts	-------	-------	-------	-------	-------	-------	-------	-------	-------
Dividends Unpaid	300,552.94	—116,594.66	183,958.28	+278,512.72	462,471.00	—390,788.09	71,682.91	+254,701.84	326,384.75
Letters of Credit	660,027.13	—165,174.79	494,852.34	—13,712.06	481,140.28	+134,695.55	615,835.83	+6,420.12	622,255.95
Bank Acceptances	222,785.04	—47,486.52	175,[illegible].52	+84,[illegible].48	260,015.00	—50,637.68	209,377.32	—17,599.57	191,777.75
Other Liabilities	2,761,953.18	+310,552.27	3,072,[illegible]5	+4[illegible]01	3,121,968.46	+916,733.08	4,038,701.54	—80,888.35	3,957,813.19
Capital Structure									
Capital Stock	45,795,550.00	—380,000.00	45,415,550.00	—2,245,000.00	43,170,550.00	—375,000.00	42,795,550.00	+35,000.00	42,830,550.00
Income Debentures	3,376,171.46	—119,895.40	3,256,276.06	—351,746.55	2,904,529.51	—539,254.51	2,365,275.00	—245,500.00	2,119,775.00
Surplus	30,030,555.28	+179,194.67	30,209,749.95	—276,044.67	29,933,705.28	+105,150.00	30,038,855.28	+248,465.79	30,287,321.07
Undivided Profits (Net)	20,758,226.63	+1,171,697.48	21,929,924.11	—990,892.31	20,939,031.80	+751,207.87	21,690,239.67	+572,653.28	22,262,892.95
Reserve Accounts	23,227,025.95	+972,309.10	24,199,335.05	—892,195.04	23,307,140.01	+1,338,243.42	24,645,383.43	—323,154.27	24,322,229.16
TOTAL CAPITAL STRUCTURE	$123,187,529.32	$+1,823,305.85	$125,010,835.17	$—4,755,878.57	$120,254,956.60	$+1,280,346.78	$121,535,303.38	$+287,465.80	$121,822,768.18
GRAND TOTAL LIABILITIES	$1,428,036,859.59	$+41,594,228.87	$1,469,631,088.46	$+23,353,212.53	$1,492,984,300.99	$—65,402,824.23	$1,427,581,476.76	$+104,926,472.67	$1,532,507,949.43
ANALYSIS—LOANS AND DISCOUNTS									
Commercial Paper	$ 25,058,714.94	$+5,606,453.94	$ 30,665,168.88	$—1,344,107.19	$ 29,321,061.69	$+3,489,055.25	$ 32,810,116.94	$ +1,180,122.79	$ 33,990,239.73
Collateral Loans	50,548,690.72	+868,729.59	51,417,420.31	—890,583.94	50,526,836.37	—2,153,109.71	48,373,726.66	+5,449,937.33	53,823,663.99
Other Loans	171,724,874.38	—7,509,941.02	164,214,933.36	+5,426,871.09	169,641,804.45	+8,494,439.14	178,136,243.59	+12,870,195.15	191,006,438.74
Farm Loans	13,150,334.54	—133,077.01	13,017,257.53	—90,479.02	12,926,778.51	+146,229.58	13,073,008.09	+40,177.93	13,113,186.02
Other Real Estate Loans	48,485,208.54	+3,352,094.12	51,837,[illegible].66	+2,546,[illegible].27	54,383,454.93	+2,046,459.88	56,429,914.81	+3,699,672.89	60,129,587.70
TOTAL LOANS AND DISCOUNTS	$308,967,823.12	$+2,184,259.62	$311,15[illegible].74	$+5,64[illegible]21	$316,799,935.95	$+12,023,074.14	$328,823,010.09	$+23,240,106.09	$352,063,116.18

CONVERSION

Bellwood	Cook	Bellwood State Bank into Bellwood National Bank	July 23, 1941

CHANGE OF NAME

Burnside	Hancock	State Bank of Burnside to State Bank of La Harpe	July 7, 1941
Fairmount	Vermilion	Porterfields' State Bank of Fairmount to Sidell State Bank	July 19, 1941

CHANGE OF LOCATION

Burnside	Hancock	State Bank of Burnside from Burnside, Illinois, to 128 East Main Street, La Harpe, Illinois	July 7, 1941
Fairmount	Vermilion	Porterfields' State Bank of Fairmount from Fairmount, Illinois, to the Southwest Corner of Market and Gray Streets, Sidell, Illinois	July 19, 1941

