MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 19 SPRINGFIELD, ILL., JANUARY 1, 1944 No. 10

HAPPY NEW YEAR

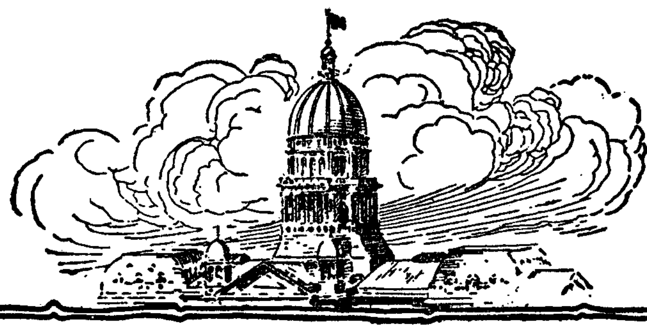
Long before man organized his thinking and conclusions into philosophy, he undoubtedly knew how to evaluate his experiences of happiness and to discriminate among the sources and varieties of such experiences.

Naturally he learned that the most perfect, gratifying and lasting form of happiness is the kind that results from good will among men—the happiness we receive from others and while receiving, share with the giver.

It is that kind of happiness that so thoroughly pervades every phase of our social and business life during the fortnight that embraces Christmas and New Year's—the kind upon which Dickens built his immortal Christmas Carol, which reaches its climax when the dour Scrooge in an ecstasy of new found happiness poured out his "Merry Christmas" on the whole world.

It is a great deal of that kind of happiness that I wish for the people of Illinois throughout 1944.

ARTHUR C. LUEDER.



GENERAL RECORDS

By way of re-introducing an old subject, we would like to suggest that any State bank executive officer who reads this go to the bank's journal or general ledger, pick out a posting at random, examine it and see, first, if the entry tells him clearly what happened and secondly, if he can trace the transaction back to its origin or forward to its destination. Let him make this test half a dozen times. If he can readily understand each transaction posted and trace it backward or forward through the records and do so without asking any questions or referring to any separate memoranda, he can feel satisfied with the bank's records. If he cannot, then he has the material for a very constructive New Year's resolution.

We have seen bank executives devote a great deal of time and study to accounting systems and take much pride in the solutions they have worked out for their accounting problems. We have seen the same individuals utterly amazed at their own inability and that of their subordinates to reconstruct important transactions from records that they thought perfect. We have more than once seen officers and clerks consume much time puzzling and speculating over entries that should be understandable at a glance.

The best accounting system is nothing more than a formula; the efficiency of which will be no greater than the ingredients that go into it. No matter how good it is, if the people who use it are not well trained and disciplined in posting it will turn out to be a very empty formula.

There are mechanical aspects of bank operation that are very similar to the functions of an electrical transformer. Community property is constantly passing through the bank in the form of money and credit and withdrawn by the individuals of the community in either form as needed.

When a banking corporation sets itself up to do this, it also assumes an obligation, both to its stockholders and the general public to properly account for the money and credit entrusted to it. This obligation cannot be said to be discharged when a bank installs an accounting system and operates it largely with figures and with little and very sketchy supporting data to explain the figures. The fact that the figures are kept constantly in balance indicates only that they were accurately handled, but the more important question is—why are they there? What do they represent?

We are mindful of the fact that the pressure of present conditions requires many short cuts within the limited time available for the handling of a day's business. But we are not convinced that this is the sole cause of the lack of clarity and detail that we so frequently encounter in examining bank records. Most of the bad postings that we see are due more to lack of thought than lack of time. If we see a charge on the journal of $500.00 against Undivided Profits with the name of John Doe in the legend space, what does that mean to us or any other person interested in the record? How much additional time would be required to jot down in the same entry "R. E. L. # 24562" and tell any one interested in that entry that John Doe's real estate loan No. 24562 in the amount of $500.00 had been charged off? That additional notation that would require one second to insert might require as much as a half hour to retrace.

Or, worse yet, let us visualize a posting, which we occasionally find, where a single charge against Undivided Profits or a reserve account covers half a dozen or more entries—bond premium amortization, miscellaneous overdrafts, bond sale losses, etc. Most or all of the contra-entries on the journal are very apt to be buried in totals. If the original debit memorandum fails to tell a clear story or cannot be found, that entry will be nothing more than a matter of speculation and guess work.

We could go on indefinitely describing the wide variety of puzzling and unintelligible entries we have to contend with. However, this discussion must not be considered as a bank examiner's complaint. All they mean to an examiner is a slow-up in his work. Usually through the process of trial and error and patient "poking around" he can work them out. The real risk is to the bank and its officers who might need their records to defend themselves or their banks. If we would apply the legal dictum that a corporation can speak only through its records, some of our banks would stutter badly.

To this Department correction of this condition seems to be simply a matter of thought, training and discipline. If bank managements will insist on good posting, they will get it. If proper standards are laid down for clerks and junior officers who are ordinarily responsible for the maintenance of records, they will quickly conform to them. Bank executives responsible for accounting should realize that their job is not complete until their system has been rounded out with posting standards that will insure a clear and adequate record.

This discussion recalls to our mind an old general bookkeeper in a fairly large downstate bank. He was a gentleman and bookkeeper of the old school. He worked in the regimentals of his profession (black alpaca coat and green eye-shade) at a high bookkeeper's desk—always standing. With the pride of a master craftsman his carefully selected pens were always in their grooved racks—points wiped—his old-fashioned revolving inkwells were always turned back when not in use to keep the dust out.

At the close of the day when totals began to come in, he really presided. Figures submitted to him for posting had to follow his formulae. If they did not, they went back for correction. He scrutinized debit and credit memorandum tickets with a critical eye and if they did not tell the story as he thought it should be told, they went back for revision.

He was a benign old tyrant and applied a single standard to all—from the young exchange clerk all the way up to the unusually dignified president. The clerk or officer who presented carelessly prepared figures or memoranda to him for posting invariably received a lecture that was not soon forgotten. There was no lumping of transactions into one total posted through his books. Each unclassified transaction was a separate entry, with sufficient legend posted with it to tell a clear, concise story.

That bank had a perfect set of general records due entirely to the standards and discipline set and enforced by that fine old gentleman who stuck by his guns almost to the point of eccentricity.

