

MONTHLY BULLETIN

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

Vol. 18

SPRINGFIELD, ILLINOIS, JANUARY 1, 1943

No. 10

HAPPY NEW YEAR

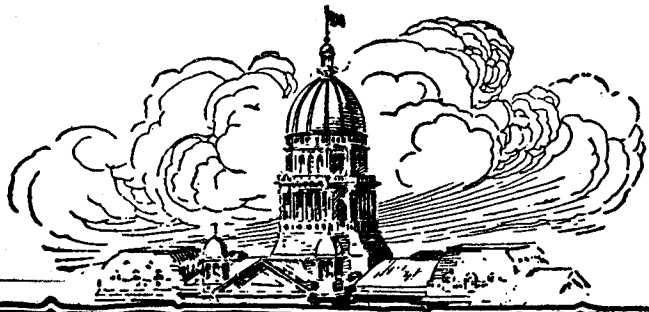
What have we got to be happy about?—War?—Taxes?—Sons in battle?—Rationing?—Regimentation?—Uncertain future?—Are those the conditions from which we are to draw the happiness that we are wished for the new year? The answer is definitely "Yes."

A strong, healthy man is almost invariably happy and contented. He glories in his endowments and loves nothing better than to exert them. Ask him how he feels and he will thump his chest, take a deep breath and bellow, "Fine." Show him a hard job or a test of strength and with a quiet, confident grin he will pull off his coat and roll up his sleeves.

We citizens of the United States of America are a strong, healthy people and we are also free. We feel fine. War, taxes, and rationing are tests of our strength. Our coat is off and our sleeves are rolled up. We thank God for the kind of sons that we have for the battle. We are proud to stand, through regimentation, in the ranks with them. And as for the future?—There may be uncertainties in it; but one vital thing is certain and that is that we will remain free.

And so, it is my wish that the officers, directors, and employees of the State Banks of Illinois share in a full measure in that kind of happiness with which Almighty God has so richly endowed our healthy, strong, and free nation.

ARTHUR C. LUEDER.



MUNICIPALS

Every now and then bank officers and directors tell us of their perplexity in selecting municipal investments. This is all the more annoying to them in view of their awareness of the desirability of a well selected municipal list in their bond portfolio. While they all have connections through which they are able to make their selections with a high degree of confidence many are dissatisfied with their own lack of even a general knowledge of the investment merit underlying their own purchases.

When they buy Industrials, Rails or Utilities, their rating services can promptly supply them with current and accurate information concerning nearly anything they may want to buy and in very concise and quickly digestible form. But when they move into the municipal group they frequently encounter difficulty. This field is so immense, that despite the steadily expanding coverage that the rating agencies have been able to accomplish during recent years, they have relatively little more than scratched the surface in analyzing and rating issues. This, they complain, leaves them to flounder around in a maze of municipal statistics that they do not know how to use.

Wayne Hummer & Co., of Chicago in a recent circular to its clientele deals with this problem very understandingly and concisely in a formula of analysis which we have their permission to pass along to our readers:

"There are six fundamental requirements that every municipal credit should meet before it is taken into the bank's investment portfolio. When these simple fundamentals are met, all of the other requirements any investing officer may wish to set up will almost automatically be met. These fundamentals are:

- (1) POPULATION Should be in excess of 25,000 and not declining;
- (2) NET DEBT Should be not more than 10% of assessed valuation unless basis is low. Should never be more than 10% of true value. Should be on a declining basis;
- (3) UTILITY DEBT Eliminate from net debt only what definite figures are available, indicating a true supporting nature;
- (4) TAX RATE Should never be more than \$6.00 per \$100 of assessed valuation, unless assessment basis is low;
- (5) TAX COLLECTION Over a long period should be in excess of 90% in each year—not average;
- (6) PAST DUE TAXES Must not be in excess of 25% of current levy.

The exclusion from consideration of municipalities under 25,000 suggested under the first test strikes us as somewhat debatable and we would not be inclined to accept it as a hard and fast rule; for there are, as a matter of fact, many issues of smaller communities that are soundly issued and well seasoned marketwise. However, the population factor is vitally important. Certainly in larger municipalities there are more checks and balances at work in the financial machinery and more eyes

scrutinizing the financial structure; so, that when the investor begins to look at the obligations of municipalities under 25,000, the question as to the quality of the local government and its policies looms increasingly large.

While this approach might seem discriminatory against the borrowing possibilities of small municipalities, it is not actually so in practice. Small communities of merit with their commensurately smaller credit needs rarely have to go beyond their own neighborhood for their accommodations. When even the smallest of political bodies, if they are good ones, are in need of funds, all of the banks within a radius of 25 or 30 miles will usually bid for their paper. When the bonds or warrants of a small community go out into circulation in the general market there must be a reason. Ordinarily the reason is sound and sufficient but if it is otherwise the investor should know it. Size probably limits the borrowing range of municipalities to about the same extent as it does business corporations.

While on the subject of municipal investments, we feel it our duty to mention a somewhat disturbing situation that recently came to our attention, which brings into focus the legal opinion as to validity that invariably accompanies new issues of municipal bonds. It appears that a downstate township submitted an improvement proposal to its voters and that it failed to carry by a very narrow margin of votes. The proposed improvement required a relatively small bond issue. It is further reported that an individual who was interested in the financing obtained a certified transcript of the proceedings leading up to the bond issue which falsely showed election returns ratifying the proposal, whereas it had actually failed to carry.

This certification was submitted to a law firm generally recognized as an authority on municipal financing, and the firm's opinion was issued stating that after examination of a certified copy of the public proceedings had preliminary to the issue of bonds, they were of the opinion that such proceedings showed lawful authority for the issue under the laws of the State of Illinois. The opinion certified that an examination of Bond No. 1 showed it to be in due form of law and in the firm's opinion a valid and legally binding obligation, and that all taxable property in the township was subject to the levy of taxes to pay the same without limitation as to rate or amount. On the basis of that opinion, a securities firm underwrote the issue and sold it.

The first coupon was paid, but before the second coupon became due a taxpayers' injunction proceeding was instituted to restrain the township from collecting the taxes levied. The complaint was based, of course, on the failure of the voters to ratify the proposal as required by statute. The Court, after hearing the evidence, entered the injunction which was subsequently sustained by the Supreme Court. Thus the township was restrained from collecting the taxes levied against the properties of the complainants in the injunction proceedings and the payment of the bonds jeopardized to that extent.

After the matter was brought to the attention of the law firm that issued the opinion they pointed out that their opinion had been based upon a certified transcript of proceedings and that the opinion had so stated and that reliance upon such evidence was a universal practice. The firm indicated that it would cooperate in whatever procedure was decided upon for the enforcing of the payment of the bonds against

the obligor, but the purchaser of the securities and the underwriting house were required to employ their own counsel at their own expense.

Under such circumstances as outlined above, the bondholders' outlook from the standpoint of legal remedies available would appear rather speculative. To proceed in a criminal action against the official who certified as to false election returns would not aid in the collection of the bonds; while a civil action against him and his personal sureties would also be of questionable value.

This appears to be an extremely isolated instance and fortunately the amount involved was not large, but it seems to us that if an office review of certified transcripts of proceedings is more or less commonly practised, our legal opinions are not as well founded as we thought they were. And it further seems to us that a legal review of proceedings leading up to municipal bond issued should be more penetrating to the end that investors' risks from the standpoint of legality of issue will be reduced to a minimum.

PERMIT ISSUED

		Capital Surplus Reserve		
Forest Park.....Cook.....	First State Bank of Forest Park.....	\$100,000	\$10,000	\$15,000..... Dec. 11, 1942

IN LIQUIDATION

Parkersburg.....Richland.....	First State Bank of Parkersburg.....	Dec. 23, 1942
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CAPITAL STOCK DECREASED

✓ Lovington.....Moultrie.....	Hardware State Bank from \$50,000 to \$25,000.....	Dec. 28, 1942
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CHANGE OF PAR VALUE OF CAPITAL STOCK

✓ Lovington.....Moultrie.....	Hardware State Bank from \$100 to \$50.....	Dec. 28, 1942
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CONVERSION

✓ Marshall.....Clark.....	The Marshall State Bank into First National Bank, Marshall, Illinois.....	Nov. 30, 1942
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DISSOLVED

Highland Park.....Lake.....	North Shore Trust Company. (In receivership Dec. 31, 1932. Dissolved by order of the Circuit Court of Lake County).....	Oct. 22, 1942
Ashkum.....Iroquois.....	Farmers Trust & Savings Bank of Ashkum, Illinois. (In receivership August 17, 1933. Dissolved by order of the Circuit Court of Iroquois County).....	Nov. 28, 1942
Odell.....Livingston.....	State Bank of Odell. (In receivership Nov. 21, 1932. Dissolved by order of the Circuit Court of Livingston County).....	Dec. 1, 1942
Galva.....Henry.....	L. M. Yocum and Company, Bankers. (In receivership Oct. 31, 1931. Dissolved by order of the Circuit Court of Henry County).....	Dec. 4, 1942
Springfield.....Sangamon.....	Ridgeley-Farmers State Bank. (In receivership Jan. 27, 1933. Dissolved by order of the Circuit Court of Sangamon County).....	Dec. 21, 1942

RECAPITULATION

State Banks in Chicago.....	20
State Banks in Cook County outside Chicago.....	26
State Banks in Illinois outside Cook County.....	441
Total.....	487

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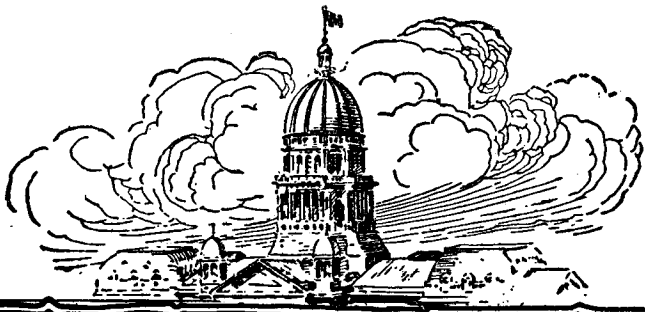
No. 11

MARCHING DOLLARS

In reading the resumé of the 1942 Call Report figures contained in the inner pages of this issue, it requires no imagination to see the dominant, progressive and epic-like movement of a nation mobilizing for war. In fact, it would call for very little imagination to visualize, in the steady shifting of figures and their converging trends, scenes that have never failed to thrill us since our early school days.

Both historians and artists have brought down to us the crude, rustic, but ever stirring story of our first mobilization to strike for freedom. They showed the colonial farmer leaving his plow to shoulder his musket, the smithy turning away from his forge, the woodsman coming out of the forest, the merchant from behind his counter—all to rally around Washington and fight.

The same movement may be clearly seen in our Illinois State bank figures for 1942 as we watch the wealth of these institutions move steadily out of the channels of peace and mobilize for war. Twenty-one million dollars were withdrawn from commercial and municipal bonds. Sixty-five million were collected from loans and discounts of all kinds. Cash to the extent of 19 million and new deposits of 280 million were all used to increase purchases of Government bonds 385 million dollars during 1942. During that period the proportion of total Illinois State bank resources invested in Governments rose from 22% to slightly less than 40%.



**REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS**

NUMBER OF BANKS.....	498	Increase or Decrease	499	Increase or Decrease	495	Increase or Decrease	488	Increase or Decrease	487
DATE OF CALL.....	Dec. 31, 1941		Apr. 4, 1942		June 30, 1942		Sept. 30, 1942		Dec. 31, 1942
RESOURCES:									
Cash and Due from Banks.....	\$548,391,652.89	\$-50,524,123.19	\$497,867,529.70	\$+23,334,425.69	\$521,201,955.39	\$-18,295,275.58	\$502,906,679.81	\$+26,813,014.76	\$529,719,694.57
Outside Checks and Other Cash Items.....	22,874,359.66	+1,486,885.97	24,361,245.63	-8,557,968.33	15,803,277.30	-1,116,276.67	14,687,000.63	+10,850,727.46	25,537,728.09
U. S. Governments—Direct and Guaranteed.....	357,499,988.58	+3,440,734.48	360,940,723.06	+108,357,744.19	469,298,467.25	+145,102,641.00	614,401,108.25	+127,714,696.34	742,115,804.59
Other Bonds, Stocks and Securities.....	286,075,175.50	-1,556,500.69	284,518,674.81	-9,407,850.16	275,110,824.65	-2,693,355.42	272,417,469.23	-6,680,585.26	265,736,883.97
Loans and Discounts.....	365,128,816.19	-24,398,297.81	340,730,518.38	-14,893,294.31	325,837,224.07	-13,415,760.59	312,421,463.48	-12,360,061.37	300,061,402.11
Overdrafts.....	65,234.78	+134,112.72	199,347.50	-127,943.40	71,404.10	+13,217.84	84,621.94	-32,936.19	51,685.75
Banking House.....	10,630,635.39	-127,935.11	10,502,700.28	-89,788.62	10,412,911.66	-28,576.47	10,384,335.19	-217,053.78	10,167,281.41
Furniture and Fixtures.....	1,380,107.29	+22,437.84	1,402,545.13	-5,784.22	1,396,760.91	+31,905.30	1,428,666.21	-109,277.61	1,319,388.60
TOTAL—Bkg. House and Furniture and Fixtures	\$12,010,742.68	\$-105,497.27	\$11,905,245.41	\$-95,572.84	\$11,809,672.57	\$+3,328.83	\$11,813,001.40	\$-326,331.39	\$11,486,670.01
Other Real Estate.....	\$2,495,145.32	\$-174,734.25	\$2,320,411.07	\$-267,559.99	\$2,052,851.08	\$-195,075.91	\$1,857,775.17	\$-203,003.81	\$1,654,771.36
Customers' Liability—Letters of Credit.....	416,666.79	+86,268.33	502,935.12	-61,211.29	441,723.83	-164,332.93	277,390.90	-38,386.88	239,004.02
Customers' Liability—Acceptances.....	216,736.48	-58,945.63	157,790.85	-18,462.33	139,328.52	+25,088.95	164,417.47	-86,806.96	77,610.51
Other Resources.....	5,529,582.75	-214,436.75	5,315,146.00	-2,943.83	5,312,202.17	-46,061.04	5,266,141.13	+327,741.17	5,593,882.30
GRAND TOTAL RESOURCES	\$1,600,704,101.62	\$-71,884,534.09	\$1,528,819,567.53	\$+98,259,363.40	\$1,627,078,930.93	\$+109,218,138.48	\$1,736,297,069.41	\$+145,978,067.87	\$1,882,275,137.28
LIABILITIES:									
Deposits									
Demand Deposits.....	\$910,569,405.12	\$-74,677,400.15	\$835,885,004.97	\$+115,551,946.61	\$951,436,951.88	\$+106,315,620.21	\$1,057,752,572.09	\$+117,567,729.33	\$1,175,320,301.42
Time Deposits.....	398,448,733.89	-16,449,557.15	381,999,176.74	+5,924,608.08	387,923,784.82	+6,927,391.22	394,851,175.04	+15,977,164.85	410,828,340.89
Due to Banks.....	160,009,217.83	+18,167,753.37	178,176,971.20	-20,812,743.83	157,364,227.37	-5,353,287.31	152,010,940.06	+11,642,524.75	163,653,464.81
Deposits Secured by Pledge.....	\$ 32,765,542.57	\$+32,221,924.84	\$ 64,987,467.41	\$-12,474,119.65	\$ 52,513,347.76	\$+16,832,692.93	\$ 69,346,040.69	\$+38,214,303.38	\$ 107,560,344.07
Deposits Not Secured by Pledge.....	1,436,254,814.27	-105,181,128.77	1,331,073,685.50	+113,137,930.81	1,444,211,616.31	+91,057,031.19	1,535,268,647.50	+106,973,115.55	1,642,241,763.05
TOTAL DEPOSITS	\$1,469,020,356.84	\$-72,959,203.93	\$1,396,067,661.91	\$+100,667,316.16	\$1,496,724,964.07	\$+107,889,724.12	\$1,604,614,688.19	\$+145,187,418.93	\$1,749,802,107.12
Other Liabilities									
Bills Payable.....	\$ 925,603.47	\$-635,688.71	\$ 289,914.76	\$-51,935.38	\$ 237,979.38	\$-237,979.38			
Re-Discounts.....									
Dividends Unpaid.....	401,119.17	-313,233.63	87,885.54	+274,062.66	361,978.10	-137,797.07	\$ 224,181.03	\$+189,658.82	\$ 413,839.85
Letters of Credit.....	412,809.00	+90,476.12	503,285.12	-75,480.61	427,804.61	-150,063.71	277,740.90	-35,695.04	242,045.86
Bank Acceptances.....	336,390.44	-122,537.00	213,853.44	-46,382.44	167,471.00	+9,050.22	176,521.22	-60,374.48	116,146.74
Other Liabilities.....	5,085,379.19	-115,961.63	4,919,417.56	-1,135,511.10	3,783,906.46	-247,031.61	3,536,874.85	-261,137.09	3,275,737.76
Capital Structure									
Capital Stock.....	42,880,550.00	-10,000.00	42,870,550.00	-390,000.00	42,480,550.00	-980,000.00	41,500,550.00	+130,000.00	41,630,550.00
Income Debentures.....	2,057,245.00	-144,970.00	1,912,275.00	-600.00	1,911,675.00	-211,300.00	1,700,375.00	+84,000.00	1,784,375.00
Surplus.....	32,771,006.05	+209,812.74	32,980,818.79	-61,761.76	32,919,057.03	-209,630.69	32,709,426.34	+658,173.66	33,367,600.00
Undivided Profits (Net).....	21,893,235.34	+752,085.68	22,645,321.02	+259,203.67	22,904,524.69	+1,681,966.03	24,586,490.72	+241,673.37	24,828,164.09
Reserve Accounts.....	24,970,407.12	+1,364,686.27	26,335,093.39	-1,176,072.80	25,159,020.59	+1,811,200.57	26,970,221.16	-155,650.30	26,814,570.86
TOTAL CAPITAL STRUCTURE	\$124,572,443.51	\$+2,171,614.69	\$126,744,058.20	\$-1,369,230.89	\$125,374,827.31	\$+2,072,235.91	\$127,467,063.22	\$-958,196.73	\$128,425,259.95
GRAND TOTAL LIABILITIES	\$1,600,704,101.62	\$-71,884,534.09	\$1,528,819,567.53	\$+98,259,363.40	\$1,627,078,930.93	\$+109,218,138.48	\$1,736,297,069.41	\$+145,978,067.87	\$1,882,275,137.28
ANALYSIS—LOANS AND DISCOUNTS									
Commercial Paper.....	\$ 32,458,915.23	\$-14,495,662.36	\$ 17,963,252.87	\$+2,126,225.95	\$ 20,089,478.82	\$-637,901.63	\$ 19,451,577.19	\$-2,192,082.44	\$ 17,259,494.75
Collateral Loans.....	51,914,434.73	-4,888,774.98	47,025,659.75	-794,106.27	46,231,553.48	-3,932,179.18	42,299,374.30	-1,238,839.99	41,060,534.31
Other Loans.....	204,471,706.71	-4,602,773.86	199,868,932.85	-16,233,905.37	183,635,027.48	-6,760,491.29	176,874,536.19	-7,292,359.25	169,582,236.94
Farm Loans.....	12,884,519.76	-290,353.31	12,594,166.45	-42,696.24	12,551,470.21	-695,103.79	11,856,366.51	-745,942.37	11,110,424.14
Other Real Estate Loans.....	63,399,179.76	-120,733.30	63,278,446.46	+51,187.62	63,329,634.08	-1,390,084.79	61,939,549.29	-890,837.32	61,048,711.97
TOTAL LOANS AND DISCOUNTS	\$365,128,816.19	\$-24,398,297.81	\$340,730,518.38	\$-14,893,294.31	\$325,837,224.07	\$-13,415,760.59	\$312,421,463.48	\$-12,360,061.37	\$300,061,402.11

CAPITAL STOCK INCREASED

Chicago.....Cook.....State Bank of Clearing from \$175,000 to \$200,000.....Jan. 19, 1943

DISSOLVED

Chicago.....Cook.....Sherman State Bank. (In receivership May 17, 1932. Dissolved by order of the Superior Court of Cook County).....Dec. 23, 1942

Chicago.....Cook.....Universal State Bank. (In receivership July 16, 1932. Dissolved by order of the Circuit Court of Cook County).....Dec. 23, 1942

Oregon.....Ogle.....Ogle County State Bank. (In receivership December 28, 1931. Dissolved by order of the Circuit Court of Ogle County).....Dec. 28, 1942

Rochelle.....Ogle.....Rochelle Trust and Savings Bank. (In receivership February 25, 1931. Dissolved by order of the Circuit Court of Ogle County).....Dec. 28, 1942

Orangeville.....Stephenson.....State Bank of Orangeville. (In receivership November 21, 1932. Dissolved by order of the Circuit Court of Stephenson County).....Dec. 29, 1942

Sterling.....Whiteside.....The First Trust and Savings Bank of Sterling. (In receivership August 8, 1933. Dissolved by order of the Circuit Court of Whiteside County).....Dec. 30, 1942

Chicago.....Cook.....Immel State Bank. (In receivership July 21, 1931. Dissolved by order of the Superior Court of Cook County).....Jan. 8, 1943

Chicago.....Cook.....Devon Trust & Savings Bank. (In receivership July 5, 1932. Dissolved by order of the Superior Court of Cook County).....Jan. 18, 1943

Kankakee.....Kankakee.....American Trust and Savings Bank of Kankakee. (In receivership January 23, 1930. Dissolved by order of the Circuit Court of Kankakee County).....Jan. 25, 1943

RECAPITULATION

State Banks in Chicago.....	20
State Banks in Cook County outside Chicago.....	26
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Total.....	487

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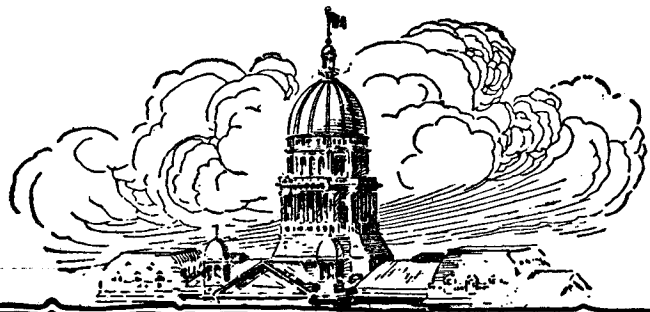
No. 12

OPERATIONS 1941-1942

On the inside pages we report and compare the operating results in our Illinois State Banks for the year of 1942 with those of 1941. In issuing last year's report (Bulletin of April 1, 1942) we commented upon the adverse effect that the upward movement of banks from one group to another had upon the "unit average" for each group. At that time we used seven groups. When compiling the 1942-41 figures we found the same upward movement to an even more pronounced degree with an even more unfavorable effect on the "unit averages."

In the figures herein contained, we have attempted to improve the accuracy of "unit averages", and believe we have to a degree, by consolidating groups. In thus curtailing the movement of banks from one group to another by expanding group limits, we have to some extent rectified the effect on averages in smaller groups. That this is only a partial correction is evidenced by the fact that the overall comparison shown between the 484 banks that operated in both 1941 and 1942 show a gain in operating net of 270 thousand. This indicates to us that even after consolidating groups the intergroup changes continue to have a depressing effect on "unit averages." The overall gain in 1940-1941 was 820 thousand dollars in 491 banks.

It will also be noted that the consolidation of groups has enabled us to "breakdown" into two groups banks having deposits of more than \$5,000,000.00.



**OPERATING RESULTS FROM ALL ILLINOIS STATE BANKS
FOR THE YEARS 1941 AND 1942**

	Group 1 Under \$500,001		Group 2 \$500,001 to \$1,000,000		Group 3 \$1,000,001 to \$5,000,000		Group 4 \$5,000,001 to \$10,000,000		Group 5 \$10,000,001 and Over		General Comparison	
	1941	1942	1941	1942	1941	1942	1941	1942	1941	1942	1941	1942
Number of Banks.....	216	131	142	167	104	152	17	18	15	19	484	484
Current Income												
Loans.....	\$1,551,142	\$721,322	\$2,064,786	\$1,682,206	\$3,249,453	\$3,497,893	\$1,281,828	\$1,041,101	\$5,175,051	\$ 5,255,146	\$13,287,331	\$12,184,088
Securities.....	482,552	299,954	669,133	717,268	1,530,481	1,979,655	1,092,319	1,011,723	8,956,435	11,219,418	12,697,999	15,226,622
Exch. Coll. Comm., etc.....	96,145	64,456	144,601	132,471	257,781	315,826	161,408	102,213	555,121	573,591	1,211,278	1,187,971
Foreign Exchange.....	446	173	189,283	187,992	13	10	228	115	39,058	26,222	39,745	26,521
Service Charges.....	134,659	79,877	189,283	187,992	546,126	576,738	433,644	366,492	880,745	1,010,894	2,179,793	2,220,708
Trust Department.....	18,246	30,317	13,452	13,452	93,304	90,505	127,189	61,741	3,184,976	3,160,432	3,437,168	3,342,995
Miscellaneous.....	118,140	59,842	148,798	147,195	434,999	464,773	407,828	265,210	573,326	769,789	1,674,699	1,706,359
TOTAL.....	\$2,381,330	\$1,255,941	\$3,230,053	\$2,867,132	\$6,112,157	\$6,925,400	\$3,504,444	\$2,848,596	\$19,364,712	\$22,015,492	\$34,508,013	\$35,904,664
Unit Average.....	(11,024)	(9,587)	(22,746)	(17,108)	(58,770)	(45,561)	(206,143)	(158,255)	(1,290,980)	(1,153,447)		
Current Expenses												
Salaries.....	\$758,142	\$427,283	\$993,368	\$934,409	\$1,918,501	\$2,298,204	\$1,124,054	\$971,023	\$6,213,726	\$7,166,009	\$10,978,531	\$11,790,954
Interest on Borrowings.....	4,737	3,960	353	353	3,986	3,986	1,052	1,052	1,712	1,712	11,738	3,960
Interest on Demand Deposits.....	2,409	674	150	9,896	739,750	788,775	507,923	334,578	2,086,103	2,247,004	2,450	10,571
Interest on Time Deposits.....	279,543	139,953	455,886	367,265	17,294	11,507	47,680	16,427	17,910	34,259	89,868	3,877,158
Interest on Capital Debentures.....	480	574	6,504	4,848	389,445	544,946	171,004	172,615	892,576	1,157,032	1,837,716	2,216,537
Taxes.....	160,684	101,412	231,329	549,132	1,226,758	1,375,992	731,096	624,179	3,767,069	4,108,529	6,776,688	6,916,294
Miscellaneous.....	458,442	263,393	607,490									
TOTAL EXPENSES.....	\$1,664,437	\$937,549	\$2,295,080	\$2,106,234	\$4,295,734	\$5,019,424	\$2,582,809	\$2,118,822	\$12,979,096	\$14,712,833	\$23,756,867	\$24,883,389
Unit Average.....	(7,706)	(7,156)	(16,162)	(12,612)	(41,305)	(33,022)	(151,929)	(117,712)	(865,273)	(774,359)		
OPERATING NET.....	\$716,893	\$318,392	\$934,973	\$760,896	\$1,816,423	\$1,905,976	\$921,635	\$729,773	\$6,385,616	\$7,302,659	\$10,751,146	\$11,021,275
Unit Average.....	(3,319)	(2,430)	(6,584)	(4,556)	(17,465)	(12,539)	(54,214)	(40,543)	(425,708)	(384,350)		
Recoveries and Profits												
Recoveries on Loans.....	\$222,615	\$155,246	\$271,093	\$287,411	\$422,100	\$533,423	\$369,226	\$122,111	\$341,948	\$486,738	\$1,617,872	\$1,584,819
Recoveries on Securities.....	92,989	47,399	112,022	109,755	246,803	249,961	211,354	66,365	59,164	221,730	714,970	695,711
Profits on Securities.....	76,765	17,570	120,959	39,397	324,116	155,133	305,317	53,627	976,622	431,393	1,802,625	697,120
Miscellaneous.....	59,538	46,934	115,643	171,341	271,872	232,039	215,493	132,967	471,354	342,391	1,133,717	925,673
Net Earnings—Plus Recoveries and Profits.....	\$1,168,800	\$585,541	\$1,554,600	\$1,368,800	\$3,081,314	\$3,076,532	\$2,023,025	\$1,105,343	\$8,234,704	\$8,784,911	\$16,020,330	\$14,924,598
Losses												
On Loans.....	\$182,143	\$57,231	\$153,787	\$113,271	\$218,792	\$211,021	\$ 94,070	\$104,251	\$ 171,663	\$ 167,072	\$ 816,040	\$ 652,485
On Securities.....	70,085	51,471	114,997	127,967	467,978	520,438	353,250	190,249	3,232,514	2,575,856	4,268,198	3,465,981
Bkg. Hse. Furn. and Fix.....	132,679	79,641	125,090	113,252	215,453	239,098	73,990	65,581	343,411	345,243	856,968	842,443
Miscellaneous.....	103,798	28,012	90,662	53,208	209,569	172,952	42,034	85,567	257,604	149,052	702,923	488,750
TOTAL LOSSES.....	\$488,705	\$216,355	\$484,536	\$407	\$1,111,791	\$1,143,509	\$593,344	\$445,648	\$4,005,192	\$3,237,223	\$6,674,129	\$5,449,659
NET TO UNDIVIDED PROFITS.....	\$680,095	\$369,186	\$1,070,154	\$961,102	\$1,969,522	\$1,933,023	\$1,429,681	\$659,695	\$4,229,512	\$5,547,688	\$9,346,201	\$9,474,939
Capital, Surplus, Und. Profits, Reserves.....	\$10,467,771	\$5,687,484	\$11,814,806	\$11,524,011	\$20,412,804	\$24,652,405	\$8,712,474	\$8,933,424	\$70,215,510	\$75,843,558	\$121,194,712	\$126,551,377
TIME DEPOSITS.....	\$18,859,303	\$10,075,709	\$38,968,200	\$30,507,794	\$72,699,222	\$82,509,416	\$52,403,621	\$48,679,867	\$219,964,721	\$239,055,553	\$397,295,826	\$410,720,450
GROSS DEPOSITS.....	\$65,304,271	\$43,275,606	\$99,614,494	\$117,118	\$203,072,987	\$285,656,506	\$120,967,215	\$127,383,426	\$979,344,804	\$1,176,367,848	\$1,465,743,409	\$1,748,661,549