DISSOLVED

Calumet City	Cook	Calumet City State Bank (In receivership November 21, 1931. Dissolved by order of the Circuit Court of Cook County)	June 17, 1941
Glencoe	Cook	Glencoe State Bank (In receivership July 24, 1931. Dissolved by order of the Circuit Court of Cook County)	June 25, 1941
Maeystown	Monroe	State Bank of Maeystown (In liquidation March 24, 1933. Dissolved by order of the Circuit Court of Monroe County)	June 30, 1941
Bishop Hill	Henry	Bank of Bishop Hill (In receivership July 6, 1932. Dissolved by order of the Circuit Court of Henry County)	July 2, 1941
Cypress	Johnson	Farmers and Merchants State Bank of Cypress, Illinois (In liquidation April 21, 1941)	July 3, 1941
Mendota	La Salle	Farmers and Merchants State Bank of Mendota (In receivership February 18, 1932. Dissolved by order of the Circuit Court of La Salle County)	July 7, 1941
Plymouth	Hancock	Plymouth State Bank of Plymouth (In liquidation June 9, 1941)	July 10, 1941
Smithshire	Warren	Smithshire State Bank (In receivership August 15, 1933. Dissolved by order of the Circuit Court of Warren County)	July 17, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	450
Total	499

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

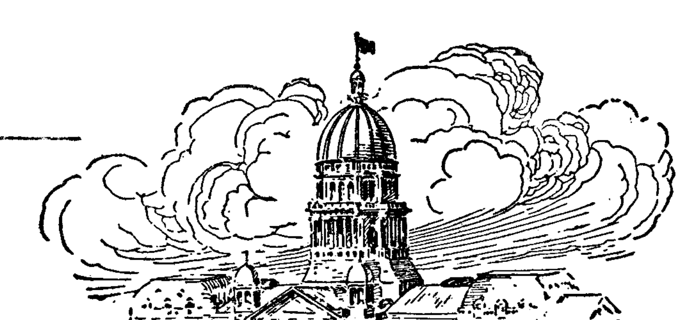
Vol. 17 SPRINGFIELD, ILL., SEPTEMBER 1, 1941 No. 6

DEFENSE BONDS

In our June BULLETIN we introduced and "went all out" on the subject of Defense Bonds. We have just completed an inquiry from which we are surprised to learn that a considerable number of our Illinois State banks have not, as yet, qualified to sell Defense Bonds. This is disappointing but understandable to a degree. Summer vacations in the banking business mean "work jams" and a general postponement of all but current matters until the vacation season is over. However, the sale of Defense Bonds is more than a "current matter" it is a pressing need that cannot be postponed to a more convenient time. The defenses of this nation are needed NOW—they are being built NOW and they must be paid for NOW; Interventionists, Non-interventionists and all of the other "ists" agree without argument on that.

The banks of this nation are the most direct and efficient channel through which Defense Bonds can reach the public. They are the natural channel to which all other agencies, governmental and private, are, in a manner of speaking, tributaries. The banks of the nation are in a position of leadership in this movement and no bank can afford to look the other way.

Aside from such prime considerations as patriotism and self-preservation an alert banker should see in this movement



an unusual business opportunity. Anyone who was in the banking business in 1917 and 1918 can easily remember the large number of new contacts that were brought into the banks through the sale of Liberty Bonds alone. The several Liberty Loan drives brought people into banks who had never been in before; people who saved by hoarding; people who knew nothing about safe-deposit vaults; nothing about transferring money through bank drafts or foreign exchange; nothing of the uses or advantages of a checking account; in short, nothing about any of the services that a bank has to sell to the public.

Many of these people brought in hoarded currency and gold to buy Liberty Bonds. In subsequent drives they bought more bonds on the installment plan and came into the banks weekly or semi-monthly to pay for them. The Liberty Loan drives literally drove these new customers into the banks for the bankers to become acquainted with, to gain their confidence, to convert them from money hoarders into savings depositors, box renters and exchange customers.

That was nearly twenty-five years ago. Today there is both a new generation and a new opportunity that no energetic banker should ignore.

In this connection bankers should not lose sight of the fact that while this generation has been rising a number of challenges to bank leadership in community finance have arisen with it. These challenges are too well known to need reviewing here; and it is undeniable that they have made noticeable inroads into the most profitable phases of bank operation particularly during the past ten years. The way to meet this competition is to keep the public coming into the banks for all financial services.

The sale of Defense Bonds is being advertised on a colossal scale and will create a tremendous demand; and bankers should see to it that as many of the buyers as possible do their buying in the banks. Why let them go anywhere else?

Most bankers devote a great deal of thought and study to advertising to learn the best mediums of reaching potential customers and methods of bringing them into their banks. The Defense Bond movement furnishes a splendid advertising motive that might well dominate all of bank advertising—reinforced as it is and will be by the great National advertising campaign.

And so, we commend the sale of Defense Bonds to all bankers not only as a necessity but an opportunity; both of which are of sufficient importance to justify any effort or expense required to establish and maintain bank leadership in this great movement.

EXCEPTIONS

We have, for quite a spell now, blown the horn for the State bankers of Illinois; sounding off on the many fine things they have accomplished in the management of their banks since the Moratorium; so we don't think that a few gentle taps with the hammer at this time will jar the family ties too severely.