We think that any bank that wants that kind of a record can have it, by simply insisting upon it and being satisfied with nothing less.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Astoria	Fulton	Farmers State Bank of Astoria	$25,000	$5,000	$1,250	Dec. 9, 1943
Chicago	Cook	South Side Bank & Trust Co.	$200,000	$20,000	$30,000	Dec. 31, 1943

CAPITAL STOCK INCREASED

Chicago	Cook	Chicago City Bank and Trust Company from $800,000 to $1,000,000	Dec. 15, 1943
Chicago	Cook	Drovers Trust and Savings Bank from $350,000 to $500,000	Dec. 22, 1943
Oak Park	Cook	Prairie State Bank from $200,000 to $400,000	Dec. 23, 1943
Shelbyville	Shelby	Shelby County State Bank from $50,000 to $100,000	Dec. 27, 1943
Effingham	Effingham	Effingham State Bank from $55,000 to $150,000	Dec. 29, 1943

TRUST CERTIFICATE ISSUED

			Deposit	
Chicago	Cook	National Bank of Austin	$200,000	Nov. 27, 1943
Chicago	Cook	Lake Shore National Bank	$500,000	Dec. 13, 1943

TRUST CERTIFICATE CANCELLED

Chicago	Cook	Austin State Bank	Nov. 27, 1943
Chicago	Cook	Lake Shore Trust and Savings Bank	Dec. 13, 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

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State *of* Illinois

Vol. 19 SPRINGFIELD, ILL., FEBRUARY 1, 1944 No. 11

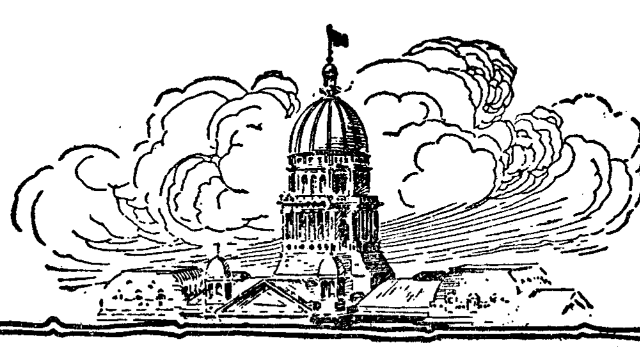
TEN YEARS

While reviewing the summaries of the Illinois State Banks' 1943 Call Reports, shown on the inside pages of this BULLETIN, we noticed that Deposits had passed the 2 billion mark and that U. S. Government Bonds exceeded 1 billion dollars.

This inspired us to compare the December figures with those of ten years ago; at which date post-moratorium adjustments had been just about completed.

A comparison of the high lights of the 1933 year-end summary with that of 1943 brings out some very interesting contrasts, which we submit below.

	1933 616 Banks	1943 484 Banks
Cash Means	181 Million	565 Million
Government Bonds	184 Million	1,000 Million
Other Bonds	133 Million	239 Million
Loans	300 Million	295 Million
Other Real Estate	14 Million	1 Million
Capital Structure	134 Million	133 Million
Deposits	627 Million	2,000 Million
Bills Payable	77 Million	None
Liquidity of Deposits (Based on Cash and Bonds at book value)	79%	90%



REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS

NUMBER OF BANKS	487	Increase or Decrease	485	Increase or Decrease	484	Increase or Decrease	484	Increase or Decrease	484
DATE OF CALL	Dec. 31, 1942		Mar. 26, 1943		June 30, 1943		Sept. 18, 1943		Dec. 31, 1943
RESOURCES:									
Cash and Due from Banks	$529,719,694.57	$—19,778,263.56	$509,941,431.01	$ +10,580,181.68	$520,521,612.69	$+20,164,217.64	$ 540,685,830.33	$ —555,310.99	$ 540,130,519.34
Outside Checks and Other Cash Items	25,537,728.09	—11,486,294.99	14,051,433.10	+6,165,207.88	20,216,640.98	—2,206,836.07	18,009,804.91	+6,999,921.54	25,009,726.45
U. S. Governments—Direct and Guaranteed	742,115,804.59	+60,652,854.62	802,768,659.21	+168,068,243.62	970,836,902.83	+92,920,109.03	1,063,757,011.86	+53,033,604.13	1,116,790,615.99
Other Bonds, Stocks and Securities	265,736,883.97	+4,814,334.58	270,551,218.55	+2,365,429.55	272,916,648.10	—20,105,063.08	252,811,585.02	—13,880,445.16	238,931,139.86
Loans and Discounts	300,061,402.11	—18,106,690.69	281,954,711.42	—9,952,676.91	272,002,034.51	+22,176,532.21	294,178,566.72	+1,136,547.18	295,315,113.90
Overdrafts	51,685.75	+47,059.76	98,745.51	+196,745.14	295,490.65	—136,451.60	159,039.05	—86,508.30	72,530.75
Banking House	10,167,281.41	—61,940.28	10,105,341.13	—178,986.43	9,926,354.70	+84,500.61	10,010,855.31	—581,788.70	9,429,066.61
Furniture and Fixtures	1,319,388.60	—5,311.20	1,314,077.40	—63,309.46	1,250,767.94	+43,761.36	1,294,529.30	—166,951.13	1,127,578.17
TOTAL—Bkg. House and Furniture and Fixtures	$11,486,670.01	$—67,251.48	$11,419,418.53	$—242,295.89	$11,177,122.64	$+128,261.97	$11,305,384.61	$—748,739.83	$10,556,644.78
Other Real Estate	$1,654,771.36	$—124,838.52	$1,529,932.84	$ —196,205.78	$1,333,727.06	$—143,780.59	$1,189,946.47	$—147,453.20	$1,042,493.27
Customers' Liability—Letters of Credit	239,004.02	—38,960.92	200,043.10	+78,261.67	278,304.77	—150,664.78	127,639.99	+204,415.62	332,055.61
Customers' Liability—Acceptances	77,610.51	+4,379.37	81,989.88	+51,906.07	133,895.95	—19,525.33	114,370.62	—41,976.31	72,394.31
Other Resources	5,593,882.30	—805,166.31	4,788,715.99	+1,118,869.31	5,907,585.30	—900,046.39	5,007,538.91	+583,336.10	5,590,875.01
GRAND TOTAL RESOURCES	$1,882,275,137.28	$+15,111,161.86	$1,897,386,299.14	$+178,233,666.34	$2,075,619,965.48	$+111,726,753.01	$2,187,346,718.49	$+46,497,390.78	$2,233,844,109.27
LIABILITIES:									
Deposits									
Demand Deposits	$1,175,320,301.42	$ —1,439,602.81	$1,173,880,698.61	$+170,016,509.56	$1,343,897,208.17	$+78,358,166.41	$1,422,255,374.58	$+39,170,204.94	$1,461,425,579.52
Time Deposits	410,828,340.89	+16,853,885.99	427,682,226.88	+13,833,624.42	441,515,851.30	+21,254,938.64	462,770,789.94	+23,191,012.62	485,961,802.56
Due to Banks	163,653,464.81	—2,143,261.77	161,510,203.04	—6,629,646.38	154,880,556.66	+8,616,060.14	163,496,616.80	—14,396,856.03	149,099,760.77
Deposits Secured by Pledge	$ 107,560,344.07	$—36,264,622.43	$ 71,295,721.64	$+77,570,853.62	$ 148,866,575.26	$+52,270,995.65	$ 201,137,570.91	$ —9,043,556.89	$ 192,094,014.02
Deposits Not Secured by Pledge	1,642,241,763.05	+49,535,643.84	1,691,777,406.89	+99,649,633.98	1,791,427,040.87	+55,958,169.54	1,847,385,210.41	+57,007,918.42	1,904,393,128.83
TOTAL DEPOSITS	$1,749,802,107.12	$+13,271,021.41	$1,763,073,128.53	$+177,220,487.60	$1,940,293,616.13	$+108,229,165.19	$2,048,522,781.32	$+47,964,361.53	$2,096,487,142.85
Other Liabilities									
Bills Payable	------------	------------	------------	------------	------------	------------	------------	------------	------------
Re-Discounts	------------	------------	------------	------------	------------	------------	------------	------------	------------
Dividends Unpaid	$ 413,839.85	$ —345,325.45	$ 68,514.40	$+306,830.75	$ 375,345.15	$ —352,261.08	$ 23,084.07	$ +408,562.00	$ 431,646.07
Letters of Credit	242,045.86	—41,652.76	200,393.10	+107,375.43	307,768.53	—161,184.78	146,583.75	+185,821.86	332,405.61
Bank Acceptances	116,146.74	—16,656.86	99,489.88	+51,243.44	150,733.32	—16,470.17	134,263.15	+10,956.30	145,219.45
Other Liabilities	3,275,737.76	+136,274.00	3,412,011.76	—390,405.81	3,021,605.95	+865,332.91	3,886,938.86	—623,466.74	3,263,472.12
Capital Structure									
Capital Stock	41,630,550.00	—70,000.00	41,560,550.00	—175,000.00	41,385,550.00	—25,000.00	41,360,550.00	+80,000.00	41,440,550.00
Income Debentures	1,784,375.00	—29,950.00	1,754,425.00	—295,000.00	1,459,425.00	—58,500.00	1,400,925.00	—343,000.00	1,057,925.00
Surplus	33,367,600.00	+184,300.00	33,551,900.00	+327,900.00	33,879,800.00	+100,500.00	33,980,300.00	+3,446,500.00	37,426,800.00
Undivided Profits (Net)	24,828,164.09	+828,718.49	25,656,882.58	+615,621.95	26,272,504.53	+1,736,878.09	28,009,382.62	—3,853,591.93	24,155,790.69
Reserve Accounts	26,814,570.86	+1,194,433.03	28,009,003.89	+464,612.98	28,473,616.87	+1,408,292.85	29,881,909.72	—778,752.24	29,103,157.48
TOTAL CAPITAL STRUCTURE	$128,425,259.95	$+2,107,501.52	$130,532,761.47	$+938,134.93	$131,470,896.40	$+3,162,170.94	$134,633,067.34	$—1,448,844.17	$133,184,223.17
GRAND TOTAL LIABILITIES	$1,882,275,137.28	$+15,111,161.86	$1,897,386,299.14	$+178,233,666.34	$2,075,619,965.48	$+111,726,753.01	$2,187,346,718.49	$+46,497,390.78	$2,233,844,109.27
ANALYSIS—LOANS AND DISCOUNTS									
Commercial Paper	$ 17,259,494.75	$ —2,012,806.56	$ 15,246,688.19	$—6,970,095.57	$ 8,276,592.62	$ +2,380,438.55	$ 10,657,031.17	$+3,255,391.54	$ 13,912,422.71
Collateral Loans	41,060,534.31	—857,905.52	40,202,628.79	+4,993,757.86	45,196,386.65	+8,791,517.56	53,987,904.21	—3,101,059.02	50,886,845.19
Other Loans	169,582,236.94	—14,071,534.07	155,510,702.87	—9,169,868.13	146,340,834.74	+11,626,796.04	157,967,630.78	+5,031,735.88	162,999,366.66
Farm Loans	11,110,424.14	+154,484.30	11,264,908.44	—351,941.77	10,912,966.67	—367,124.80	10,545,841.87	—471,808.39	10,074,033.48
Other Real Estate Loans	61,048,711.97	—1,318,928.84	59,729,783.13	+1,545,470.70	61,275,253.83	—255,095.14	61,020,158.69	—3,577,712.83	57,442,445.86
TOTAL LOANS AND DISCOUNTS	$300,061,402.11	$—18,106,690.69	$281,954,711.42	$—9,952,676.91	$272,002,034.51	$+22,176,532.21	$294,178,566.72	$+1,136,547.18	$295,315,113.90