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

PERMIT ISSUED

Christopher.....Franklin.....Bank of Christopher..... Capital Surplus Reserve
\$50,000 \$5,000 \$5,000..Feb. 20, 1943

CAPITAL STOCK DECREASED

✓ Virginia.....Cass.....Petefish Skiles & Co. from \$100,000 to \$50,000..... Feb. 10, 1943

CHANGE OF PAR VALUE OF CAPITAL STOCK

✓ Virginia.....Cass.....Petefish Skiles & Co. from \$100 to \$50..... Feb. 10, 1943

TRUST CERTIFICATE ISSUED

✓ Peoria.....Peoria.....Jefferson Trust and Savings Bank of Peoria..... Feb. 23, 1943

RECAPITULATION

State Banks in Chicago.....	20
State Banks in Cook County outside Chicago.....	26
State Banks in Illinois outside Cook County.....	441
Total.....	487

MONTHLY BULLETIN

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

Vol. 19

SPRINGFIELD, ILL., APRIL 1, 1943

No. 1

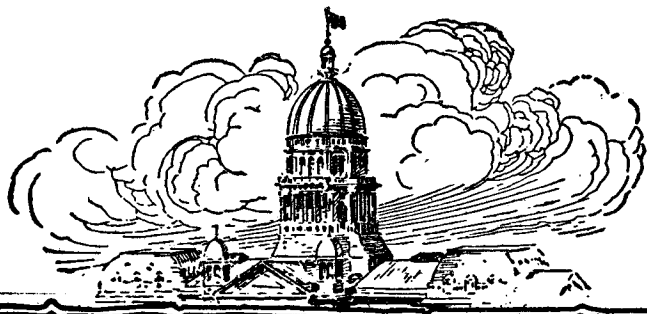
TAX ANTICIPATION WARRANTS

The reputation that Tax Anticipation Warrants have built up over the years as desirable investments has on more than one occasion misled bankers into indiscriminate buying and serious losses. By indiscriminate buying we mean the purchasing of anything offered in the line of Tax Warrants simply because they are Tax Warrants on the strength of the general good reputation of this type of paper. From some of our examining experiences in this connection we have reason to wonder if the real nature of Tax Warrants is as generally understood as it should be.

Section 2 of Chapter 146 $\frac{1}{2}$ of the Illinois Revised Statutes cites the authority for the issuance of Tax Anticipation Warrants as follows:

"Whenever a county, township, sanitary district or other municipal corporation does not have sufficient money in its treasury to meet all necessary expenses and liabilities thereof, including all expenses for building purposes, the proper authorities thereof may provide a fund to meet these expenses and liabilities by issuing and disposing of warrants drawn against and in anticipation of any taxes already levied by said authorities for the payment of these expenses and liabilities, to the extent of seventy-five percent of the total amount of those taxes.

* * * Anticipation Warrants drawn and issued un-



der the provisions of this section shall show upon their face that they are payable in the numerical order of their issuance and solely from the anticipated taxes when these anticipated taxes are collected and not otherwise."

If clearer language were needed to define the legal nature of tax warrants the Supreme Court of Illinois surely supplied it in *Berman vs. Board of Education*, (360 Ill. 535), when it held:

"Such warrants do not constitute, and cannot be construed as constituting, any promise of payment either express or implied, on the part of the taxing body issuing them, but the holder thereof must rely solely upon the ability and fidelity of the revenue officers in the collection and payment of the money mentioned in the warrants. * * * When the warrant is issued and accepted or sold the transaction is closed on the part of the municipality, leaving no future obligation upon it, either absolute or contingent, whereby its debt may be increased. The transaction is similar to that of a bank selling a note 'without recourse.' The holders of Tax Anticipation Warrants must look to the specific fund set apart for the payment of their Warrants, as the cases cited above are authority that Tax Anticipation Warrants are not contracts and the municipality is not indebted as a result of their issuance."

We have, on more than one occasion, encountered in examinations tax warrants uncollected several years after the taxes earmarked for their payment had been exhausted and found bank officers quite unconcerned about their position. They would blandly explain that they were on very friendly terms with the municipal officials who recognized a community obligation to see that the defaulted warrants were paid and would in due time issue new warrants payable out of a later year's taxes. This would actually be done and we would find in subsequent examinations that the bank had salvaged its investment plus interest in that manner. We are sure that in none of these instances were the bank and municipal officials aware that there was anything illegal in these refunding operations. And we have seen instances where banks have purchased Tax Anticipation Warrants after repeated defaults by the issuing municipality, fully confident that through the cooperation of friendly officials that the recovery of their investment was assured under any circumstances. As a matter of fact they were operating on very thin ice.

The law as cited above recognizes but two purposes as authority for the issuance of Tax Anticipation Warrants, i. e., the payment of expenses and the payment of liabilities; neither of which embraces the payment of uncollected warrants. The Supreme Court decision above quoted sets up a very definite bar to any attempt at salvage through refinancing or substitution when it says, "When the warrant is issued and accepted or sold the transaction is closed on the part of the municipality, leaving no future obligation upon it, either absolute or contingent * * *".

As a matter of fact the Court decision above referred to was the result of an attempt to refund uncollected Tax Anticipation Warrants through the issuance of bonds. The Legislature enacted authority for

the issuance of bonds by municipalities to refund uncollected tax warrants. When an issue of bonds for that purpose was undertaken by a municipality a taxpayer's injunction brought the matter before the courts. The lower courts sustained the legislation and the municipality issuing the refunding bonds but were reversed by the Supreme Court which held that the legislation was unconstitutional.

One result of attempted refunding pointed out by the Court as unconstitutional was the unequal distribution of the tax burden. On this point the Court said, "The effect of this statute was to impose an unjust and unequal burden upon many taxpayers who paid their taxes, requiring them to pay twice for the same object, and likewise discriminating in favor of those defaulting citizens who either failed or deliberately refused to carry their just share of the tax burden."

The Court's reasoning toward the conclusion may be clearly understood by visualizing a municipality with \$50,000.00 in Tax Anticipation Warrants outstanding at the end of 1940, payable out of 1940 taxes, collectible in 1941. At the close of 1941 only \$40,000.00 of the earmarked taxes had been collected; leaving a \$10,000.00 warrant uncollected. Now let it be assumed that the officials of the municipality issue a new warrant for \$10,000.00 to take up the uncollected 1940 warrant of like amount. The new warrant is drawn against 1941 taxes collectible in 1942, and no other warrants are issued. When this second warrant is paid, it is by almost the identical taxpayers who paid for the same purpose in 1941; for if all of the 1940 tax levy had been collected the 1941 warrant would not have been necessary.

Without doubt, under the above circumstances a taxpayer's injunction would restrain the municipal officials from levying a tax to pay the second warrant and from issuing and paying the second warrant. And it would also seem to be beyond doubt that even after the second warrant were paid that a taxpayer's suit would recover principal and interest from the recipient.

There is one statement contained in the Supreme Court's decision, hereinabove quoted, that should impress itself indelibly on the minds of bankers who occasionally buy Tax Anticipation Warrants; for it very concisely scans what might be called the entire credit background of this type of paper when it said, "* * * the holder thereof must rely solely upon the ability and fidelity of the revenue officers in the collection and payment of the money mentioned in the warrants. * * * 'and again' * * * When the warrant is issued and accepted or sold the transaction is closed on the part of the municipality * * *".

We have not deemed it necessary to stress the importance of determining the legality of proceedings leading up to the issuance of Tax Anticipation Warrants which is equal to any of the considerations above set forth. For certainly the holder of illegally issued warrants is in a hopeless position and remains vulnerable for a long period of time even after collecting them. The opinion of a competent Attorney should accompany every issue of Tax Anticipation Warrants certifying as to their legality.

IN LIQUIDATION

Kenney.....DeWitt.....Farmers State Bank of Kenney.....	Feb. 10, 1943
Janesville.....Coles.....Citizens State Bank of Janesville.....	March 15, 1943

DISSOLVED

Chicago.....Cook.....Adams State Bank (The) (In receivership July 20, 1932. Dissolved by order of the Circuit Court of Cook County).....	Jan. 21, 1943
Chicago.....Cook.....Marshall Square State Bank (In receivership Oct. 20, 1931. Dissolved by order of the Circuit Court of Cook County).....	Jan. 21, 1943
Greenview.....Menard.....Greenview State Bank (In receivership Feb. 8, 1932. Dissolved by order of the Circuit Court of Menard County).....	March 5, 1943
Chicago.....Cook.....Ridge State Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County).....	March 11, 1943
Herscher.....Kankakee.....Citizens State Bank of Herscher (In receivership Sept. 28, 1931. Dissolved by order of the Circuit Court of Kankakee County).....	March 25, 1943

RECAPITULATION

State Banks in Chicago.....	20
State Banks in Cook County outside Chicago.....	26
State Banks in Illinois outside Cook County.....	439
Total.....	485

MONTHLY BULLETIN

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AUDITOR of PUBLIC ACCOUNTS
BANKING DEPARTMENT
State of Illinois

Vol. 19

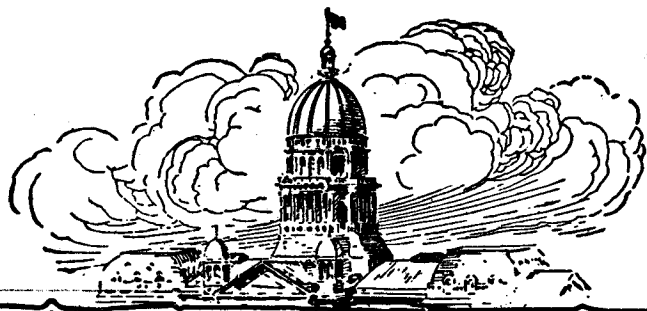
SPRINGFIELD, ILL., MAY 1, 1943

No. 2

SILENT PARTNER

As we occasionally look back into our old records, particularly of events that occurred in the late 20s and early 30s, noting reports of mergers, consolidations, refinancings, reorganizations, etc., we are invariably struck with the coldness and lifelessness of our chronicle in contrast with the intense drama from which these events emerged. In many of these, unforgettable characters arose to meet crises heroically, and without heroics, or hesitation, accepted sacrifices and genuine hardships to save bank depositors. They were then, as they are today, anonymous to the general public. They neither sought nor expected public acclaim. Their sole purpose was what our record so cryptically shows today—objective accomplished. This is the story of one of our unsung heroes.

About sixteen years ago we were quite worried about one of our banks in one of the richest agricultural districts in this State. It bore all the earmarks of trouble,—low cash reserves, no secondary reserve, frequent borrowings to bolster cash, accumulation of other real estate and a box full of heavy, slow and overextended notes. Collateral was almost entirely barnyard chattels and second mortgages. Credit files consisted of a few statements haphazardly drawn up and very condensed. The bank was operated by a five-man Board, two of whom were the managing officers.