During all of this time we have suffered, as silently as bank examiners can suffer, a growing annoyance at the surprisingly large number of documentary exceptions encountered in our examinations. And more surprising still is the large number we find in really fine banks—banks that in all other respects are models of accurate and efficient operation. By documentary exceptions we mean errors of commission or omission in making collateral and real estate loans. Essentially both are the same involving the pledge of property to secure payment of a loan—the pledge in one instance being in the form of personal property and the other real estate.

Before completing and paying out money on either form of loan the banker had better be sure of two things: (1) that he holds a written and legally binding pledge of the collateral and (2) that it is in negotiable form. If the bank is weak in either of these two positions the best looking collateral or real estate loan ever made can turn out to be a bitter headache, or, worse yet, a substantial loss.

There is neither space nor reason for a detailed discussion of this subject in this BULLETIN; for most bankers know as much about the technique of handling collateral and real estate loans as we do. We know that the underlying cause of these numerous exceptions is not ignorance but pure carelessness and we are confident that a little thought and study of this phase of money lending will entirely eliminate this problem.

Business developments of recent years have added several new types of collateral loans so that there are now six or seven different varieties in practically all of which possession of the pledged property remains with the borrower.

It seems to us an important but relatively simple matter for bank executives to study each of the different varieties of collateral loans and lay down procedural formulae that will insure the banks as to perfection of its lien and the negotiability of collateral pledged. The various formulae could then be checked by the bank's attorney and if approved by him, they could then be given to loan officers as a procedure to be exactly followed and completed before paying out on a loan. Other lending agencies do this and the public expect hard and fast requirements and meet them without complaint; yet banks will take liberties with them and incur needless risks of trouble and loss.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Farmer City	De Witt	Farmer City State Bank	$25,000	$5,000	$1,250	Aug. 13, 1941

DISSOLVED

Hamburg	Calhoun	Bank of Hamburg (In receivership February 11, 1932. Dissolved by order of the Circuit Court of Calhoun County)	June 9, 1941
Meadows	McLean	Bank of Meadows (In liquidation May 5, 1926)	July 17, 1941
Sheldon	Iroquois	State Bank of Sheldon (In receivership January 11, 1932. Dissolved by order of the Circuit Court of Iroquois County)	Aug. 2, 1941
Watseka	Iroquois	The Citizens State Bank of Watseka (In receivership January 25, 1932. Dissolved by order of the Circuit Court of Iroquois County)	Aug. 2, 1941
Glasford	Peoria	Farmers State Bank of Glasford (In liquidation September 6, 1932)	Aug. 15, 1941
Lexington	McLean	State Bank of Lexington (In receivership November 14, 1932. Dissolved by order of the Circuit Court of McLean County)	Aug. 22, 1941
Pawnee	Sangamon	State Bank of Pawnee (In liquidation February 19, 1929. Dissolved by order of the Circuit Court of Sangamon County)	Aug. 27, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	450
Total	499

7
(4688)

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

Vol. 17 SPRINGFIELD, ILLINOIS, OCTOBER 1, 1941 No. 7

OVER THE BARREL

A veteran of fifty years of successful banking and venerable by reason of a half century of outstanding community leadership, he sat on the fringe of the big convention, eavesdropping, as he put it, on what "these young fellows in the banking business were doing." A natural raconteur, with a memory like a card file, and a man of much personal charm, he held a small group of old acquaintances pretty well spellbound with his anecdotes, comic and tragic. Asked for theories on this or that phase of banking, he replied with experiences; and from these one of his respectful audience has selected the following as well worth passing on as nearly verbatim as he told it.

"My weakness," he began, "was that every now and then I would get so interested in some fellow's plan or business, that in financing him I wound up as a partner, and a silent one at that, or as an owner without control. Instead of staying in my place as a money lender, I became a partner or an owner before I realized it. Modern slang has a good way of putting that sort of thing when we say that a man goes 'over the barrel' on the other fellow's proposition." The phrase gave him a chuckle. "You know," he continued, "a man is awfully helpless when he is over a barrel."

"The first time it happened to me was about 1900. My father ran a private bank and I had grown up in it. I'd been with him then eight or nine years and considered myself a full-fledged banker."

"About that time father's rheumatism got real bad and took him out of the bank for a year; and nearly all of that time he was away at some cure or other and I was in full charge of the bank."

"There was a fellow in our town who was a very fine machinist and quite an inventor. He was a thrifty sort and had saved up two or three thousand dollars, which was considered a pretty good score in those days. One day he came in and told me about a dairy separator that he had perfected, that would do better work, and could be built cheaper than anything of that kind on the market. I went to the shop where he worked and saw his model and brought several experts in that sort of thing with me; and they all agreed that it was the finest separator that they had seen and predicted a great future for it. I got pretty well worked up over the thing and had visions of a big factory turning out thousands of separators and a big boom for our town. You fellows have all had those civic dreams; so you can't laugh at me."