PERMIT ISSUED

			Capital	Surplus	Reserve	
Windsor	Shelby	Windsor State Bank	$25,000	$5,000	$2,500	Jan. 11, 1944

CHARTER ISSUED

			Capital	Surplus	Reserve	
Astoria	Fulton	Farmers State Bank of Astoria 610 Pearl Street E. G. Bader, President Miss Bessie Reno, Cashier	$25,000	$5,000	$1,250	Jan. 27, 1944

DURATION EXTENDED

Mt. Morris	Ogle	Citizens State Bank of Mt. Morris Charter extended 99 years from April 3, 1944	Jan. 26, 1944

CAPITAL STOCK INCREASED

Crystal Lake	McHenry	Home State Bank of Crystal Lake from $25,000 to $50,000	Dec. 28, 1943
Sandwich	DeKalb	The Sandwich State Bank from $50,000 to $100,000	Jan. 3, 1944
Chicago	Cook	Pioneer Trust & Savings Bank from $750,000 to $1,000,000	Jan. 19, 1944

DISSOLVED

Aurora	Kane	Broadway Trust & Savings Bank of Aurora (In receivership July 19, 1932. Dissolved by order of the Circuit Court of Kane County.)	Jan. 7, 1944
Washington	Tazewell	Henry Denhart & Co. (In receivership May 2, 1930. Dissolved by order of the Circuit Court of Tazewell County.)	Jan. 10, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	442
Total	485

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Vol. 19 SPRINGFIELD, ILL., MARCH 1, 1944 No. 12

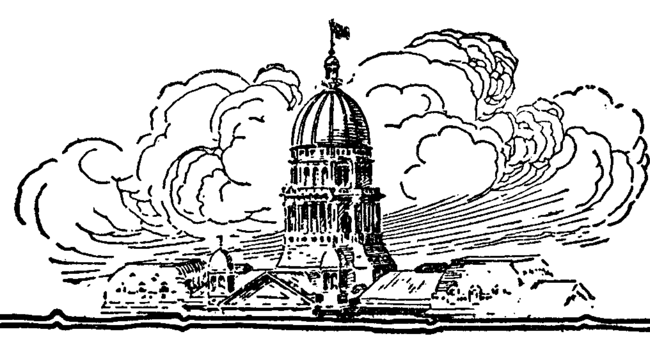
OPERATIONS 1942-1943

In reviewing operating results reported by the State banks of Illinois for 1943 and comparing said results with 1942, on the inside page of this Bulletin we are again separating the banks into five groups.

As pointed out in last year's Bulletin on this subject we have found that in using seven groups the movement of banks from one group to another has greatly disturbed unit averages which seem to us to be the most valuable information to be gained from this comparison. This conclusion seems to be borne out in the comparison submitted herewith wherein it will be noted that in the first three groups the trend of earnings has been slightly downward and we do not believe this to be a true average. In groups four and five where fewer unit changes have taken place, operating results are more in harmony with the general comparison shown in the last two columns.

In that comparison it will be noted that we use 478 banks which is the number that operated throughout the entire year of 1943. The group figures are also affected to some extent by the fact that nine of the banks contained in the 1942 figures do not appear in the 1943 totals. Five of these banks converted into national banks during the year 1943, three went into voluntary liquidation, and one closed. During 1943 six new banks were organized. While the indicated net losses of three banks would seem of little consequence, the nine banks removed did affect the figures to a much greater extent than the six banks newly organized.

One of the notable features in the general comparison is the sharp downward trend of income from loans and the sharper upturn of income from securities. This latter development of course is accountable almost entirely by the tremendous increase in government bond investments.