The regular territorial examiner invariably came away from this place tearing his hair and talking to himself. He always felt that he had examined and left to operate an insolvent bank but, try as he might, he could not establish insolvency or even capital impairment. The management was short on factual evidence of asset values but they had all the answers. They knew their borrowers and could fluently discuss their affairs and circumstances. They insisted that their loans were good and collectible, and offered to take the examiner out for a spot check of their debtors—so that he could talk to them and see their properties and convince himself. But they were equally insistent that they would not bother their customers with demands for credit data in detail and under oath merely to satisfy the whim of a bank examiner.

After several attempts to penetrate this baffling front, the territorial examiner suggested that another examiner try it and one was assigned. At the conclusion of this examination the new examiner assembled the entire Board of Directors and started to appraise the loans. After several hours of this he began to experience the same feeling of futility as his predecessor. He tried several different approaches but was utterly unable to get through the directors' conversational smoke screen to a frank discussion of debtors' conditions and asset values. Reconciled to what seemed to be inevitable defeat he began to plod along simply to finish up and get out.

Then it began to dawn on him that all of the directors were not taking part in the discussion. The two who were managing officers were dividing the burden of conversation between them. Two more were interested enough but actually added little to the discussion. The fifth director had taken no part whatever in the conference. He was quite an old man—short and heavily built, obviously a man with many years of hard toil behind him. He sat in a far corner of the room—most of the time hunched over, elbows on knees, staring down at the floor.

Piqued at the old gentleman's indifference, the examiner shot a question at him concerning a loan under discussion and got no answer. He repeated the question which was again ignored. He put the question a third time calling the director by name and reminding him of his duty under the law. Without changing his position, he rolled his head slowly to look at the examiner and after a long pause replied:

"Why waste your time asking me questions? Nothing that I say counts around here."

The examiner assured him that any statement made by him, either of fact or opinion would receive fair consideration. After some deliberation the director continued: "Well, those notes of Sam Jones' that you've got in front of you may be worth a little more than the paper they're written on, but not much."

The examiner, sensing the break he had been looking for, pressed in to explore the path so suddenly and unexpectedly opened up to him.

"But I have Jones' statement here showing a good net worth and your associates here say his paper is absolutely collectible."

"Well, I don't agree with them", replied the old director stoutly, "or that statement either. Maybe these men honestly believe that they can collect those notes from Sam Jones but I KNOW they can't. You say that the law obliges me to answer your questions and you want to know what I think about Sam's notes. All right—here goes."

The old gentleman had reared up to a sitting position, with his heavy paw-like hands gripping his knees, his head thrust forward not unlike a bear at bay.

"As far as that statement is concerned, you might just as well chuck it in the waste basket. I know that Sam signed it. Maybe he read it and maybe he didn't. It was made out by the Cashier. What's the date on it? None? Huh—Well, forget about it. I'll tell you what shape Sam's in and if he were sitting here in this room, he would tell you the same thing; for Sam never lied in his life. He's been busted, Mister, for five years. He's the same age I am and trying to work 160 acres of land without any help. His boys who he spent most of this borrowed money on and who ought to be helping him now are all gone and if it weren't for these debts of his, he would have quit long ago. He's just plumb worked out and through. Sure we got a chattel but there ain't much left of it. That tractor that he should never have bought has been plumb out of commission for two years. His neighbors been doing most of his plowing and such; for the rest of the tools on that chattel ain't much account. He just ain't able to take care of things. For the last couple of years a few of his old friends have chipped in to help him out with the interest on his mortgage; but I don't figure that as a favor to him for each year he farms, he goes that much deeper in the hole. Sam's through and he's known it for a long time but he figures he owes it to his creditors to keep tryin'. You men remember when we loaned him that last money to buy that second-hand tractor—I was against it. Sam would have sold out and quit then if anybody had given him the idea and we wouldn't have come out so bad but we ain't going to get much now and we might just as well admit it."

He paused and looked around at his stunned associates. "Well—what about it, men—am I right about Sam, or ain't I?"

The two inactive directors instantly swung to his leadership and admitted that the Jones' notes were in all probability a total loss. The managing directors stood mute and did not even undertake to dispute the old gentleman's conclusions.

With his classification established for the Jones loan, the examiner brought up another and shifted the focal point of the discussion to the old director who, as he warmed to his new role, turned in an amazing performance. His analysis of the credit lines, as they came up for review, was almost scholarly. He knew personally every debtor, every co-signer, every endorser. When he said a loan was collectible he would tell when and how it was going to be paid or how it could be collected. Obviously he had made a long and careful study of every loan in the portfolio. It was equally plain that he had more than once covered this same ground with his associates who had apparently ignored his objections, criticisms and warnings. In spite of all this he was not the least vindictive but fair, logical and entirely objective in his conclusions. The division of opinions among the Board members remained consistent throughout the discussion with the three inactive members in almost constant agreement and the two managing directors either dissenting or standing mute.

With his goal in sight the examiner pressed on with his inquiry far into the night; appraising every note in the bank. It was nearly day-break when he pulled the tape from the adding machine showing the total of losses estimated. The result was staggering—even to the exam-

iner. The capital structure was wiped out and the deposits somewhat impaired. When the examiner read his figures four of the Board members nearly collapsed; but the old director nodded thoughtfully, remarking, "Those figures ain't far from mine."

One of the managing officers, bitterly resentful, almost snarled at the old gentleman, "I suppose you're satisfied now that you've closed our bank."

The old director looking mildly surprised, turned to inquire, "Who said anything about closing this bank? It ain't going to close. It's going to stay open," then added as if talking to himself and prophetically as things turned out, "at least until it can call every depositor in and pay him 100 cents on the dollar. But," he continued, "We're due for a house cleanin' and I'm ready to do my share of it and more—right now."

He did—in fact, he did practically all of the "house cleaning" using most of his personal fortune to do it. When the job was completed he asked one consideration and that was that the active officers be allowed to continue. He did not want them embarrassed and they needed their jobs.

Came the Moratorium of 1933 and the bank was among the first to reopen. The old gentleman passed away about 1936. Shortly thereafter the stockholders voted to liquidate and dissolve. We never rightly knew the reason for this surprising move, but we have always suspected a dead hand as the motivating influence. At any rate the bank closed only after the conditions laid down by the old director eight years before had been fulfilled. The depositors received 100 cents on the dollar.

What price Silence?

CHARTER ISSUED

		Capital	Surplus	Reserve	
Forest Park..Cook.....	First State Bank of Forest Park 7348 Madison Street Howard F. Sammon, President Clarence R. Jager, Cashier	\$100,000	\$10,000	\$15,000	Apr. 12, 1943
Christopher..Franklin.....	Bank of Christopher 109 West Market Street F. J. Hoe, President Rowland Hughes, Cashier	\$ 50,000	\$ 5,000	\$ 5,000	Apr. 19, 1943

CLOSED

Cullom.....Livingston.....	Farmers State Bank of Cullom, Illinois				Apr. 2, 1943
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RECEIVER APPOINTED

Cullom.....Livingston.....	Farmers State Bank of Cullom, Illinois—J. M. Jeyte				Apr. 14, 1943
Chicago.....Cook.....	Garfield State Bank—Martin L. Massman (John E. Sullivan, resigned)				Apr. 30, 1943

DISSOLVED

Chicago.....Cook.....	Montrose Trust & Savings Bank (In receivership June 8, 1931. Dissolved by order of the Circuit Court of Cook County)				Mar. 12, 1943
Janesville.....Coles.....	Citizens State Bank of Janesville (In liquidation March 15, 1943)				Mar. 27, 1943
Lombard.....DuPage.....	Lombard State Bank (In receivership January 18, 1932. Dissolved by order of the Circuit Court of DuPage County)				Apr. 1, 1943
Harvey.....Cook.....	Bank of Harvey (In receivership March 1, 1932. Dissolved by order of the Circuit Court of Cook County)				Apr. 8, 1943
Chicago.....Cook.....	First Englewood State Bank of Chicago (In receivership July 18, 1932. Dissolved by order of the Circuit Court of Cook County)				Apr. 9, 1943
Chicago.....Cook.....	North Town State Bank (In receivership May 12, 1931. Dissolved by order of the Circuit Court of Cook County)				Apr. 9, 1943

RECAPITULATION

State Banks in Chicago.....	20
State Banks in Cook County outside Chicago.....	27
State Banks in Illinois outside Cook County.....	439
Total.....	486

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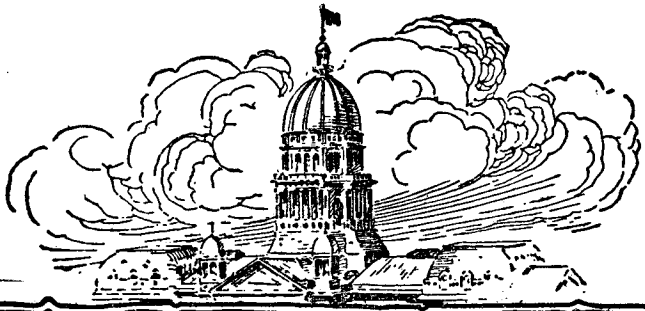
SPRINGFIELD, ILL., JUNE 1, 1943

No. 3

TAX WARRANTS AGAIN

In "boiling down" copy to fit the space limit of our April BULLETIN on the subject of Tax Anticipation Warrants, we had only a small paragraph of room left for an observation on the necessity of a legal opinion for each issue of such paper.

We have been uneasy about that ever since; for legality of issue is paramount to all other questions when the purchase of this type of investment is under consideration. If an issue of Tax Anticipation Warrants is legal the holder has a lien against such taxes as may be collected from the pledged levy. On the other hand, if an issue is illegal in any respect a holder's position becomes very precarious; and there are circumstances possible whereunder Courts could order complete restitution of amounts collected by holders of warrants purchased in good faith. Moreover, holders of illegally issued municipal paper could expect little relief from the Courts. Municipal law and business is so open to the public that purchasers of municipal securities would be very apt to be held "on notice" of any irregularities in their paper at the time of purchase. There have been decisions to that effect concerning municipal bonds. The question of legality is so vital and at the same time so involved that we are naturally amazed when we find Tax Anticipation Warrants in bank investment portfolios unsupported by competent opinions as to their legality.



We said above that the question of legality is involved. Let us see how involved it really is.

Illinois Revised Statutes contains five provisions for the issuance of Tax Anticipation Warrants:

1. Chapter 24 "Cities and Villages Act" Sec. 15.6
2. Chapter 146½ "Warrants" Sec. 2
3. Chapter 122 "Schools" 125-155-309

And there are five essential legal questions and conditions that must be satisfactorily answered and met beyond all doubt:

1. The assessed value of the property subject to the issuing taxing body.
2. The constitutional and statutory limitation on tax rates.
3. The appropriation ordinance.
4. The tax levy ordinance.
5. The history of tax collections.

In general outline the above cited statutes are all essentially alike in that there must be a necessity and they are limited to certain stipulated purposes. It would therefore seem that both of these conditions should be established first.

The appropriation ordinance should show in complete detail the purpose and a statement of the financial condition of the taxing body should show the need. The Supreme Court of Illinois has held that the issuance of Tax Anticipation Warrants is in itself prima facie evidence of necessity but the contrary can be established by evidence.

Then comes the question as to the legal qualification of the governing body and the officers who sign the warrants. All statutes on this subject provide that "proper corporate authorities" may issue Tax Anticipation Warrants. Therefore, if any of the officers who are parties to the issue are not "proper corporate authorities" the outcome of the paper that they issue would be a matter of grave doubt.

The adoption of the Appropriation Ordinance and the levy of taxes are steps which MUST PRECEDE the issuance of Tax Anticipation Warrants. The law provides that they can only be issued after the foregoing steps have been taken. We emphasize this requirement for the reason that on more than one occasion we have encountered warrants that were hurriedly issued and sold while the steps that should have been preliminary were taken later when the corporate authorities could conveniently get around to it.

Tax levies are always subject to Court review and if found to be legally defective or excessive in amount a reduction might be ordered that would bring a levy below the amount of Tax Anticipation Warrants already issued. In that case some of the warrant holders would be bound to lose.

The form of the warrant itself is also governed by legal specifications as follows:

"Anticipation Warrants drawn and issued under the provisions of this section shall show on their face that they are payable in the numerical order of their issuance and solely from the anticipated taxes when these anticipated taxes are collected and not otherwise."

In addition to the foregoing legal considerations there is also the

ratio of the issue to the amount of the tax levy. Generally speaking, the legal limit is 75% of the taxes levied but under certain circumstances and conditions the issue may be as much as 90% of the levy. However, there are undoubtedly many situations where tax collections would not justify a 75% issue; so it is important for a prospective purchaser to know that the tax collection experience of the issuing municipality has been well above the amount of the proposed issue. Generally, Attorneys will, in drawing their opinions, refer to the average tax collection experience and occasionally recommend an issue limit below the legal maximum. When he does this, he has a very good reason and his warning should not be ignored. In this connection, when banks buy Tax Anticipation Warrants annually and heavily from their own municipal bodies, they should watch the histories of the issues that have come out year after year and note how they are handled and taken care of. Such histories are of parallel importance with the loan histories of their own debtors. They are even more important to this extent: the paper of a debtor can be extended into the future and the deficiencies of a weak year can be overcome in an exceptionally profitable one. In dealing with Tax Anticipation Warrants, however, the holder has only one chance and if he fails to collect in any particular year, that failure can only be written off as a loss.

Readers may be curious as to why we have devoted two BULLETIN issues on and penetrated rather deeply into this subject. This Department has a high regard for Tax Anticipation Warrants when they are legally issued and on a sound basis; but there have been too many cases of unsound issues, improper handling, and resultant losses. In most of these instances the bankers themselves were largely to blame for failure to use even the most ordinary diligence in examining what they were buying. As we stated in our April BULLETIN they bought blindly and entirely on the general good reputation that this type of paper bears.