"Well, he put in what he had and I loaned him five thousand dollars to get him started. Equipment, material and labor soon ate that up and I let him have another five thousand without asking any questions. When he came in for the third five, I asked him how many separators he had made and when he was going to start selling. He then told me that he had discovered an improvement that would have to go into the machine which called for a number of changes and held back production. That cooled me off a mite but he got the third five."

"About that time I got to thinking that I had better learn something about the separator business, so I started dropping over to the factory every now and then. But that didn't do me much good, for all I could see was a number of men tinkering away at benches or lathes—and no separators."

"Another thing that annoyed me, was a fellow in a neighboring town seventeen miles south of us, who was making and selling lots of separators that couldn't compare with ours."

"When he came in for the fourth five, I called him into the back room for a show down. The story now was that he had discovered some flaws in the machine and as soon as they were corrected, he was ready to start turning them out. I told him that I was through pouring money into his business and if he expected to continue he would have to make and sell some machines to meet his expenses. Then I found out, for the first time, that he was one of those temperamental geniuses; for he started to pound the table and shout that before he would sell a faulty machine with his name on it, he would toss the whole business into the river."

"Well that made me kind of sick; for our weekly newspaper had written us up pretty well and had the whole community looking in my direction. Remember what I said about a man over a barrel? Pretty helpless isn't he? Well—he got the fourth five and I started losing sleep."

"Shortly after that father came home. He was down at the bank bright and early next morning and I spent the day in the country clerking a farm sale. He was just locking up the bank when I got back to town; so we walked home together. It was then that he blasted all of my hopes and fears in the separator business—did it very casually—just before we reached home—in eight words—'we are getting out of the separator business.'"

"Not long after that our inventor came in for more money and before I had a chance to hear his latest story, father marched him into the back room and closed the door. There was no table pounding this time and about an hour later they came out and went across the street to the lawyer's office. When father came back he put some papers in the safe and ran through another two thousand dollar note to the inventor's credit. Nothing happened for thirty days and then father left town. Two days later he came back and told me that he had sold the separator business to the fellow in the neighboring town for $25,000, with a good job for the inventor to boot. We collected our interest and handed the rest of the $3,000 back to the inventor. He took the money but refused the job; and then gave father and I quite a tongue lashing. A few days later he left town."

"That would be a happy enough ending if the story really ended there; but it didn't. Not long after that a story got back to father and I, that was being pretty widely circulated around and believed by quite a few, that we had lured the poor inventor along until he had perfected his machine and sold him out and made a pile of money. And that crazy idea hung on in the community for a good many years."

"You'd think that deal should have kept me off the barrel for the rest of my life—but it didn't. Fifteen years later I was over the barrel again and father wasn't around to pull me off; and that time I took a damned good licking. I loaned a lot of money to one of our young farmers. He was outstanding both as a grain farmer and stockman. He was everything but a good business man and by the time I got through selling him out, I had taken a big loss and a lot more abuse. And even that isn't the whole story. As the years went on I made two more trips over the barrel. Once I came off even and the other time a big loser."

A young banker, who had been listening very intently, arose to join the crowd moving into the banquet hall. To his apologies he added "—and I'm very sorry, Sir, that I can't stay to learn how to keep off the barrel."

The old banker laughed good naturedly.

"Run right along young fellow and enjoy your dinner. You won't miss a thing; for I can tell you that the answer isn't in this crowd"—then with mock indignation—"Haven't I done pretty well in my fifty years to discover the barrel and explore it pretty thoroughly?"—then he added—"But I've a notion that you'll find the answer when you devise some scheme to determine when a borrower has some business ability mixed in with his ideas and when he is just borrowing on ideas."

PERMIT ISSUED

			Capital	Surplus	Reserve	
Auburn	Sangamon	State Bank of Auburn	$25,000	$5,000	$1,250	Sept. 15, 1941
			Capital	Surplus	Reserve	
Leland	LaSalle	State Bank of Leland	$25,000	$2,500	$2,500	Sept. 22, 1941

RECEIVER APPOINTED

Chicago	Cook	South Side Savings Bank & Trust Co.—Paul Corkell (John A. Carroll, Receiver, resigned)	Sept. 25, 1941

IN LIQUIDATION

Fowler	Adams	Bank of Fowler	Aug. 2, 1941
Johnsonville	Wayne	Johnsonville State Bank	Sept. 22, 1941
Piasa	Macoupin	Bank of Piasa	Sept. 22, 1941

CHANGE OF NAME

Clarence	Ford	Clarence State Bank to Cissna Park State Bank	Sept. 26, 1941

CHANGE OF LOCATION

Clarence	Ford	Clarence State Bank from Clarence, Illinois, to 39 Second Street, Cissna Park, Iroquois County, Illinois	Sept. 26, 1941