OPERATING RESULTS FROM ALL ILLINOIS STATE BANKS
FOR THE YEARS 1942 AND 1943

	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	
	1942	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942	1943
Number of Banks	131	79	167	154	152	208	18	21	19	22	478	478
Current Income												
Loans	$721,322	$299,245	$1,682,206	$978,829	$3,497,893	$3,256,444	$1,041,101	$ 982,309	$ 5,255,146	$ 5,053,766	$11,815,786	$10,567,476
Securities	299,954	235,373	717,268	844,049	1,979,655	3,041,597	1,011,723	1,255,233	11,219,418	14,428,070	14,904,077	19,796,788
Exch. Coll. Comm., etc.	64,456	39,937	132,471	117,579	315,826	377,845	102,213	93,495	573,591	498,644	1,142,477	1,116,509
Foreign Exchange	173	------	------	1,668	10	------	115	142	26,222	23,174	25,616	24,985
Service Charges	79,877	45,564	187,992	200,488	576,738	711,365	366,492	375,668	1,010,894	1,036,029	2,065,393	2,363,264
Trust Department	30,317	27,327	------	452	90,505	68,717	61,741	76,545	3,160,432	3,382,737	3,296,807	3,555,576
Miscellaneous	59,842	28,398	147,195	108,083	464,773	442,095	265,210	236,717	769,789	850,271	1,642,041	1,661,544
TOTAL	$1,255,941	$675,844	$2,867,132	$2,251,148	$6,925,400	$7,898,063	$2,848,595	$3,020,109	$22,015,492	$25,272,691	$34,892,197	$39,086,142
Unit Average	(9,587)	(8,555)	(17,108)	(14,618)	(45,561)	(37,971)	(158,255)	(143,814)	(1,153,447)	(1,148,759)		
Current Expenses												
Salaries	$427,283	$240,839	$934,409	$748,480	$2,298,204	$2,600,998	$971,023	$971,357	$7,166,009	$7,632,364	$11,430,782	$12,174,715
Interest on Borrowings	3,960	------	------	------	------	554	------	------	------	------	3,960	554
Interest on Demand Deposits	674	154	9,896	3,409	------	166	------	------	------	------	10,571	3,729
Interest on Time Deposits	139,953	66,837	367,265	236,608	788,775	781,570	334,578	307,399	2,247,004	2,533,088	3,771,389	3,924,333
Interest on Capital Debentures	874	1,899	4,848	984	11,507	10,392	16,427	15,306	34,259	17,955	58,915	46,536
Taxes	101,412	52,649	240,686	182,731	544,946	617,929	172,615	171,638	1,157,032	1,306,572	2,177,899	2,330,996
Miscellaneous	263,393	134,153	549,132	430,216	1,375,992	1,436,656	624,179	635,281	4,108,529	4,606,400	6,723,659	7,222,182
TOTAL EXPENSES	$937,549	$496,531	$2,106,236	$1,602,428	$5,019,424	$5,448,265	$2,118,822	$2,100,981	$14,712,833	$16,096,379	$24,177,175	$25,703,045
Unit Average	(7,156)	(6,286)	(12,612)	(10,405)	(33,022)	(26,193)	(117,712)	(100,046)	(774,359)	(731,654)		
OPERATING NET	$318,392	$179,313	$760,896	$648,720	$1,905,976	$2,449,798	$729,773	$919,128	$7,302,659	$9,176,312	$10,715,022	$13,383,097
Unit Average	(2,430)	(2,269)	(4,556)	(4,213)	(12,539)	(11,778)	(40,543)	(43,768)	(384,350)	(417,105)		
Recoveries and Profits												
Recoveries on Loans	$155,246	$66,086	$287,411	$170,911	$533,423	$682,173	$122,111	$127,676	$486,738	$538,038	$1,559,066	$1,584,884
Recoveries on Securities	47,399	65,023	109,755	108,910	249,961	329,204	66,865	84,379	221,730	713,129	673,450	1,300,645
Profits on Securities	17,570	17,528	39,397	57,375	155,133	216,692	53,627	165,501	431,393	809,307	675,859	1,266,402
Miscellaneous	46,934	29,402	171,341	78,585	232,039	339,887	132,967	144,836	342,391	514,354	917,496	1,106,739
Net Earnings—Plus Recoveries and Profits	$585,541	$357,352	$1,368,800	$1,064,501	$3,076,532	$4,017,754	$1,105,343	$1,441,520	$8,784,911	$11,751,140	$14,540,893	$18,641,767
Losses												
On Loans	$57,231	$41,556	$113,271	$49,671	$211,021	$169,965	$104,251	$ 78,193	$ 167,072	$ 147,337	$ 617,401	$ 486,722
On Securities	51,471	28,771	127,967	80,816	520,438	449,016	190,249	191,504	2,575,856	2,426,168	3,418,802	3,176,275
Bkg. Hse. Furn. and Fix.	79,641	27,109	113,252	94,881	239,098	266,475	65,581	66,516	345,243	325,854	799,978	780,287
Miscellaneous	28,012	14,753	53,208	30,742	172,952	165,943	85,567	30,693	149,052	72,282	452,530	313,750
TOTAL LOSSES	$216,355	$112,189	$407,698	$256,110	$1,143,509	$1,051,399	$445,648	$366,906	$3,237,223	$2,971,641	$5,288,711	$4,757,034
NET TO UNDIVIDED PROFITS	$369,186	$245,163	$961,102	$808,391	$1,933,023	$2,966,355	$659,695	$1,074,614	$5,547,688	$8,779,499	$9,252,182	$13,884,733
Capital, Surplus, Und. Profits, Reserves	$5,687,484	$3,273,253	$11,524,011	$9,208,804	$24,652,405	$28,460,249	$8,933,424	$9,077,230	$75,843,558	$82,106,760	$123,866,250	$131,814,507
TIME DEPOSITS	$10,075,709	$6,414,783	$30,507,794	$23,328,201	$82,509,416	$103,980,191	$48,679,867	$51,090,589	$239,055,553	$301,328,036	$396,362,682	$485,423,732
GROSS DEPOSITS	$43,275,606	$28,095,305	$117,118,718	$112,788,06[illegible]	$285,656,[illegible]	$396,437,627	$127,383,426	$148,818,313	$1,176,367,848	$1,410,348,024	$1,701,079,771	$2,093,437,422

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

CAPITAL STOCK INCREASED

Chester	Randolph	Buena Vista State Bank from $25,000 to $50,000	Feb. 2, 1944

CONVERSION

Red Bud	Randolph	The Red Bud Trust Company into First National Bank of Red Bud	Jan. 31, 1944

DISSOLVED

Evanston	Cook	Central State Bank of Evanston (In liquidation June 30, 1931)	Oct. 29, 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

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 20 SPRINGFIELD, ILL., APRIL 1, 1944 **No. 1**

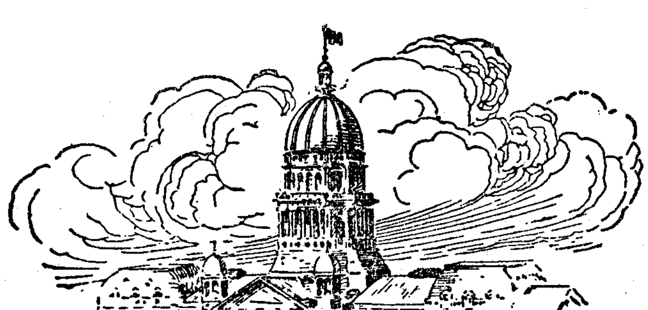
STOCKHOLDERS' LIABILITY

The Illinois General Assembly of 1941 passed a law limiting right of action on Illinois State bank Stockholder's constitutional liability to one year from the date of liability accrual. Immediately following the adoption of this statute the Illinois Bankers' Association submitted it to two leading members of the Chicago Bar, Messrs. Charles Le Roy Brown and Thomas G. Deering for legal analysis.