Good bankers before loaning or investing want facts or evidence of facts upon which their loans or investments are to be based. They want financial statements, operating reports, tax data, abstracts of title, attorneys' opinions; all of which the borrower or seller is expected to furnish. If a municipal corporation offers its paper to the public is it unreasonable, in view of the risks involved, to expect it to furnish what individuals, firms and business corporations are expected and generally ready to furnish without being asked? Heavy buyers of Tax Anticipation Warrants invariably make their bids subject to the legal opinion of a stipulated lawyer or law firm.

If legality of issue is a vital question in the purchase of Tax Anticipation Warrants, should not the municipal body issuing and selling them first submit satisfactory evidence that what it is offering is legal and proper?

Such financial data as is now submitted with loans and investments as a matter of routine is available only because bankers and other prudent investors invariably insist upon it and will not do business without it. If bankers will uniformly adopt the same attitude toward Tax Anticipation Warrants, existing abuses of commission and omission will immediately disappear.

PERMIT ISSUED

		Capital	Surplus	Reserve	
Oswego.....	Kendall.....	Oswego Community State Bank.....	\$30,000	\$5,000	\$2,500.. May 21, 1943

CAPITAL STOCK INCREASED

✓	Winnetka.....	Cook.....	Winnetka Trust and Savings Bank from \$75,000 to \$100,000.....	May 14, 1943
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DISSOLVED

Chicago.....	Cook.....	Millard State Bank. (In receivership Sept. 22, 1930. Dissolved by order of the Circuit Court of Cook County).....	Apr. 19, 1943
Chicago.....	Cook.....	Morgan Park Trust & Savings Bank. (In receivership Feb. 25, 1932. Dissolved by order of the Circuit Court of Cook County).....	Apr. 21, 1943
Chicago.....	Cook.....	South Shore State Bank. (In receivership July 18, 1932. Dissolved by order of the Circuit Court of Cook County).....	Apr. 30, 1943
Chicago.....	Cook.....	State Bank of Beverly Hills. (In receivership August 18, 1931. Dissolved by order of the Circuit Court of Cook County).....	Apr. 30, 1943
St. Anne.....	Kankakee.....	Farmers' State Bank of St. Anne. (In receivership Nov. 4, 1931. Dissolved by order of the Circuit Court of Kankakee County).....	May 10, 1943
Chicago.....	Cook.....	Stockmen's Trust and Savings Bank. (In receivership Feb. 11, 1932. Dissolved by order of the Circuit Court of Cook County).....	May 12, 1943
Chicago.....	Cook.....	Papanek-Kovac State Bank. (In receivership July 2, 1932. Dissolved by order of the Superior Court of Cook County).....	May 21, 1943
Rushville.....	Schuyler.....	Bank of Rushville. (In receivership Feb. 11, 1931. Dissolved by order of the Circuit Court of Schuyler County).....	May 25, 1943

RECAPITULATION

State Banks in Chicago.....	20
State Banks in Cook County outside Chicago.....	27
State Banks in Illinois outside Cook County.....	439
Total.....	486

MONTHLY BULLETIN

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

Vol. 19

SPRINGFIELD, ILL., JULY 1, 1943

No. 4

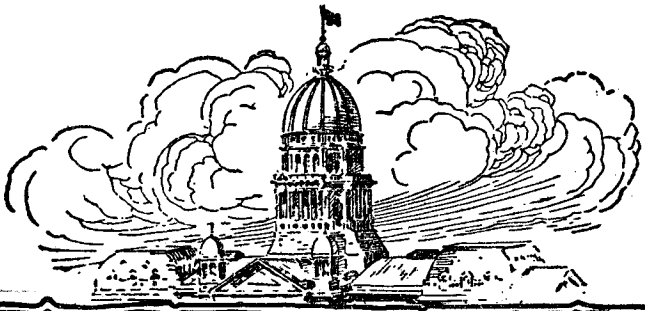
OFFICERS' REPORTS

A short while back we had occasion to review a monthly report made by the officers of one of our State banks to the Board of Directors at their regular monthly meeting. This particular report covered nearly eleven legal size pages and furnished about as complete a record of operations as one could ask.

Inasmuch as the bank is a six million dollar institution and is operated by four officers and nineteen clerks, we were curious as to who could find the time to assemble and prepare so much material every month. We later learned that the President himself did this job and he made little of it. He said that he had been turning out that monthly report so long that it had become a routine duty that took very little of his time.

We were impressed with the logical sequence followed in arranging the report; for it seemed to answer in the natural order of their occurrence, the questions that a Director sitting down to his monthly meeting, would be likely to ask concerning the bank's operations during the preceding month.

The report begins with a comparative statement of resources at the beginning and end of the month preceding the meeting. All of the general ledger accounts are assembled and compared in four groups—"Loans and Discounts", "Investments", "Cash Resources" and "Miscellaneous."



The statement of liabilities is assembled into three groups—"Free Capital Structure", "Deposits" and "Miscellaneous"—all assembled in detail and compared with the preceding month.

Next comes the operating statement showing first the income and expense accounts and the operating net, followed by such non-regular additions as recoveries and profits. Then the monthly allocations to the reserve accounts are listed and the net income shown. All of the figures in this statement are compared with the same month in the previous year. The undivided profits account is then reconciled from the previous December 31 to the date of the report. The changes in each reserve account for the preceding month are reported together with opening and closing balances. In the reserve for losses on loans, charge-offs, and recoveries are reported in detail.

The expense account is divided under three main headings—"General" with twenty-nine classifications, "Building Expense" with seven, and "Automobile Expense" with three.

All bond purchases and payments are reported in detail.

The loan section begins with loans made under the Federal Housing Act, Title I and shows, makers and co-makers, bank number, installment program, date, maturity and property address. It ends with a list of this type of loans that have been fully paid and the total of installments collected.

The next group of loans reported is Federal Housing Loans made under Title II. It begins with a list of new loans made and shows the names of the makers, bank number, amount, date, maturity, rate, property address and valuation and concludes with a list of loans paid in full and the total of installments collected.

Ordinary real estate loans are reported next and follow the same form as the F.H.A. Title II except that the installment program is shown after the amount of each loan. This report also ends with the list of paid loans and the total of installments collected.

Next reported is "Time Loans Unsecured" and the maker, bank number, amount, date, maturity, rate and endorser, if any, are shown. This is followed by a list of payments and reductions, renewals and renewals with reductions in detail.

"Personal Loans" come next and outlined the same as "Time Loans Unsecured" except that the installment program is inserted after the amount of the loan. Total payments are listed in detail. Charge-offs, if any, in this group are also reported at this point.

The next group is "Loans on Collateral" and the outline is: names of makers, bank number, amount, date, maturity, rate, description of collateral, appraised value of collateral. If the borrower has additional obligations to the bank the amount is shown. Payments, renewals and renewals with reductions are also reported in detail.

"Automobile Installment Loans" are next reported: showing name of maker, bank number, amount, installment program, date, maturity, rate, description of collateral and valuation. Full payments are reported in detail and installments collected shown in total.

As the board members assemble for their meeting each one is handed the report as above outlined and given an opportunity to review it briefly. The meeting convenes and the first item of the report taken up is the bond section. Every six months the directors examine the

bank's investment position and formulate the policy to be followed during the ensuing six months. Then at their monthly meetings they examine the bond investments of the preceding month to determine how closely said investments conform to the policy prevailing for the period.

Despite the fact that all of the loans reported have been previously examined by the Executive Committee, the board of directors spend from an hour and a half to two hours studying and reviewing them. During these deliberations, the president is prepared to answer any questions that the board members may ask and furnish them with any credit material that they may require.

After completing their loan review the board takes up the operating statement and the expense account. The comparisons shown on the report with the same month in the previous year are studied and if trends appear they are carefully examined.

In discussing this report with the president of the bank, we found his casual attitude toward it quite disconcerting. He had used it so long and consistently that it had become just as indispensable as his general ledger and he could see nothing unusual about it. He did make one observation, however, that is well worth bearing in mind.

"Operating on the basis of a report like that", he said, "certainly takes a lot of pressure off of the chief executive officer. For thirty days he shares with the executive committee a degree of responsibility for investments and operations but at the end of that time he clears it all through the board of directors while the transactions and all circumstances surrounding them are current and easily accessible."

Another bank executive whose monthly report to his board of directors is even more detailed made an interesting comment:

"My directors," he said, "would not operate our bank sixty days without that monthly report. One of my most important duties is to have it in their hands when they assemble for their regular monthly meeting. Through that report they know just as much about our bank as I do. This familiarity with the bank's affairs over a period of years, has developed in them not only a banker's viewpoint but an officer's viewpoint as well. More than once this knowledge has enabled them to solve some difficult problems for me and get me out of some pretty trying situations."

"Our board of directors," he continued, "are all good business men of long experience. Collectively they are bigger than I can ever hope to be. Wouldn't it be stupid of me to, through my own neglect, impair the usefulness of my most valuable source of help? And what could I possibly gain by it?"

There is indeed food for much thought in those last two questions.

PERMIT ISSUED

	Capital	Surplus	Reserve	
Kansas.....Edgar.....			\$1,250	June 9, 1943
Kansas State Bank.....	\$25,000	\$5,000		
Saybrook.....McLean.....	\$25,000	\$5,000	\$1,250	June 22, 1943

IN LIQUIDATION

Mound City..Pulaski.....	First State Bank of Mound City, Illinois.....	June 19, 1943
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CONVERSION

Chicago.....Cook.....	University State Bank into University National Bank.....	May 1, 1943
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DISSOLVED

Chicago.....Cook.....	Security Bank of Chicago (In receivership Sept. 4, 1942. Dissolved by order of the Circuit Court of Cook County).....	May 21, 1943
Chicago.....Cook.....	Second Security Bank of Chicago (In receivership Sept. 4, 1942. Dissolved by order of the Circuit Court of Cook County).....	May 21, 1943
Golden.....Adams.....	Exchange State Bank of Golden (In receivership Dec. 12, 1930. Dissolved by order of the Circuit Court of Adams County).....	June 4, 1943
Chambersburg.....Pike.....	Chambersburg State Bank (In liquidation Sept. 20, 1930. Dissolved by order of the Circuit Court of Pike County).....	June 8, 1943

RECAPITULATION

State Banks in Chicago.....	19
State Banks in Cook County outside Chicago.....	27
State Banks in Illinois outside Cook County.....	438
Total.....	484

MONTHLY BULLETIN

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State of Illinois

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SPRINGFIELD, ILL., AUGUST 1, 1943

No. 5

STEADILY FORWARD

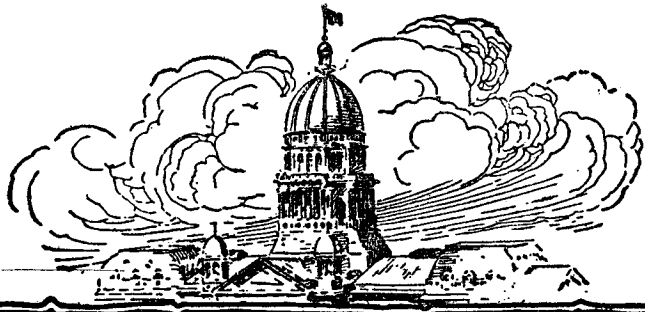
As the war tempo of our national life quickens, the agitation on its surface increases. Free people, chafing against self-imposed discipline, can kick up some lusty tempests in the form of social, economic and other upsets that arise from time to time to harass or seemingly threaten our war effort. These, we repeat, are surface manifestations as they come to us from the columnists we read, the commentators we hear and the friends we talk to.

Beneath and beyond all of that is a steady current, moving inexorably in one direction. Out beyond the home front our armed forces move steadily forward; while underneath our surface the economic trend follows an exact parallel.

In the twelve-month review of Illinois State bank figures published on the next two pages, we find a steady and uninterrupted mobilization of a nation's resources behind its armed forces.

Deposits increased 444 million dollars and Government bonds moved up 500 million. The 56 million dollar excess of Government bond purchases over the increase in deposits came largely from a reduction in loans of 53 million, a 2 million dollar liquidation from "Other Bonds" and 1 million from cash. The only deviation, of any consequence, from the sweeping trend above outlined was a 7 million dollar pickup in "Other Bond Investments" during the past six months.

The proportion of Illinois State bank resources invested in Government obligations rose during the twelve-month period from 29 to 46%; showing a gain of 6% during the past six months.



**REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS**

NUMBER OF BANKS.....	495	Increase or Decrease	488	Increase or Decrease	487	Increase or Decrease	485	Increase or Decrease	484
DATE OF CALL.....	June 30, 1942		Sept. 30, 1942		Dec. 31, 1942		Mar. 26, 1943		June 30, 1943
RESOURCES:									
Cash and Due from Banks.....	\$521,201,955.39	\$-18,295,275.58	\$502,906,670.81	\$+26,813,014.76	\$529,719,694.57	\$-19,778,263.56	\$509,941,431.01	\$+10,580,181.68	\$520,521,612.69
Outside Checks and Other Cash Items.....	15,803,277.30	-1,116,276.67	14,687,000.63	+10,850,727.46	25,537,728.09	-11,486,294.99	14,051,433.10	+6,165,207.88	20,216,640.98
U. S. Governments—Direct and Guaranteed.....	469,298,467.25	+145,102,641.00	614,401,108.25	+127,714,696.34	742,115,804.59	+60,652,854.62	802,788,659.21	+168,068,243.62	970,836,902.83
Other Bonds, Stocks and Securities.....	275,110,824.65	-2,693,355.42	272,417,469.23	-6,680,585.26	265,736,883.97	+4,814,334.58	270,551,218.55	+2,365,429.55	272,916,648.10
Loans and Discounts.....	325,837,224.07	-13,415,760.59	312,421,463.48	-12,360,061.37	300,061,402.11	-18,106,690.69	281,954,711.42	-9,952,676.91	272,002,034.51
Overdrafts.....	71,404.10	+13,217.84	84,621.94	-32,936.19	51,685.75	+47,059.76	98,745.51	+196,745.14	295,490.65
Banking House.....	10,412,911.66	-28,576.47	10,384,335.19	-217,053.78	10,167,281.41	-61,940.23	10,105,341.13	-178,986.43	9,926,354.70
Furniture and Fixtures.....	1,396,760.91	+31,905.30	1,428,666.21	-109,277.61	1,319,388.60	-5,311.20	1,314,077.40	-63,809.46	1,250,767.94
TOTAL—Bkg. House and Furniture and Fixtures	\$11,809,672.57	\$+3,328.83	\$11,813,001.40	\$-326,331.39	\$11,486,670.01	\$-67,251.48	\$11,419,418.53	\$-242,295.89	\$11,177,122.64
Other Real Estate.....	\$2,052,851.08	\$-195,075.91	\$1,857,775.17	\$-203,003.81	\$1,654,771.36	\$-124,838.52	\$1,529,932.84	\$-196,205.78	\$1,333,727.06
Customers' Liability—Letters of Credit.....	441,723.83	-164,332.93	277,390.90	-38,386.88	239,004.02	-38,960.92	200,043.10	+78,261.67	278,304.77
Customers' Liability—Acceptances.....	139,328.52	+25,088.95	164,417.47	-86,806.99	77,610.51	+4,379.37	81,989.88	+51,906.07	133,895.95
Other Resources.....	5,312,202.17	-46,061.04	5,266,141.13	+327,741.17	5,593,882.30	-805,106.31	4,788,715.99	+1,118,869.31	5,907,535.30
GRAND TOTAL RESOURCES.....	\$1,627,078,930.93	\$+109,218,138.48	\$1,736,297,069.41	\$+145,978,067.87	\$1,882,275,137.28	\$+15,111,161.86	\$1,897,386,299.14	\$+178,233,666.34	\$2,075,619,965.48
LIABILITIES:									
Deposits									
Demand Deposits.....	\$951,436,951.88	\$+106,315,620.21	\$1,057,752,572.09	\$+117,567,729.33	\$1,175,320,301.42	\$-1,439,602.81	\$1,173,880,698.61	\$+170,016,509.56	\$1,343,897,208.17
Time Deposits.....	387,923,784.82	+6,927,391.22	394,851,176.04	+15,977,164.85	410,828,340.89	+16,853,885.99	427,682,226.83	+13,833,624.42	441,515,851.30
Due to Banks.....	157,364,227.37	-5,353,287.31	152,010,940.06	+11,642,524.75	163,653,464.81	-2,143,261.77	161,510,203.04	-6,629,646.38	154,880,556.66
Deposits Secured by Pledge.....	\$ 52,513,347.76	\$+16,832,692.93	\$ 69,346,040.69	\$+38,214,308.38	\$ 107,560,344.07	\$-36,294,622.43	\$ 71,295,721.64	\$+77,570,853.62	\$ 148,866,575.26
Deposits Not Secured by Pledge.....	1,444,211,616.31	+91,067,031.19	1,535,268,500.50	+106,977,555.55	1,642,241,763.05	+49,535,643.34	1,691,777,406.89	+99,649,633.98	1,791,427,040.87
TOTAL DEPOSITS.....	\$1,496,724,964.07	\$+107,889,724.12	\$1,604,614,191.99	\$+145,187,093.93	\$1,749,802,107.12	\$+13,271,021.41	\$1,763,073,128.53	\$+177,220,487.60	\$1,940,293,616.13
Other Liabilities									
Bills Payable.....	\$ 237,979.38	\$ -237,979.38							
Re-Discounts.....									
Dividends Unpaid.....	361,978.10	-137,797.07	\$ 224,181.03	\$+189,658.82	\$ 413,839.85	\$-345,325.45	\$ 68,514.40	\$+306,830.75	\$ 375,345.15
Letters of Credit.....	427,894.61	-150,063.71	277,740.90	-35,695.04	242,045.86	-41,652.76	200,393.10	+107,375.43	307,768.53
Bank Acceptances.....	167,471.00	+9,050.22	176,521.22	-60,374.48	116,146.74	-16,656.88	99,489.88	+51,243.44	150,733.32
Other Liabilities.....	3,783,906.46	-247,031.61	3,536,874.85	-261,137.09	3,275,737.76	+136,274.00	3,412,011.76	-390,406.81	3,021,605.95
Capital Structure									
Capital Stock.....	42,480,550.00	-980,000.00	41,500,550.00	+130,000.00	41,630,550.00	-70,000.00	41,560,550.00	-175,000.00	41,385,550.00
Income Debentures.....	1,911,675.00	-211,300.00	1,700,375.00	+84,000.00	1,784,375.00	-29,950.00	1,754,425.00	-295,000.00	1,459,425.00
Surplus.....	32,919,057.03	-209,630.69	32,709,426.34	+658,173.66	33,367,600.00	+184,300.00	33,551,900.00	+327,900.00	33,879,800.00
Undivided Profits (Net).....	22,904,524.69	+1,681,966.03	24,586,490.72	+241,673.37	24,828,164.09	+828,718.49	25,656,882.58	+615,621.95	26,272,504.53
Reserve Accounts.....	25,159,020.59	+1,811,200.57	26,970,221.16	-155,650.30	26,814,570.86	+1,194,433.03	28,009,003.89	+464,612.98	28,473,616.87
TOTAL CAPITAL STRUCTURE.....	\$125,374,827.31	\$+2,092,235.91	\$127,467,063.22	\$+958,196.73	\$128,425,259.95	\$+2,107,501.52	\$130,532,761.47	\$+938,134.93	\$131,470,896.40
GRAND TOTAL LIABILITIES.....	\$1,627,078,930.93	\$+109,218,138.48	\$1,736,297,069.41	\$+145,978,067.87	\$1,882,275,137.28	\$+15,111,161.86	\$1,897,386,299.14	\$+178,233,666.34	\$2,075,619,965.48
ANALYSIS—LOANS AND DISCOUNTS									
Commercial Paper.....	\$ 20,089,478.82	\$ -637,901.63	\$ 19,451,577.19	\$-2,192,082.44	\$ 17,259,494.75	\$-2,012,806.56	\$ 15,246,688.19	\$-6,070,095.57	\$ 8,276,592.62
Collateral Loans.....	46,231,553.48	-3,932,179.18	42,299,374.30	-1,238,839.99	41,060,534.31	-857,905.52	40,202,628.79	+4,993,757.86	45,196,386.65
Other Loans.....	183,635,087.48	-6,760,491.29	176,874,596.19	-7,292,359.25	169,582,236.94	-14,071,534.07	155,510,702.87	-9,169,883.13	146,340,834.74
Farm Loans.....	12,651,470.21	-695,103.70	11,956,366.51	-745,942.37	11,110,424.14	+154,484.30	11,264,908.44	-351,941.77	10,912,966.67
Other Real Estate Loans.....	63,329,634.08	-1,390,084.70	61,939,549.29	-890,887.32	61,048,711.97	-1,318,928.84	59,729,783.13	+1,545,470.70	61,275,253.83
TOTAL LOANS AND DISCOUNTS.....	\$325,837,224.07	\$-13,415,760.59	\$312,421,463.48	\$-12,360,061.37	\$300,061,402.11	\$-18,106,690.69	\$281,954,711.42	\$-9,952,676.91	\$272,002,034.51

DISSOLVED

Durand.....Winnebago.....	The Citizens State Bank of Durand. (In receivership August 18, 1932. Dissolved by order of the Circuit Court of Winnebago County).....	May 28, 1943
Savanna.....Carroll.....	Commercial State Bank of Savanna. (In receivership August 8, 1933. Dissolved by order of the Circuit Court of Carroll County).....	June 30, 1943
Chicago.....Cook.....	Boulevard State Savings Bank. (In receivership May 26, 1931. Dissolved by order of the Circuit Court of Cook County).....	July 2, 1943
O'Fallon.....St. Clair.....	First State Bank of O'Fallon. (In receivership October 7, 1939. Dissolved by order of the Circuit Court of St. Clair County).....	July 2, 1943
Oregon.....Ogle.....	Oregon State Savings Bank. (In receivership February 21, 1933. Dissolved by order of the Circuit Court of Ogle County).....	July 7, 1943
Chicago.....Cook.....	Equitable Trust Company of Chicago. (In receivership December 7, 1931. Dissolved by order of the Circuit Court of Cook County).....	July 12, 1943
Chicago.....Cook.....	Laramie State Bank of Chicago. (In receivership October 14, 1930. Dissolved by order of the Superior Court of Cook County).....	July 23, 1943

RECAPITULATION

State Banks in Chicago.....	19
State Banks in Cook County outside Chicago.....	27
State Banks in Illinois outside Cook County.....	438
Total.....	484

MONTHLY BULLETIN

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State of Illinois

Vol. 19

SPRINGFIELD, ILL., SEPTEMBER 1, 1943

No. 6

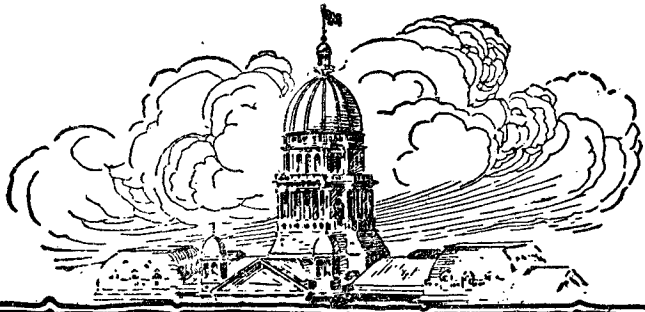
SMOLDERING FIRE

A fire on the surface of a building is quickly discovered and extinguished. Fire lurking within its walls smoulders and spreads over a wide area before breaking out with explosive force demolishing the structure.

In the light of our experience it is not at all difficult for us to visualize the deposit accounts as the walls in the financial structure of a bank and undiscovered embezzlements from those accounts as the smouldering fire. We had one of those fires this year. The bank is now in receivership, a hopeless wreck. The insured depositors were paid in full but the stockholders get nothing. There was a normal capital structure and some fidelity insurance, but not enough of either or both. We have discussed this risk in several previous issues but have not accomplished much with our recommendations; so we are going to try again.

If the tragic example above mentioned is not sufficiently jolting to bring about a general reconsideration of this risk and our recommendations for its elimination, we think that the following authoritative finding on the subject might.

The Towner Rating Bureau, Inc., is a statistical, research and supervisory organization maintained by the leading fidelity risk companies in the country. It deals only in such



vital factors as experience, facts, and results. In a recent copyrighted bulletin, from which we are privileged to quote, "Undiscovered Defalcations" were commented on as follows:

"It was conservatively estimated by the Bureau about three years ago that the hidden, undiscovered defalcations in commercial banks and trust companies amounted to more than \$10,000,000.00. The estimate was based on the fact that shortages resulting from dishonest acts of officers and employees were coming to light at the rate of about \$3,500,000.00 each year and that the average period over which such shortages were concealed was about five years.

"According to the law of averages, some of the hidden losses will be discovered today and others tomorrow. The bulk of them will not show up until years from today unless those who are responsible for the management of our banks make a greater effort to ferret out existing shortages. As a general rule the longer such losses are successfully concealed, the larger they become."

As the above considered possibilities become realities, a certain number of banks will be wrecked and there will be losses. These losses will be paid; first by the insured companies and the Federal Deposit Insurance Corporation, but eventually by the banks in the form of premiums.

A very worthwhile double objective presents itself here. Banks through internal supervision can save themselves from disaster and at the same time reduce insurance costs.

Fidelity insurance companies took the initiative toward the above objectives two years ago when on September 1, 1941 they inaugurated premium dividends for loss prevention.

As we understand it, the experience rating plan for Bankers' Blanket Bonds covers all forms, i.e., 2, 8 Revised and 24 regardless of size or amount. Under this plan, the Fidelity companies submit to the rating bureau prior to each anniversary date a schedule of the premiums and losses for each insured during the preceding five years. The schedule is analyzed and used as a basis for promulgating the experience credit which the insured is entitled to receive at the following anniversary date or renewal of its blanket coverage.

We are told that in the vast majority of cases, insureds qualify for the maximum experience credit of 20%; while for less favorable loss ratios, experience credits ranged downward from 20%. In a small percentage of cases where loss ratios are unusually high, manual rates apply without reduction by any experience credit.

About six months prior to the inauguration of the "experience rating plan" the Surety Association of America brought out Form 24; introducing it experimentally to a limited number of large banks. This form, regarded as the ultimate in Blanket Bond coverage, was so well received that in September, 1941 it was made available to all banks. The form itself cannot be analyzed here but the broadening and increased number of protected contingencies recommend it to the consideration of all bank managements.

No less authority than the Insurance Protective Committee of the American Bankers Association stated, in its report to the Executive Council of the Association, its opinion that the quality of bank insurance was never so high as it is today and the premium rates never so low.

It looks as if the next move is up to the banks.

We are confident that the next major step forward will be made when bank managements get seriously down to the business of ferreting out any undisclosed defalcations in their banks. This is not to imply that such defalcations are in all banks, but they are obviously in some banks and therein lies the major impediment to further reductions in insurance costs.

In our BULLETIN of June 1, 1941 on this subject, we pointed out the incompleteness of any examination that did not include verification of depositors and borrowers' accounts. We characterized this as the "blind side" of the examination—as "the borderline where the examiner stops and the embezzler goes to work." We explained the difficulty and impracticability of a supervisory authority undertaking such verification. We outlined a method whereby it could be done efficiently and without disturbance to the bank under the supervision of the Board of Directors. We offered our full cooperation and help to any Board of Directors that would undertake such a verification. But nothing happened.

We again urge the Directors of any bank that does not verify depositors' accounts to reconsider this subject and our recommendations. We have felt that many, while realizing the need and value of such verification, are scared away by the fear that it is too big a job for them to undertake. We do not believe it to be as big as it looks.