DISSOLVED

Maywood	Cook	Peoples State Bank of Maywood (In receivership March 6, 1930. Dissolved by order of the Circuit Court of Cook County)	June 20, 1941
Princeville	Peoria	First State Bank of Princeville (In receivership June 1, 1932. Dissolved by order of the Circuit Court of Peoria County)	Aug. 13, 1941
Monroe Center	Ogle	Monroe Center State Bank (In receivership January 14, 1932. Dissolved by order of the Circuit Court of Ogle County)	Aug. 29, 1941
Grafton	Jersey	Grafton State Bank (In receivership June 1, 1934. Dissolved by order of the Circuit Court of Jersey County)	Sept. 5, 1941
Kewanee	Henry	Kewanee State Savings Bank and Trust Company (In receivership March 27, 1933. Dissolved by order of the Circuit Court of Henry County)	Sept. 13, 1941
Canton	Fulton	First State Bank & Trust Company of Canton (In receivership October 28, 1933. Dissolved by order of the Circuit Court of Fulton County)	Sept. 22, 1941
Herrick	Shelby	State Bank of Herrick (In receivership August 22, 1933. Dissolved by order of the Circuit Court of Shelby County)	Sept. 24, 1941
Stonington	Christian	The First State Bank of Stonington (In receivership February 11, 1932. Dissolved by order of the Circuit Court of Christian County)	Sept. 26, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	447
Total	496

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

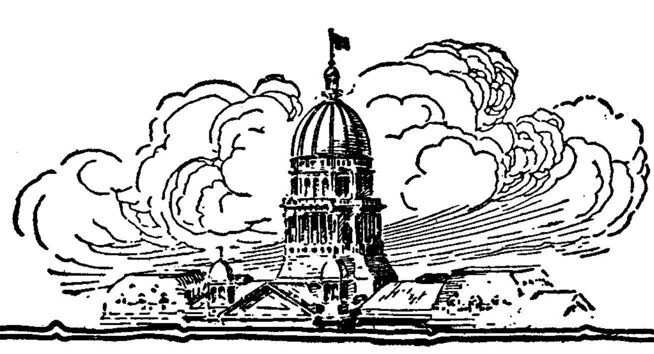
State *of* Illinois

Vol. 17 SPRINGFIELD, ILLINOIS, NOVEMBER 1, 1941 No. 8

PRO AND CON

The October 9th issue of "Finance" contained a very interesting article entitled "Is Bank Examination in Need of Change" by Mr. Merryle Stanley Rukeyser, a well known financial writer. Our interest in the article was heightened by the fact that the work in which we are so deeply absorbed is very rarely dealt with critically and objectively in the public prints. And so when Mr. Rukeyser, in introducing his subject, assumes that "For anyone in these days to suggest an objective auditing of the work of bank examiners would be considered bold indeed", we, on our part, see nothing bold or inappropriate about it. We appreciate his interest in our work and thought his article very commendable; although disagreeing at the same time with his main conclusions.

Mr. Rukeyser centers his theme on "the technique for bank examinations and the use to which examiners' reports should be put by their superiors". He finds organizational defects in the prevailing practice of sending copies of the examiners reports back to the banks; scouting the possibility that "—the department chief in the state capitol or in Washington is not left in a judicial position, but is almost compelled in the nature of things to back up the findings of the



examiner in order to build up morale within the organization." This leads him to the conclusion that "The efficiency of banking deteriorates when and if lending officers are deterred only by the fear of criticism by bank examiners." He points out that bank examiners necessarily differ widely in experience, ability and competence and leaves the implication that bankers should not be subjected to such influence.

He supports the theory that travelling examiners should be charged merely with a fact-finding role and that their reports should be submitted confidentially to the examining authority and "If the report contained factual material which appeared to warrant criticism, then it should be submitted to a Central Fact-Finding Board of Review, which, armed with economic data concerning local, national and international conditions, could in an unbiased way pass upon the merits of the examiner's report." Thus Mr. Rukeyser concludes that "the bank in question would have no knowledge of the nature of the examiner's report, the Board would have no bias in favor of supporting the examination for the purpose of developing organizational morale."

While Mr. Rukeyser's article embraces the whole field of bank examination our comment must necessarily be restricted to a much narrower viewpoint, i. e. the Banking Department of Illinois. The plan that he advances would seem to us to center supervisory activities at a more remote place than they are now. Whereas, the objective that we have been seeking, by every means at our command, is to center supervisory activities where Illinois law intends they should be and that is in the Boards of Directors of the individual banks.

We are not particularly fond of the words "Supervision" and "regulation" as they are applied to our examining activities. They impute more authority and responsibility to this Department than the law does. The Illinois Banking law treats banking as a private business venture in which there is a high degree of public welfare involved; and in recognition of this public interest it designates the Auditor of Public Accounts and provides him with the authority to see that no State bank continues to operate with an impaired capital or in an unsafe or unsound condition. And the supervision of bank operation is specifically charged by law to the Board of Directors. That responsibility cannot be divided and yet if an authority superior in supervision to the Board of Directors is to be placed over banks' operation then the responsibility for the results must be divided. We have long been convinced that where bank directors are applying the diligence to their jobs that the law requires that their banks will need no outside supervision or regulation.