Both lawyers agreed in the conclusion that the Act is valid and constitutional in all respects and in December of 1941 our BULLETIN contained a brief resume of their opinion.

Most lawyers with whom we have since discussed the law agree with the Brown-Deering opinion, but there have been several attorneys who have expressed some doubt as to the power of the Legislature to enact a limitation upon a constitutional right. However, none of the attorneys who raised this question had read the Brown-Deering opinion.

It occurred to us that there are many State bank Boards of Directors who would like to have their counsellors study this question and we have secured permission from the Illinois Bankers' Association and Messrs. Brown and Deering to print verbatim, their analysis of the constitutional question involved.



IV—THE LEGISLATURE HAS AMPLE POWER TO REGULATE THE REMEDY FOR THE ENFORCEMENT OF A CONSTITUTIONAL RIGHT AND TO PLACE TIME LIMITATIONS ON ACTIONS TO ENFORCE LIABILITIES IMPOSED BY THE CONSTITUTION.

A statute of limitations pertains to the remedy (*Drury* v. *Henderson,* 143 Ill. 315, 320; *Ryhimer* v. *Frank,* 105 Ill. 326, 330). Such a statute regulates what is procedural rather than what is substantive (See *Smolen* v. *Ind. Comm.,* 324 Ill. 32, 37).

A legislature may establish and regulate any remedies reasonably appropriate to the enforcement of a liability imposed by a constitutional provision (*Bernheimer* v. *Converse,* 206 U. S. 516, 529; *Selig* v. *Hamilton,* 234 U. S. 652, 658; *Stockholders* v. *Sterling,* 300 U. S. 175, 181-182, and authorities there cited; *Henley* v. *Myers,* 215 U. S. 373, 385).

The course to be followed and the means to be invoked for the collection of a stockholder's liability, whether prescribed by legislative act or court decisions, constitute no part of the stockholder's contract to pay his obligation. No person has a vested right in any remedial procedure, but such method may be changed, altered or modified at the legislative will, so long as such change does not impair the obligation of contract (*Kingston* v. *Old Natl. Bk. of Centralia,* 359 Ill. 192, 200-201).

A statute may limit as to time the enforcement of a stockholders' liability imposed by a state constitution. *Perry* v. *Turner,* 55 Mo. 418, 428.

For many years the Constitution of California, Article XII, section 3, imposed a liability upon stockholders of corporations. "Under the provisions of the California law stockholders were held to be primarily liable as principal debtors, and not as sureties or guarantors. * * * The liability has been declared by this court to be of the same nature as that of an individual partner for the partnership debts." (*Ellsworth* v. *Bradford,* 186 Cal. 316, 199 Pac. 335, 336). It has been said by a United States Circuit Court of Appeals that California is one of the few states in which the liability of the stockholders "is not collateral, but is original, and partakes of the nature of the liability of partners" (*Buttner* v. *Adams,* 236 Fed. 105, 149 C. C. A. 315). The liability of an Illinois bank stockholder is similarly primary and original (*Hillmer* v. *Chicago Bk. of Commerce,* 375 Ill. 266, 279-280). It has often been held in California that, while the liability is imposed by a constitutional provision, it is competent for the legislature to limit by statute the time within which an action to enforce the constitutional liabiliy may be brought. The holdings to this effect are explicit and definite. *Hunt* v. *Ward,* 99 Cal. 612, 34 Pac. 335, 336. *Santa Rosa Natl. Bk.* v. *Barnett, et al.,* 125 Cal. 407, 58 Pac. 85, 86. *Gardiner* v. *Royer,* 167 Cal. 238, 139 Pac. 75, 77, and authorities there cited.

In Arizona a stockholders' double liability is imposed by the Constitution. In *Button* v. *Staley Co.,* 40 Ariz. 79, 9 P. (2d) 1010, the court held that it was competent for the legislature to fix the time within which the liability should be enforced, and said: "Section 11 of Article XIV of the Constitution creates a stockholders' double liability, but it does no more. In other words, it does not prescribe the kind or character of remedy or procedure to be followed to enforce such liability nor when suit shall be brought. These, of course, were left to be prescribed by the legislature." This was quoted by the United States Circuit Court of Appeals for the District of Columbia in *Moran* v. *Harrison,* 91 F. (2d) 310, in which it was held that the limitation by the legislature of the time for the enforcement of a liability created by the Arizona constitution was binding outside the state.

In New York the liability of bank stockholders was imposed by section 7 of Article 8 of a former constitution. The New York legislature by section 59 of the Stock Corporation Law provided that no action should be brought against a stockholder unless within two years from the time he ceased to be a stockholder. That provision was what prevented creditors from suing stockholders after the original representative plaintiff in *Hirshfeld* v. *Fitzgerald,* 157 N. Y. 166, 51 N. E. 997, had settled his claim and dismissed his suit (See 148 N. Y. S. p. 450). In *Smith* v. *Quale,* 148 N. Y. S. 448, at page 451, it was held that such a limitation bearing only upon the time in which to bring actions affected only the remedy upon a contract as distinguished from its obligation, and was a valid enactment.

In the following, among many other cases, it was held that, where a constitution imposed a stockholders' liability, a limitation created by the legislature would be enforced.

In re Liquidation of *Peoples St. Bk.,* 197 Minn. 479, 267 N. W. 482. *In re First St. Bk.,* 206 Minn. 250, 288 N. W. 709. *Dempster* v. *Williams,* 118 Neb. 776, 226 N. W. 446. *Miller* v. *Ahnemen,* 183 Minn. 12, 235 N. W. 622. *Shearer* v. *Christy,* 136 Minn. 111, 161 N. W. 498. *Bennett* v. *Thorne,* 36 Wash. 253, 78 Pac. 936.

In this State the liability is imposed by a constitutional provision. That constitutional provision was adopted in 1870. Subsequently the Illinois legislature enacted the present general Limitations Act. When its legislative limitations were invoked in *Sanders* v. *Merchants St. Bk.,* 349 Ill. 547, there was no suggestion by the court that it was not competent for the Illinois legislature to limit the time for the enforcement of the constitutional right. The defense of limitation was defeated in that case because it was not made out by the evidence. But the court conceded that to some of the liabilities "the five-year Statute of Limitations may be appropriate and to others the ten-year statute, and the Statute of Limitations may begin to run against some at a different date from others" (p. 563). The quotation just made is from the opinion by Mr. Justice Dunn, who was the author of the opinion in *Golden* v. *Cervenka,* 278 Ill. 409. The only support for the suggestion that it is not competent for the legislature to limit the time for suing on a constitutional liability is the statement on page 436 of the opinion in *Golden* v. *Cervenka* that the creditors' constitutional rights "cannot be restricted by terms imposed by the legislature." It is manifest from the fact that the last quoted language, which was the language of Mr. Justice Dunn, cannot be given the meaning that the legislature has no power to impose a time limitation on suits to enforce a constitutional liability; the very fact that the same judge in a later case recognized the applicability of a legislative limitation establishes that the court never meant to hold that a constitutional right cannot be subjected by the legislature to a time limitation.