In order that our bank directors may be able to visualize the scope of such an undertaking, we submit hereinbelow an outline of the detail involved:

1. Obtain cashier's sworn trial balance statement of condition on the date verification is to be tested, check footings and compare the account balance with the General Ledger.
2. Prepare list of all depositors as of the same date as the above trial balance.
3. Balance lists against control account totals shown in the trial balance.
4. Have individual verification inquiries made up from the above mentioned lists.
5. Recheck individual verification inquiries with above mentioned lists and mail to depositors.

It is imperative that all of the foregoing steps be taken entirely independent of the active personnel of the bank. It is equally imperative that the mail returning from the depositors to the bank be so addressed that it will reach only the director or committee in charge of the verification. It should also be understood that no director who is active in the operation of the bank should take any part in the verification.

The best time to start such a verification is in connection with the directors' annual examination in connection with which the entire trial balance is checked out. It might also be possible for this Department to assist some Boards in getting this work started. If we were

notified in advance that the Board of Directors desired to make a verification test in connection with our next examination and sufficient stenographic assistance were available to prepare lists of depositors, we could check the lists against the trial balance verified in connection with our examination.

We hope that within the ensuing year that the Board of Directors in the Illinois State Banks who are not already doing so, will take this important step to eliminate from their institutions the threat of smouldering fire.

PERMIT ISSUED

	Capital	Surplus	Reserve	
Plano.....Kendall.....Community Bank of Plano...	\$35,000	\$5,000	\$3,750	Aug. 24, 1943

CHARTER ISSUED

	Capital	Surplus	Reserve	
Kansas.....Edgar.....Kansas State Bank 218 Buena Vista Street B. W. Honnold, President George H. Givens, Cashier	\$25,000	\$5,000	\$1,250	Aug. 23, 1943

CONVERSION

✓ Metamora....Woodford....Metamora State Bank into Metamora National Bank..... Aug. 25, 1943

RECEIVER APPOINTED

✓ Effective August 18, 1943, Harry R. Spellbrink appointed Receiver to fill all vacancies in receivership caused by the death of Mr. Otto C. Woertter.

RECAPITULATION

State Banks in Chicago.....	19
State Banks in Cook County outside Chicago.....	27
State Banks in Illinois outside Cook County.....	438
Total.....	484

MONTHLY BULLETIN

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

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No. 7

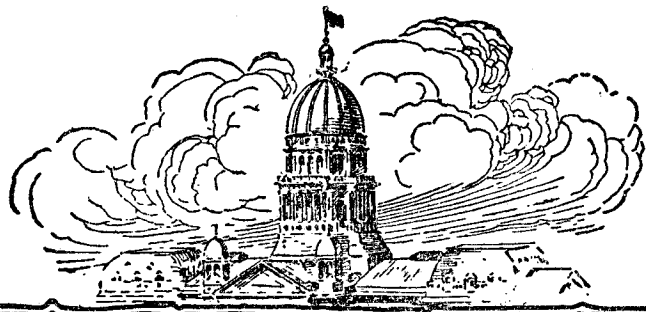
UNIFICATION

At a recent convention of the National Association of Supervisors of State Banks, the main discussion centered upon the question of unifying all bank chartering and supervising authority in the Federal Government.

Leading the discussion were Mr. Joseph Earl Perry, President of the Association, who contended for the retention of the dual banking system, and the Honorable Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, who advocates a unified banking system with limited branch banking in all States.

A careful reading of the leading speeches leaves us with the conclusion that only two sides of a three-sided question were covered. Mr. Perry stood mainly in defense of private enterprise against Federal control, while Mr. Eccles urged unified supervision with limited branch banking as a means of attaining constant economic stability through a centralized control of credit.

The third side of this question and the one that seems to us worthy of equal consideration is the cost of a unified banking system to the citizens of the Sovereign States, not in dollars, but in property rights. The bank deposits of Illinois are almost entirely the property of its citizens. Central bank



control thinkers, however, disregard this fact and claim that the bank deposits of Illinois are a part of the monetary system of the United States and then turn to the constitutional right of the Federal Government "To coin money and regulate the value thereof" for the right to control bank deposits.

But bank deposits are not money. They are essentially, fundamentally and legally contracts. The relationship between the bank and depositor is contractual. The Courts have said so many times. And the Federal Government IS NOT A PARTY TO THE CONTRACT. They are contractual credits measured in terms of money, which, for convenience are exchanged and circulate among citizens the same as money. As a matter of fact, they out-circulate money and—there is the rub, for until the constitutional power vested in the Federal Government to regulate the value of money can be stretched out far enough to envelope bank deposits, no central government will be able to acquire the degree of control necessary to bring the entire nation under economic subjection.

Let us examine a depositary relationship and see if we can find any loophole for the Federal Government to squirm in. The State Bank of Banktown is an Illinois State Bank. It is not a member of the Federal Reserve System but its deposits are insured with the Federal Deposit Insurance Corporation. John Jones is a merchant. He deposits with the State Bank of Banktown because it has a long and splendid operating record, he knows and has confidence in its management. He also knows that the management has bought and paid for insurance on his deposit up to \$5,000.00. Jones brings in a \$500.00 deposit made up of customers' checks which are transfers of property rights. The bank takes title to those rights and agrees to pay Jones the \$500.00 whenever he asks for it or to transfer it or any part of it to others on his written order. That is a typical depositary transaction and we find no Federal interest in it, except perhaps, in a remote corner of the background. The United States Government is a stockholder in the corporation that insures Jones' deposit—up to \$5,000.00.

Mr. Eccles compares our banking system unfavorably with the airtight, super-safe, centrally controlled systems of other nations; but he fails to take note of what this nation whose "banking machinery is a hodge-podge of some fifty-two different jurisdictions, laws and supervisory agencies" has accomplished as compared with his ideal nations during the past century. However, he doesn't have to—all we have to do is to look around us and it is there to be seen. To be sure, there were monetary losses sustained in the process, but after all it was only money and a trifle compared with what we will lose in following the leadership of Mr. Eccles or his school of thought. Illinois men and women are fighting all over the world to preserve the very thing that Mr. Eccles suggests that we should surrender to a central super-government.

In this article we are not going into the details of the theory which seems to us strictly academic in the field of bank operation and supervision. We prefer to stick to the main issue which is the effect of the scheme upon the rights and whole economy of the citizens of Illinois.

Unified bank supervision or a unified banking system or whatever name the scheme is paraded under, can mean only one thing and that is unlimited control over every bank in the nation by a Federal authority. There is a wide difference between bank supervision as expressed in our banking laws and the control that a central authority must have. Under Illinois law the Auditor of Public Accounts exercises no appreciable control over State banks until a bank approaches an unsafe or unsound

condition. Prior to that time the bank is under the control of its management who formulate and carry out policies of operation designed to serve primarily the community in which it operates and the deposits of which it holds. Under the unified scheme the bank's use of its deposits would be completely under the control of a governing body in Washington and subject to policies dictated by national rather than community needs.

Let's fabricate a few cases of what could happen in Illinois under unified control. Let us suppose that the central bank authority in Washington set up an arbitrary financial standard that every municipality would have to conform with in order to borrow money from or sell its paper to banks; and let us suppose also that a large number of small school districts or other municipal units in Illinois could not meet the standard. That could happen to municipal units that would be good credit risks and to which their local bank would gladly lend money; but not being able to conform to a certain arbitrary standard they could not borrow money—even though they should have a superior claim for the use of community funds.

Let us suppose again that the central bank authority decided that one of the Federal lending agencies, say the Production Credit Corporation, needed more volume. All it would have to do would be to put farm chattel paper on the "non-conforming" list.

Or let us suppose further that the central bank authority decided that the Dairy Industry needed some regulating or the grain farmers and cattle feeders needed adjusting into a national pattern, or certain Illinois manufacturing industries should be integrated into a national plan that would protect competitors in other sections. In any or all of the foregoing cases, the central bank authority could work its will almost instantly through its control of the credit of these industries. And there would not be a remedy available to the State of Illinois for the protection of its citizens against that sort of thing.

What has been said above may very properly bring up the question: If Federal authority could and would do that, why don't they do it now through the National banks? It is extremely important that the citizens of Illinois remember the answer to this question. As long as there are State banks in Illinois and the people of this State retain the right to enact and enforce banking laws, the Federal Government will never control Illinois banks. And it is no exaggeration to assert that the best insurance the National banks of Illinois have against complete Federal domination is the State banking system.

Unified bank control advocates begin very modestly by seeking for the central authority only a broad control over credit in bulk through regulatory authority over cash reserves. This alone will take them a long way but not nearly far enough; but by the time they have that, State bank competition will be out of the way and the citizens of the States as well. Then the central authority can move in on the main objective—complete regulation and control of all phases of bank credit through regulation and control of bank management policies.

At this point they will meet some bothersome competition from other pools of credit such as Building and Loan Associations, Credit Unions and private lending ventures. The first two can be absorbed into the national framework on the same theory and in the same manner as State Banks, while private credit sources being largely dependent upon bank credit can be effectively regulated through that channel.

When that point has been reached the entire economy of the forty-eight States will be under the control of a single governing body functioning in Washington. The economic interests of our State will disap-

pear into a huge caldron of national interests and its autonomy as a Sovereign State will be a thing of the past.

The effect of such unification would be to deprive all States of the rights to make laws governing the organization and operation of banks.

The question is not a new one. The right of States to have their own banking systems has been challenged by nationally minded theorists almost from the beginning of our nation. It has been growing in magnitude during the past ten years because the school of thought that advocates it has made some progress in its hunger for more power.

The danger is that there are a number of States whose economy does not support a strong banking system and who are ready to hand over to a central authority what little they have with odds in their favor that they will get back more than they give.

There are also bankers who are willing to do likewise. They know or are reasonably sure that when unified bank control becomes fully effective that running a bank will become a comparative sinecure. The central authority can easily guarantee a good living wage, the answers to all worrisome questions will be found in the rule book and the Board of Directors, if such a body is to be permitted, may be generally ignored as long as the active management remains in the good graces of the central authority.

The large majority of bankers, however, are business men. Their capital is invested and they are entitled to run their banks as businesses within such legal limitations as the citizens of their State have learned from experience are necessary.

To the bankers of Illinois, both State and National, we issue this solemn reminder and warning. Throughout the past ten years you have operated under the pressure of continuing emergency. In your anxiety to reach a certain goal as quickly as possible, you have suffered a deep invasion into your natural position. You would do well to face the invader, for it is in that direction your next big job lies.

And with equal solemnity we warn the citizens of Illinois that while they may not have been invaded yet, they are on the list. The invader will come behind a smoke screen of theories and plans designed to solve every human problem. The cost won't be mentioned but that is where Illinois thinking had better begin. If it does, the citizens of Illinois may well reply without being at all facetious: "We don't want it."

PERMIT ISSUED

Hume.....Edgar.....The State Bank of Hume....	Capital	Surplus	Reserve	
	\$28,000	\$5,000	\$2,000..	Sept. 27, 1943

CHARTER ISSUED

Plano.....Kendall.....Community Bank of Plano...	Capital	Surplus	Reserve	
	\$35,000	\$5,000	\$3,750..	Sept. 24, 1943

100 West Main Street
Louis A. Sears, President
Melvin J. Henriksen, Cashier

DISSOLVED

Centralia.....Marion.....Merchants State Bank of Centralia, Illinois. (In receiver-				
ship December 19, 1930. Dissolved by order of the Circuit				
Court of Marion County).....				Sept. 27, 1943

RECAPITULATION

State Banks in Chicago.....	19
State Banks in Cook County outside Chicago.....	27
State Banks in Illinois outside Cook County.....	439
Total.....	485

MONTHLY BULLETIN

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No. 8

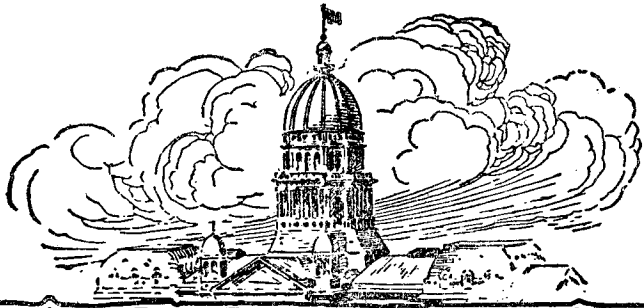
SAFE DEPOSIT VAULTS

Two experiences of the past year of loss of property stored in safe deposit vaults and the resultant lawsuits furnish ample reason for reconsideration of this oft discussed subject.

In one case the vaults of a non-banking concern were burglarized and, according to newspaper accounts, loss claims from renters of private vaults were expected to be very heavy. In another instance the lessor of a vault in a bank claimed the disappearance of a large sum of currency and in the ensuing damage suit a jury entered judgment in his favor for the full amount claimed. The jury found that the bank had been negligent in the care and custody of the plaintiff's property.

Bank managements who maintain and operate private vault boxes for rent should make it a point to thoroughly understand the special nature of that business together with the risks and obligations involved. When these things are fully understood, dealing with them properly becomes a relatively simple matter.

There are many bankers under the impression that because they rent a safe deposit vault to a customer a relationship of landlord and tenant is established. And there are



more than a few instances where contracts governing the rental of safe deposit vaults are drawn on that basis. Actually the bank is a bailee, the renter a bailor and the property kept in the box is a bailment.

The bank is not a landlord because it does not surrender possession of the leased property which is merely a receptacle for the bailment. After the deposit of the bailment in the receptacle, the bank retains custody of both receptacle and bailment, thus becoming a bailee for hire.

This relationship of bailee and bailor does not, of itself, make the bank an insurer of the contents of the receptacle; and as long as the bank shows good diligence in the care of the vault and its contents, its defensive position against loss of property suits is good. However, if a loss claim is proved and the bank can be shown as lacking diligence in the custody and care of the bailment, it is in an extremely weak position; for prevailing Illinois law presumes that when property is lost while in custody of a bailee (bank) that it has not exercised the degree of care required by the nature of the bailment.