Our big problem up until the past five years has been to get the directorates of certain banks sufficiently interested in their banks to exercise the authority and discharge the responsibility that the law imposes upon them. We admit that, on certain and fairly rare occasions, we have had to resort to pretty stern and arbitrary methods to force boards of directors to operate their own banks; but once this has been accomplished, we have almost invariably been rewarded with a bank rescued from trouble in a surprisingly short time. Our Department has then stepped out to the side lines where it belongs.

There is no question in our minds that our greatest help in accomplishing these things has been the copies of our examiners reports delivered to the Boards of Directors with the fingers of warning pointing to the danger spots.

Mr. Rukeyser stresses the depressing effect of examiners loan criticisms on the executive officers. Here again we can only speak for our own Department but we rarely criticize a loan from the standpoint of policy. Our comments are confined almost entirely to careless negotiation, defects in collateral or unfavorable developments in loan histories. Admittedly most of these are of minor importance but let them accumulate and you may have a bank in serious trouble.

Our Bank Directorates of today want to know these things. They want the whole story just as the examiner finds it and our examination report has been especially designed to give them the whole story in clear, concise and orderly form. We know that these reports are of great interest to bank directors and we have evidence that they are studied by directors individually and collectively. We know also that examiners' findings are not regarded as departmental commands and have seen no depressing results from them. Quite to the contrary, when officers and directors disagree with an examiner's interpretation of facts they do not hesitate in saying so and stating their case and choosing their own course of action.

We are becoming increasingly conscious of the fact that bank directors who, for even the past five years, have been standing up to their jobs are becoming pretty well seasoned in the banking business.

There is nothing mysterious or fearsome about our examination report when it reaches the hands of Illinois State bank directors. For a period of three years every issue of this BULLETIN analyzed or explained some part of the examiners' report. The scope and objectives of the examination were thoroughly discussed step by step in the plainest language. When that program was completed all of that material was published in book form—a book that could be laid alongside of the examiners' report and used as a guide in following every phase and form of the examination. Every State Bank director in Illinois received a copy of that book.

In urging upon our State Bank directors the study of that material and complete familiarity with our examination report, it's aims and purposes, we voiced the expectancy that they would occasionally find themselves in disagreement with the examiner's conclusions and interpretation of facts. We have cautioned them not to allow such differences of opinion to interfere with an objective study of the factual material reviewed by the examiner and the reaching of their own independent conclusions.

Therefore we think that our State Bank directors know how to use examiners' reports and we are persuaded that they are capable of handling the raw product without having it pre-digested by a "Central Fact-Finding Board of Review."

And so, after pretty thoroughly disagreeing with Mr. Rukeyser most of the way we come around to this point of full agreement when he says, "My point is that, irrespective of bank examinations, executives of banks ought to proceed with such a high sense of responsibility that they are disciplined more by their own conscience and self imposed standards than by legal inhibitions. This means that the criterion of a loan or investment should always be whether it constitutes a prudent use of depositors' funds, rather than whether it meets the arbitrary specifications of conventional examiners".

If we may be permitted to insert the Boards of Directors into that point, we will say a hearty "Amen".

PERMIT ISSUED

City	County	Bank	Capital	Surplus	Reserve	Date
Grays Lake	Lake	First State Bank of Grays Lake	$50,000	$10,000	$5,000	Oct. 1, 1941
Milledgeville	Carroll	Milledgeville State Bank	$25,000	$5,000	$2,500	Oct. 1, 1941
Pecatonica	Winnebago	Bank of Pecatonica	$25,000	$2,500	$2,500	Oct. 27, 1941

CHARTER ISSUED

City	County	Bank	Capital	Surplus	Reserve	Date
Farmer City	DeWitt	Farmer City State Bank 202 South Main Street Harry C. Gring, President E. R. Rinehart, Cashier	$25,000	$5,000	$1,250	Oct. 20, 1941
Auburn	Sangamon	State Bank of Auburn Northwest Corner of Fifth and Jefferson Streets L. T. Graham, President K. Layne, Cashier	$25,000	$5,000	$1,250	Oct. 30, 1941

CAPITAL STOCK INCREASED

City	County	Bank	Date
Paxton	Ford	Farmers and Merchants Bank of Paxton from $25,000 to $50,000	Oct. 29, 1941