In the recent case of *Burnett* v. *West Madison St. Bk.,* 375 Ill. 402, the court held that the suit was subject to a limitation of five or ten years, imposed by the Illinois statute, depending upon whether the bank's contract was oral or was in writing.

The same view was taken by the Supreme Court of Illinois in the recent opinion in *Lewis, et al.* v. *The West Side Tr. & Sav. Bk.,* No. 25371, opinion filed Feb. 14, 1941.

There is no doubt that the legislature has the right to prescribe a limitation upon the enforcement of either a constitutional or a statutory liability.

PERMIT ISSUED

Town	County	Bank	Capital.	Surplus.	Reserve.	Date
Mazon	Grundy	Mazon State Bank	$25,000	$5,000	$2,500	Mar. 7, 1944
Chicago	Cook	The Victory Bank of Chicago	$200,000	$45,000	$30,000	Mar. 27, 1944

CAPITAL STOCK INCREASED

Zion	Lake	Zion Bank from $25,000 to $50,000	Mar. 16, 1944

IN LIQUIDATION

Beaverville	Iroquois	Beaverville State Bank	Feb. 21, 1944
Sidney	Champaign	Winston State Bank	Mar. 27, 1944

CONVERSION

Chester	Randolph	Buena Vista State Bank into Buena Vista National Bank	Feb. 29, 1944

DISSOLVED

Chicago	Cook	Binga State Bank (In receivership November 26, 1930. Dissolved by order of the Circuit Court of Cook County)	Dec. 3, 1943
Beaverville	Iroquois	Beaverville State Bank (In liquidation February 21, 1944)	Mar. 7, 1944
Ramsey	Fayette	Peoples State Bank of Ramsey (In receivership February 27, 1931. Dissolved by order of the Circuit Court of Fayette County)	Mar. 18, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	438
Total	481

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR of PUBLIC ACCOUNTS

BANKING DEPARTMENT

State of Illinois

Vol. 20 SPRINGFIELD, ILL., MAY 1, 1944 No. 2

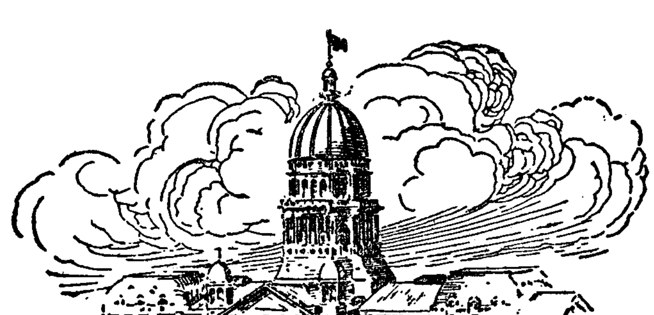
POST-WAR EXPANSION

Bankers like all other business men are doing a lot of post-war thinking these days. They are looking forward eagerly to the return of their counter loan business and anticipate a large expansion in this phase of banking.

The de-vitalizing effect of the privations of war, mild as they have been, is already becoming noticeable in the physical aspects of our communities and will become much more so before rehabilitation material and labor become available. The demand for consumer goods will be tremendous.

As goods and material become available, the consumer will be waiting for them well supplied with savings, war bonds or both. During at least the initial period of rehabilitation, employment should be high and many will prefer to hold their war bonds as an investment backlog and finance their domestic needs with borrowed money. Banks would do well to encourage such a policy.

Bankers who are thinking aggressively on these prospects will be well rewarded. Passive thinkers are likely to be disappointed. The aggressive thinkers have been and are today planning and working to get this business—making sure that they will get it. The passive thinkers are anticipating—enjoying a prospect but doing nothing about it.



In approaching and thinking about this expansion bank managements will do well to keep themselves constantly reminded that the competition for this new business will be very keen indeed. They should know from experience that this competition is very aggressive, alert and intelligent—that it is experienced and well organized—that it is capable of coming into every community and taking the bulk and cream of this new business out of it.

On the other hand bankers, in recognizing and appraising this competition, should not overlook the several important natural advantages that they themselves hold in going after this new business. They have the advantages of location, acquaintance and preference.

The community bank is usually the hub, or pretty close to the hub, of the community's commercial machinery so that community business of all kinds naturally gravitates toward its location. To capitalize this advantage, all the management has to do is to make its facilities known, convenient and accessible. The starting point here is to candidly inquire how little or well the bank is known throughout its community. Is it convenient, not only as to location but as to banking hours? Are its public relations such as to make its human element easily accessible to the whole community?

The advantage of acquaintance is so natural and obvious and comes to the bank with so little effort that many bankers fail to appreciate and exploit it. The bank is on a neighborly footing with every person in its community while the competitor from the outside is a stranger. Certainly there is an intimacy and mutuality of interest in such a contact that no amount of advertising or public relations technique can achieve for an outside competitor.

Then there is the advantage of preference. We have in several previous BULLETINS expressed the conviction that the citizens of a community prefer to do all of their business with their local bank. We have seen it work and work on a large scale. Any observer has ample opportunity to see and study the efforts and inducements outside competition in all lines of commerce have to put forth to overcome that preference.

The foregoing advantages in the hands of an aggressive banker are mighty tools and like any other tools they will improve with use. Through their use he will acquire and hold his local loan business and will participate to the fullest extent in any expansion that develops with the return of peace.

There is another way of participating in loan expansion—a much easier approach. The banker can finance his competitor. He can act as the wholesaler of credit while his competitor retails it out to the bank's own customers. That approach is not new. It was very thoroughly explored during the 1920-1930 decade and did not turn out at all well. In fact it ended the careers of a large number of banks.

Country banks do not appear to us to be in a position to wholesale credit. They have facilities through which they can invest surplus funds with a high degree of safety but when it comes to loaning money, theirs is essentially a retail position.

Why should not every individual in the community have the same access to a bank's loanable funds as the man in business? We can think of no reason why a salaried individual or wage earner cannot establish and maintain a line of credit with his local bank on a basis comparable with a commercial enterprise. Admittedly there is some difference in the two types of loans and there are handling problems involved but it has been demonstrated that they can be solved and the bankers who have solved them have been well paid for their trouble. When every wage earner, salaried man, home owner or other person entitled to bank credit finds it easy and convenient to obtain it, our country banks will find their loanable funds well employed and diversified.

It is not unlikely that bank managements in meeting competition and expanding their community loan business, will encounter old and time honored banking traditions arising to bar the way. When that occurs, it might be very advisable to examine the traditions. It seems to us that if a proposition is legal and sound business, then tradition is not the yardstick to apply—bankers may be very sure that their competition will not apply it.

As we see it, the bankers who are doing their post-war thinking aggressively are thinking along two main lines—improving their community contacts and making their banks and services more available to the citizens of their communities.

During the past ten years our banks have made the most of their opportunities to set their houses in good order but we cannot be sure that their social advancement has kept abreast of their physical rehabilitation. We are not at all certain that there is not considerable of the old traditional smugness left in the banking business but we are quite sure that wherever and to whatever extent it exists, it will handicap the bank wherein it exists in properly integrating itself into the economic life of its community.