Here is an important decision handed down by the Supreme Court of Illinois on that point in 281 Ill. 43:

"Under such conditions we see no reason to depart from the ordinary rule that where a bailee receives property and fails to return it, the presumption arises that the loss was due to his negligence, and the law imposes on him the burden of showing that he exercised the degree of care required by the nature of the bailment. (Cases cited.) To call upon the plaintiff, under such circumstances, to prove some specific act of negligence by which her money was lost, and which she must necessarily prove by defendant's employees, would impose upon her a practically impossible burden."

Let us examine one phrase in the foregoing decision and apply it in theory. ". . . where a bailee receives property and fails to return it the presumption arises that the loss was due to his negligence . . ." The bailee receives the property when the bailor brings it in and deposits it in his box. The bank fails to return it when the box renter says that when he went to the box to get his property, it was not there. Then, under the above cited decision, ". . . the presumption arises that the loss was due to his (bailee's) negligence . . .".

Let us look at that set of circumstances once more. The bailee (bank) at no time sees the property involved in the claim and the bailor has only to show that he brought the property in and deposited it in his box and he has only to say that it was not there when he went to get it at some later date. Then ". . . the presumption arises that the loss was due to his (bailee's) negligence." Up to that point the bank would appear to be an easy and inviting target to persons of fraudulent intent.

The bank's entire defense therefore must lie in its ability to show that its vault renting operations are so managed that it cannot be charged with lack of diligence. It must be able to show that the bailment was kept in a secure place and every precaution taken against access to

any box by any person not entitled to access. If every bank management will study such defense requirements and design and maintain their vault operations accordingly and permit no deviation from the required routine, they will have little to worry about when and if they are faced with claims for loss of property.

When claims for loss arise involving such traceable property as bonds, stocks, notes, etc., the bank's position is not so bad, but when loss of currency is claimed, it must necessarily rely on the sole defense of due diligence in the care of bailments.

The carrying of large amounts of currency in safe deposit boxes seems to us to involve a special risk to banks considerably beyond the original intent and purpose of providing safe deposit boxes in bank vaults. While there is no rule or law against placing currency in a safe deposit box, that is certainly not what the box is intended for. Most assuredly no bank would knowingly rent a box for \$3.00 a year and assume a bailee's risk for the care and custody of \$100,000.00 in currency that such a box could very easily contain. There are banks where such a transaction would place most, if not all, of the capital structure in jeopardy. We do not think that such a situation, or anything approaching it, is in sound public interest.

Common carriers and other bailees for hire protect themselves in accepting bailments by issuing receipts which constitute a contract, showing a consideration, in which the bailee's liability is strictly limited and in 220 Ill. App. 409 the validity of such a contract is sustained. This case, which was heard on appeal by the Court of the First Appellate District in Illinois, is very interesting in that many bailment cases were reviewed and considered by the Court in arriving at its decision. None of these cases involved banks or safe deposit vaults but all are analogous in principle.

The State of Maryland has a law permitting the limitation of bailee's liability by contract which applies specifically to safe deposit vaults (Flack's Annotated Code, Maryland, Article 23, Section 293.) Under that statute the lease contract may stipulate (1) a limit of liability to not less than 500 times the annual rental, (2) no liability for loss of money, jewelry or any other stipulated article, (3) exclusion of presumption of negligence or wrongdoing and relieving bailee of burden of proof. Our reference to the above-mentioned Maryland law is for information only and should not be taken as an applied recommendation for Illinois.

It seems to us that bank managements, individually and collectively, would do well to give some special consideration to the safe deposit vault phase of their operations; first, with a view toward strengthening their defenses against loss claims through carefully guarded operating routines and, secondly, to find some means of limiting their liabilities to figures commensurate with the charges for this service. The Illinois Bankers Association bulletin of January 25, 1938 contained some excellent material on this subject which every banker would do well to review at this time. It should hardly be necessary to again urge that one of the most important protections will be found in adequate vault insurance.

PERMIT ISSUED

Pawnee.....Sangamon.....Bank of Pawnee..... Capital Surplus Reserve
 \$25,000 \$5,000 \$1,250..Oct. 18, 1943

CHARTER ISSUED

Saybrook.....McLean.....State Bank of Saybrook..... Capital Surplus Reserve
 108 South Center Street \$25,000 \$5,000 \$1,250..Oct. 15, 1943
 J. A. Schmidt, President
 D. C. Haines, Cashier

CONVERSION

Riverside.....Cook.....Riverside State Bank into Riverside National Bank.....Oct. 1, 1943

CAPITAL STOCK DECREASED

New Baden.....Clinton.....Farmers and Merchants State Bank of New Baden from
 \$50,000 to \$25,000.....Oct. 18, 1943

CHANGE OF PAR VALUE OF CAPITAL STOCK

New Baden.....Clinton.....Farmers and Merchants State Bank of New Baden from
 \$100 to \$50.....Oct. 18, 1943

CHANGE OF LOCATION

Hampshire.....Kane.....State Bank of Hampshire, from 312 East Side State Street,
 Hampshire, Illinois, to 314 East Side State Street, Hamp-
 shire, Illinois.....Oct. 22, 1943

TRUST CERTIFICATE ISSUED

Benton.....Franklin.....Bank of Benton..... Deposit
 \$50,000.....Oct. 5, 1943

DISSOLVED

Chicago.....Cook.....Wiersema State Bank (The) (In receivership February
 23, 1932. Dissolved by order of the Superior Court of
 Cook County).....Oct. 7, 1943
 Manteno.....Kankakee.....Citizens State Bank of Manteno. (In receivership January
 9, 1932. Dissolved by order of the Circuit Court of
 Kankakee County).....Oct. 7, 1943

RECAPITULATION

State Banks in Chicago..... 19
 State Banks in Cook County outside Chicago..... 26
 State Banks in Illinois outside Cook County..... 440
 Total..... 485

MONTHLY BULLETIN

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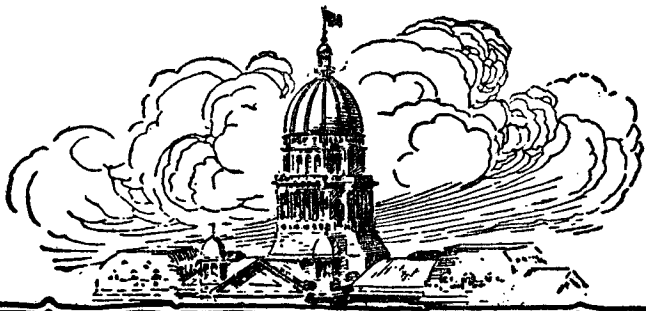
No. 9

SOCIALIZED CREDIT

Banking leadership has long been aware of and viewed with appropriate alarm the deep infiltration made by socialized credit into the realm of bank livelihood. We refer to the lending operations of several government sponsored agencies whose activities during the past decade have penetrated very thoroughly into the social and economic phases of our national life.

In all fairness, we would hasten to clearly define the point of our discussion which is solely the idea of socialized credit without involving the individual lending agencies themselves. As far as they are concerned, they have done their work well. They have efficiently served a useful purpose, if not a constructive one. Largely through them the banks of our nation were able to put their houses in order in an incredibly short time and, as it turned out, just in time to meet the war with their decks cleared for action. We have nothing but praise for the agencies but we question their product.

Despite all that has been written and said concerning the effect of this type of credit on private enterprise by business leadership, it has been somewhat disconcerting to note that the rank and file of the banking business has not fully



shared the alertness of its leaders to the present and future effects of this invasion.

This apparent apathy may be explainable by the fact that nearly all banks were aided in one way or another by one or more of these agencies in times of serious trouble and feel grateful for it. Then again, there are many banks still so situated that they are in a position to exploit government lending operations to some profitable extent.

Whatever reasons or conditions underlie any existing feeling of tolerance toward socialized credit will rapidly disappear when bankers again turn from the activities of war to their normal functions and come to realize how thoroughly their positions have been invaded. It is well to remember in this connection that the banking business has been going through one sort of an emergency or another during the past ten years; as a result of which banks have been steadily losing investments to government competition for that period of time.

We have questioned the constructiveness of the accomplishments of the government lending agencies. What we have seen of their activities to date has been more of a corrective nature. They saved a bad situation but can they rebuild on a sound basis? We wonder. Is there the same degree of responsibility at both ends of a government advance of credit and a private loan? Will the manufacturer, merchant, farmer or wage earner manage the funds loaned to him by his government as well as those borrowed from his local bank? Does the same mutuality of interest underlie the transaction between the government and its debtor and the community bank and its debtor? We think the answer is definitely "No" on all counts.

Men of experience know that the soundest and most permanent building or business development is accomplished by the industrious man using his own money; or lacking sufficiency of his own, that borrowed from his friends and neighbors. There will be all of the elements in that type of loan to make it the soundest kind of a credit. We knew of many loans of that type made during the early 30s when bank credit was tightly restricted—where individuals with some cash on hand shared it with neighbors in straightened circumstances. And one may be very sure that these loans were paid first.

That is the kind of capital this country built and became great on. There is much building and re-building to be done by individuals and business enterprises. The only place that that kind of economically sound capital can be found is in the financial institutions of our communities. The continued use of taxpayers' money or the full faith and credit of the United States Government for that purpose would, in our judgment, be a regrettable mistake.

Advocates for the continuation of socialized credit defend it with the claim that it was "born of pitiless and inexorable necessity." The parentage is unquestioned but the offspring was a surprise to many.

Just twenty years prior to the economic crisis of the 30s, the Federal Reserve System was sold to the nation principally as a bulwark against just such emergencies and during the ensuing two decades it came to be regarded as one of the best organized, most ably staffed and efficiently operated instrumentalities of the Federal Government. During that period it became so thoroughly integrated with the banking system of the nation that its leadership in dealing with economic crises was taken for granted and anticipated with full confidence.

It is therefore not difficult to understand the surprise and dismay felt by the business world, as a whole, when the Federal Reserve System was left standing almost idly on the side lines, while its expected functions were given over to a group of hurriedly organized government corporations.

Those were critical and eventful days and the voice of the business man and particularly the banker was a "still small voice" with more urgent things to do than to criticize and carp about procedure. But even then, we heard more than one expression of uneasiness over the permanency of the foundations upon which these government finance corporations were organized.

If their status is permitted to become permanent, it is obvious that a tremendous volume of business will be necessary to keep them going—a necessity that can result only in mutually harmful competition to both the government and private business.

If this competition were confined to rates and services, the effect would not be so bad and we think that private business would eventually win. In our judgment, the phase of competition to be most apprehended is in loaning policies.

In the first place the objectives of government lending must, of necessity, be purely social. Secondly it must be administered on a wholesale basis to a retail trade. Thus it becomes a sort of dole offered to groups and masses, rather than an extension of credit to individuals who will both be able to demonstrate actual need of credit and ability to use it constructively.

The government can lend money on a social basis and justify losses by claims of social accomplishments. Private enterprise cannot do that.

We believe that socially minded and progressive private enterprise can accomplish all of the attainable social objectives sought by the proponents of government lending. We think that alert and aggressive bankers can reclaim most of their lost business by vigorous, intelligent and persistent competition. Our banks have the strategic advantage of being much closer physically and socially to government debtors. They also have the further advantage of the natural distaste that many users have for this form of credit. These advantages should be utilized, pressed and augmented with rates and service facilities sufficiently attractive to win users of government credit back to private enterprise.

At the same time, banking interests should make it a point to know more about the Federal Reserve System and especially its emergency functions. They should learn the reason why it was by-passed in our last crisis. We should know very accurately now just what the needs of such a crisis are and if the Federal Reserve was prevented from meeting them by legal obstacles they should be removed. Certainly none of them can be so serious or involved that they cannot be corrected with a small fraction of the legislation that went into the formation of the existing group of corporations.

In our opinion, if the Federal Reserve System is empowered to provide a reserve pool of credit that will be quickly available for sound bank assets and if broad administrative powers are granted to Reserve District officers to meet the needs in their districts in a practical manner unhampered by rules, regulations and restrictions applied blanket-like to the system as a whole, our banking system can just about deal with any situation that may arise.

CHARTER ISSUED

✓ Pawnee.....Sangamon.....	Bank of Pawnee.....	Capital	Surplus	Reserve	
	21 Seventh Street	\$25,000	\$5,000	\$1,250..	Nov. 27, 1943
	Domenic Frisina, President				
	G. B. Weber, Cashier				

CONVERSION

✓ Chicago.....Cook.....	Austin State Bank into National Bank of Austin, Chicago, Illinois.....	Nov. 26, 1943
✓ Chicago.....Cook.....	Lake Shore Trust and Savings Bank into Lake Shore National Bank, Chicago, Illinois.....	Nov. 30, 1943

DISSOLVED

Chicago.....Cook.....	Congress Trust & Savings Bank. (In receivership July 13, 1932. Dissolved by order of the Circuit Court of Cook County).....	Oct. 27, 1943
Sheldon.....Iroquois.....	Citizens State Bank and Trust Co. of Sheldon. (In receivership January 11, 1932. Dissolved by order of the Circuit Court of Iroquois County).....	Nov. 13, 1943
Grant Park...Kankakee.....	The Farmers State and Savings Bank of Grant Park. (In receivership April 3, 1920. Dissolved by order of the Circuit Court of Kankakee County).....	Nov. 22, 1943
Libertyville..Lake.....	Libertyville Trust & Savings Bank. (In receivership July 19, 1933. Dissolved by order of the Circuit Court of Lake County).....	Nov. 23, 1943

RECAPITULATION

State Banks in Chicago.....	17
State Banks in Cook County outside Chicago.....	26
State Banks in Illinois outside Cook County.....	441
Total.....	484