DISSOLVED

City	County	Bank	Date
Dallas City	Hancock	The Farmers State Bank of Dallas City. (In receivership August 18, 1932. Dissolved by order of the Circuit Court of Hancock County)	Sept. 8, 1941
Moline	Rock Island	People's Savings Bank and Trust Company. (In receivership February 20, 1933. Dissolved by order of the Circuit Court of Rock Island County)	Sept. 22, 1941
Easton	Mason	Farmers State Bank of Easton. (In receivership March 30, 1933. Dissolved by order of the Circuit Court of Mason County)	Oct. 24, 1941
Benton	Franklin	Illinois Bank and Trust Company of Benton, Illinois. (In receivership October 23, 1930. Dissolved by order of the Circuit Court of Franklin County)	Oct. 27, 1941
West Frankfort	Franklin	West Frankfort State Bank. (In receivership January 16, 1932. Dissolved by order of the Circuit Court of Franklin County)	Oct. 27, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	449
Total	498

7
(9960)

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

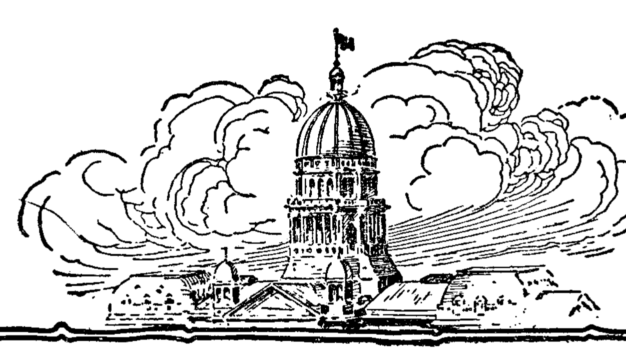
State *of* Illinois

Vol. 17 SPRINGFIELD, ILLINOIS, DECEMBER 1, 1941 No. 9

STOCKHOLDERS' LIABILITY

Our Examiners report that there is far from a general knowledge and complete understanding, even among bank officers and directors, of the steps that have been taken by the Legislature of Illinois and the Congress of the United States to lessen the effects of bank stockholders' liability in this state. We shall therefore, review as fully as we can within the limits of this issue, developments along that line.

In 1938 Congress amended Section 12-B of the Federal Reserve Act to provide that with respect to any bank closing after May 25, 1938 the Federal Deposit Insurance Corporation should waive its claim against any person against whom a stockholder's superadded liability might be asserted; and providing further that said waiver be effected in such a manner and upon such terms and conditions as to prevent the increase of recoveries or dividends to uninsured creditors. For example, let us say that an Illinois State Bank fails owing $2,000,000.00 to creditors and 95% or $1,900,000.00 is insured and paid by the Federal Deposit Insurance Corporation. Said corporation by operation of law succeeds to an aggregate claim of $1,900,000.00 against the bank and its stockholders, and on the same footing as the $100,000.00 of uninsured claims. Now let us assume that the bank has



a capital of $100,000.00 and suit is started against the stockholders for the full amount of their superadded liability ($100,000.00). The Federal Deposit Insurance Corporation asserts its claim to 95%, or $95,000.00 and immediately waives it, leaving $5,000.00 to be collected by the uninsured creditors.

There has been one adjudication of a creditor's suit against stockholders in Illinois involving the 1938 amendment of Sec. 12-B. In that case the Federal Deposit Insurance Corporation intervened in a creditor's suit that had already been filed against the stockholders. The intervening petition informed the Court of the creditor's rights to which the Federal Deposit Insurance Corporation succeeded upon payment of insured deposits and of the corporation's desire and intention of waiving those rights against the stockholders under the provision of Sec. 12-B. The petition stipulated a plea that the waiver be effected in such a manner "that no creditor shall receive more than he would have received if the corporation did not waive its claim to the proceeds of the collections made from the stockholders."

The Court in its decree, expressly found "that the waiver of the Federal Deposit Insurance Corporation as hereinbefore set forth is in all respects proper and legal—and that said waiver has been effected in such a manner and upon such terms and conditions as will not increase recoveries and dividends on account of claims against said bank to which said Federal Deposit Insurance Corporation is not subrogated."

Many people have been under the erroneous impression that if the Federal Deposit Insurance Corporation waived its claim against the stockholders that uninsured creditors could recover against the entire stock liability. It will be seen from the provision of Sec. 12-B, which was affirmed in the Illinois Court's decree, that uninsured creditors can recover no larger share than they could if the Federal Deposit Insurance Corporation had taken that portion of the recovery from stockholders to which the insured creditors were entitled.

The Illinois Legislature at its last session adopted a law (House Bill No. 432) calculated to afford much further relief to stockholders in Illinois State Banks. This law is an independent statute of limitations determining and terminating stockholders liability to creditors. It applies only to liability of stockholders in Illinois State Banks and not to the liability of the banks. It is a completely independent statute of limitations and is not an amendment of the general Statute of Limitations. It determines that liability accrues at the time each deposit is made in the bank, and in the case of debts payable on demand which are contracted by the bank, at the date of the contract, and limits creditors' action against the stockholders to a period of one year from that date. Practically all bank obligations are payable on demand with the exception of Bills Payable (notes given by the bank for money borrowed) or Time Certificates of Deposit payable at some specific future date.