To the interested observer there are many signs that the day of the banker's unchallenged financial leadership in his community has passed. It has been challenged, by-passed, and in some places weakened. It can be restored and must be if his maximum service is to be used by his community and profit therefrom gained.

CHARTER ISSUED

			Capital.	Surplus.	Reserve.	
Windsor	Shelby	Windsor State Bank 116 West Virginia Avenue F. A. Fling, President E. R. Duncan, Cashier	$25,000	$5,000	$2,500	Apr. 6, 1944

RECEIVER APPOINTED

Chicago	Cook	Broadway Trust & Savings Bank of Chicago Justin J. Jaeger (In liquidation March 13, 1935)	Apr. 28, 1944

DISSOLVED

Berwyn	Cook	Twelfth Street State Bank (In receivership July 22, 1931. Dissolved by order of the Circuit Court of Cook County)	Mar. 24, 1944
Chicago	Cook	Columbia State Savings Bank (In receivership April 18, 1931. Dissolved by order of the Superior Court of Cook County)	Mar. 28, 1944
Chicago	Cook	Fullerton State Bank (In receivership July 9, 1931. Dissolved by order of the Circuit Court of Cook County)	Apr. 10, 1944
Chicago	Cook	Cragin State Bank (In receivership July 30, 1931. Dissolved by order of the Superior Court of Cook County)	Apr. 17, 1944
Joliet	Will	Joliet Trust and Savings Bank (In receivership February 20, 1932. Dissolved by order of the Circuit Court of Will County)	Apr. 19, 1944
Kilbourne	Mason	Kilbourne State Bank (In receivership April 23, 1924. Dissolved by order of the Circuit Court of Mason County)	Apr. 21, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	439
Total	482

MONTHLY BULLETIN

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

Vol. 20 SPRINGFIELD, ILL., JUNE 1, 1944 No. 3

DEFERMENTS AND DEBENTURES

From 36 million down to 10 million is the accomplishment of the State banks of Illinois in retiring deferred certificates issued to depositors in exchange for waivers of claims during the Moratorium adjustments of 1933.

Of the 333 banks that issued deferred certificates 190 have made payment in full; 143 still have unpaid balances outstanding; 28 of these are now inactive, leaving 115 operating banks with partly unpaid deferred certificates.

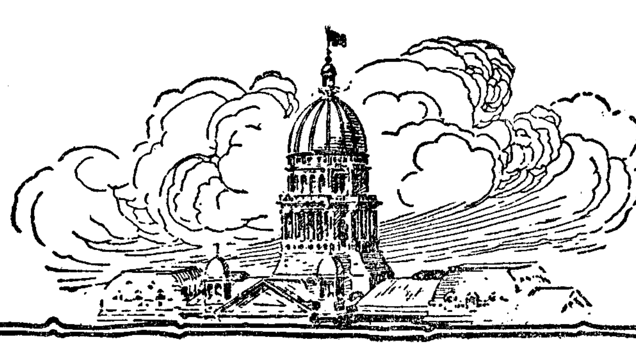
From 7½ million down to 1 million is the reduction made by banks which at that time and since issued debentures for the purpose of capital rehabilitation.

Ninety-one banks sold capital debentures and only 20 still have them outstanding.

All reductions shown hereinabove are to March 30, 1944.

The foregoing condensed summary furnishes a partial answer to a question that was being briskly debated eleven years ago: should banks compromise with their creditors and continue to operate? Will these deferments ever be paid? How long will it take?

Such compromises were not entirely new; but before the panic of 1932-33 they had been tried only in a few isolated instances and then only by banks going into liquidation.



Therefore when the Moratorium of 1933 placed 705 closed State banks under the technical custody of this Department and it became evident that compromises would be necessary to reopen about half of them, we had a serious question of policy thrust upon us without any experience to guide our course.

Ours was a many sided problem. Every community wanted its bank opened as quickly as possible and yet the whole purpose of the Moratorium would have been defeated had any of the reopened banks had to subsequently close. The stabilization of our whole national economy depended upon reopened banks remaining open. At the moment everything was wobbly and uncertain. Stability and certainty must begin with the banks. Therefore, reopening standards of condition had to be high enough to insure the future.

The primary opening requirement necessarily had to be a high degree of cash means and a quickly convertible asset position. Confronted with such a requirement and with the usual means of meeting it thoroughly frozen, many banks had no alternative but to seek the aid of their depositors. In fact, in many cases a surprisingly large number of depositors came forward voluntarily and offered this aid.

Thus the questions of policy above pointed out were thrust squarely upon us together with many legal questions without precedent.

The only alternative to cooperation with the waiver movement was the liquidation of over 300 banks. That alternative in itself was sufficient to resolve the question in favor of cooperation.

We feel that the results to date, as above reported, fully justify the waiver adjustments and it is especially gratifying to note that there has been no slackening of retirements during recent years.

In our BULLETIN of September 1, 1940, we reported deferred certificate retirements aggregating nearly 16 million dollars for the preceding seven years and then ventured a prediction. We said: "The above figures disclose that after seven years, the task of reimbursing for all outside aid in Illinois State banks is just about half done. By this time most of the value recoverable from charged-off assets has been obtained; which means that from here on in, most of the job will have to be done by bank earnings. That being true, the balance of retirement is very likely to be much slower than liquidation up to this point."

There is nothing that a banker relishes more than to upset a bank examiner's prediction; so in the ensuing four years they paid an additional 10 million dollars to their deferred certificate holders.

Even banks that have suspended business since 1933 and gone into liquidation have done a notably good job of retiring their deferments. Thirty-six banks have gone on the inactive list and their deferments totaled about 1 million 400 thousand. Over 900 thousand of these have been paid and ½ million remain unpaid.

While the results hereinabove outlined were unpredictable ten years ago, the zeal and determination that brought about this fine showing were very apparent. Almost without exception bank managements that have had these commitments outstanding have lived close to their problem. There has never been any disposition to shirk it and they have come a long way toward keeping full faith with their friends who stood by them in their time of trouble.

EXAMINATION REPORTS

It has recently come to our attention that examining authorities in several states have been disturbed and embarrassed by improper use being made of copies of examination reports that have been sent to the banks for the confidential information of officers and directors.

It seems that depositors whose current balances run way beyond $5,000.00 have from time to time asked for and received from their depository banks copies of examiners' reports in order to keep themselves informed as to the banks' current conditions.

We have never heard of this happening in Illinois, but it is not at all unlikely that it has or could occur; so it might be well here to review the nature of our examination together with its purpose and intended use.

Our examination report or any copy thereof is a private and confidential document. It is not a public document. Its primary purpose is to inform the Auditor of Public Accounts of the condition of each bank examined AS IT APPEARS TO THE EXAMINER. The Auditor of Public Accounts is not obliged to furnish or even preserve a record of any examination.

Fundamentally the statutory purpose of an examination is to furnish the State Auditor with such information as will enable him to determine at least once each year whether or not there is need for statutory action on his part and in pursuing this end he may follow any line of inquiry he chooses.

Our examination is neither an audit nor an appraisal in the generally accepted sense of both terms; yet an outside reviewer might erroneously assume it to be either or both. An examiner might very properly accept and set down certain statements, information or conclusions with mental reservations and subject to further investigation that would be entirely misleading to an outsider.