In the case of these and similar exceptions, the one-year period of limitation begins to run when the debt matures into the right of the holder to demand payment.

Under the general law of limitations the term of limitation does not begin to run until a cause of action occurs; in other words, when an actual demand is made for a deposit due on demand, or a bank debt due on a fixed date is not paid upon demand at maturity, the depositor or holder then has a cause of action or right to sue. Under that law a deposit made in 1910 and not demanded until 1941 would have a claim against every individual who held stock during the intervening 31 years, and if that demand was caused by the closing of the bank the living and solvent stockholders could not get relief from the statute of limitations until 1951.

Under the special statute of limitation created by House Bill No. 432, suit could not be brought against the stockholders of that bank for the above-mentioned deposit after July 1, 1942; for it makes this special provision for all liabilities of Illinois State Banks existing on the date the law went into effect (July 1, 1941).

For all liabilities accruing after July 1, 1941 the term of limitation is fixed at one year after the creditor has the right to make demand for payment.

The rather drastic effect of this piece of legislation naturally attracted the attention of a number of legal minds with the result that it has been given quite a thorough scrutiny and analysis. We have had the opportunity of reviewing considerable memoranda resulting from this expert study and find no dissent from the general opinion that this one-year statute of limitations is valid.

Can the legislature surround a constitutional right with a limitation? That seems to be the first question proposed by the new statute. Attorneys who have examined this subject point out that this law affects neither the constitutional right of the creditor nor the contractual obligation of the stockholder, that all the legislature has done is to specify a time within which the right and the contract must be enforced. They cite a case (Sanders vs. Merchants State Bank, 349 Ill. 547) where the Court denied a defense plea of the statute of limitations solely on the ground that such a plea was not made out by the evidence, conceding that to some of the liabilities "the five-year Statute of Limitations may be appropriate and to others the ten-year statute—".

Students of this subject point out that while the Supreme Court of Illinois has never passed directly upon the applicability of the Statute of Limitations to the constitutional liability of stockholders, nevertheless the Court has never denied it and as quoted above, has given it recognition. They cite also the constitutional liability imposed upon corporation stockholders in California which was not collateral, but original, and of the same nature as that of an individual partner for partnership debts. Numerous California decisions have held that it is competent for the legislature to limit by statute the time within which an action to enforce the constitutional liability may be brought. The memoranda before us contains citations from a number of states where courts have conceded such legislative power.

The power of the legislature to fix the beginning of the term of limitation on the date of the accrual of liability instead of the occurrence of a cause of action is another question given careful study by attorneys. They suggest that while it is customary for ordinary statutes of limitations to prescribe a period to run from the accrual of a cause of action, there is no invariable rule requiring the limitation to date from the date of that accrual. They then go on to cite a number of states where statutes of limitation have been adopted in which the terms of limitation start at a time other than the date of accrual of a cause of action.

In this connection they refer again to the same Illinois case cited above (Sanders vs. Merchants State Bank) where the Court recognized and applied the non-claim statute regulating the time for presenting claims against a decedent's estate.

We have in the foregoing attempted to condense a large amount of information into a small space; our purpose being to give our state bankers a broad general view of what has been done. Many doubtless will want to study this subject matter in more detail. We know that the Illinois Bankers' Association has assembled some excellent material on both subjects which, we are sure, it will be glad to furnish to any banker desiring it.

CHARTER ISSUED

			Capital	Surplus	Reserve	
Grayslake	Lake	First State Bank of Grayslake, Southeast Corner Whitney and Center Streets; R. J. Dwyer, President; J. H. Clendenin, Cashier	\$50,000	\$10,000	\$5,000	Nov. 12, 1941

CAPITAL STOCK INCREASED

Chicago	Cook	State Bank of Clearing from \$150,000 to \$175,000	Nov. 17, 1941
Chenoa	McLean	State Bank of Chenoa from \$30,000 to \$50,000	Nov. 24, 1941

CHANGE OF LOCATION

Paxton	Ford	Farmers and Merchants Bank of Paxton from 208 North Market Street, Paxton, Illinois, to 202 North Market Street, Paxton, Illinois	Nov. 10, 1941

DISSOLVED

Chicago	Cook	Industrial State Bank of Chicago. (In receivership June 23, 1931. Dissolved by order of the Circuit Court of Cook County)	Oct. 21, 1941
Monee	Will	Eastern Will County State Bank. (In receivership July 20, 1932. Dissolved by order of the Circuit Court of Will County)	Oct. 24, 1941
Manteno	Kankakee	Manteno State and Savings Bank. (In receivership January 9, 1932. Dissolved by order of the Circuit Court of Kankakee County)	Nov. 12, 1941
Madison	Madison	The Union Trust Co. of Madison, Illinois. (In receivership August 11, 1932. Dissolved by order of the Circuit Court of Madison County)	Nov. 13, 1941

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	450
Total	499