Officers and directors have means available of checking and verifying an examiner's findings that are not available to anyone outside of the management.

It would be very unfair both to the Auditor of Public Accounts and to any outside person relying upon such a report to submit it for the examination of anyone outside of the officers and directors.

As stated above, the State Auditor is not obliged to furnish a copy of his examiner's report to any bank. It has been the custom to do so for many years and has served a very constructive purpose and we intend to continue it. It must be understood, however, that it is a confidential document and intended for the exclusive use of the officers and directors. Should we learn of any abuse of this confidence we may be compelled to discontinue sending the report copy to any offending bank.

CHANGE OF PAR VALUE OF CAPITAL STOCK

Chicago	Cook	East Side Trust & Savings Bank from \$100 to \$10	May 16, 1944

CHANGE OF LOCATION

Chicago	Cook	East Side Trust & Savings Bank from 10101 Ewing Avenue, Chicago, Illinois, to 4651-59 Cottage Grove Avenue, Chicago, Illinois	May 16, 1944

CHANGE OF NAME

Chicago	Cook	East Side Trust & Savings Bank to South Side Bank & Trust Co.	May 16, 1944

IN LIQUIDATION

Springerton	White	Springerton State Bank	May 6, 1944

DISSOLVED

Elmwood Park	Cook	Elmwood Park State Bank (In receivership July 17, 1931. Dissolved by order of the Circuit Court of Cook County)	Apr. 26, 1944
Summit	Cook	The Summit State Bank (In liquidation September 16, 1935)	Apr. 27, 1944
Chicago	Cook	Italian Trust & Savings Bank (In receivership July 28, 1931. Dissolved by order of the Circuit Court of Cook County)	May 5, 1944
Fairbury	Livingston	Claudon State Bank (In receivership June 16, 1927. Dissolved by order of the Circuit Court of Livingston County)	May 5, 1944
Peoria	Peoria	Bank of Peoria (In receivership November 16, 1933. Dissolved by order of the Circuit Court of Peoria County)	May 12, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	438
Total	481

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 20 SPRINGFIELD, ILL., JULY 1, 1944 No. 4

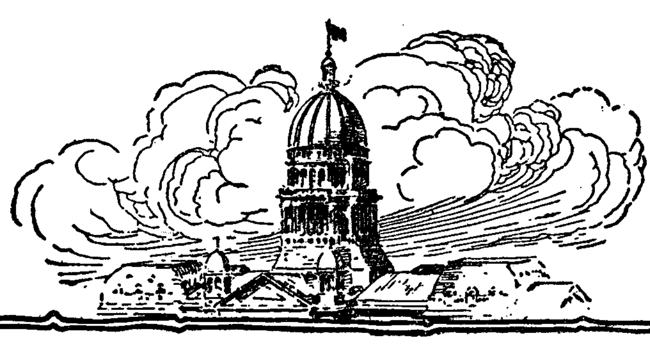
GOVERNMENT SECURITIES

Time was when Government bonds were purchased by banks as a low yield, highly liquid backlog behind cash holdings. Purchases were generally limited to what the management thought the bank might need in the form of a secondary cash reserve. Loans and other investments were plentiful and yielded good interest returns. A substantial investment in low yielding Governments was considered a sacrifice in behalf of liquidity.

Today all that is changed. High yielding loans and investments are not plentiful; in fact they can scarcely be found. Government securities yielding less but still highly convertible, and with maturities pretty well covering the calendar completely dominate the investment field.

Our national need has just about determined the bond buying policies of all our banks. All that is left for bank managements to determine is their maturity programs; and that is vitally important.

Twelve months is a relatively short time in considering and laying out an investment program; and yet, within the next twelve months we are very likely to start the swing back to peace from war. Unless we are greatly mistaken that swing of our economic pendulum will be much more difficult to negotiate than the preceding one.



Problems, possible and probable, are so numerous in the transition that lays ahead, that the ordinary part-time thinker in trying to consider them soon finds himself in a sort of mental labyrinth.

The mine run of our practical bankers, will probably shelve most of these visionary problems as bridges to be crossed when we come to them; and that is probably just as well. There are three questions, however, that are so vital right now that they simply cannot be put out of mind:

What will happen to our deposits when the war is over?

Will conditions restore our counter loan business?

What other investment opportunities will we have?

Most authorities seem to be in agreement that there will be no substantial falling off of deposits after the war ends. While that may be true generally, there may be a number of communities where post-war conditions will reduce deposits and reduce them sharply.

Some bankers may be able to definitely anticipate these reductions and meet them fully prepared; others may be uncertain as to their prospects in this respect; while still others may guess entirely wrong.

Most authorities are also in agreement as to the stability of the government bond market for some years to come.

When mathematicians run into a problem containing a number of unknown quantities, they usually begin its solution by assuming something. It strikes us that the banker, in dealing with the "unknowns" of the approaching economic situation, may well begin by assuming that the government bond market will hold steady at par or better.

On the basis of this assumption, the bank that will have a substantial block of government securities maturing every month and a fairly strong cash position should have sufficient cash means and near maturities at all times to deal with about any situation that might arise.

To accumulate such an investment portfolio requires study and thoughtful planning. Early this month the American Bankers Association through its Commission on Country Bank Operations published the results of their study of this subject under the title of "The Country Bank's Portfolio of United States Government Securities."

This publication strikes us as one of the most useful we have seen on the subject. The approach is simple and the coverage sticks strictly to fundamentals. Entirely devoid of academic dryness it might well be regarded as a country bank's textbook on investment in Government securities and the intelligent integration of investing policy with bank operation.

There is one very succinct declaration that meets with a warm response from this Department wherein it concisely affirms an ancient preachment of ours:

> "While the responsibility for the execution of an investment policy should be that of an officer, the adoption of the policy should be by the entire Board of Directors after careful consideration of all the available facts. A proper investment policy is of great importance. Not only should the responsibility of its adoption be shared, but its formulation should be a result of the combined conscientious effort and contribution of all Board members."

The foregoing would in our opinion furnish excellent material for a very appropriate by-law for every bank in the country.

Altogether this work is very readable and should be universally and carefully read.

* * * * * *

We are frequently asked if the limitations of Section 10 of the Banking Act apply to loans secured by pledge of Government bonds. In other words: "Would the penalty of Section 10 apply to a loan in excess of the legal loaning limit when it is fully secured by a pledge of Government bonds at the time of making?"

There is no legal precedent in Illinois, as far as we know, to furnish the answer, and inasmuch as Section 10 is in the process of amendment, we have not asked the Attorney General to examine and submit an opinion on this question.

The first question is: "Would such a loan violate the law?" We think it would. The law as it stands today makes three exceptions in favor of certain types of collateral, which do not include Government bonds. Government securities are exempt from the limitations of Section 10 only when they are purchased outright. Therefore there would be no legal exception in favor of a loan secured by Government bonds. This being true the loaning of money in excess of the legal loaning limit would constitute a violation of the law. The type of collateral could not be interposed as a legal defense.

The next question for consideration is the possibility of loss, which under the penalty clause of Section 10 would be a personal liability of the individual directors.

As far as the value of collateral is concerned the probability of loss would be very remote; but if circumstances arose that would deprive the bank of the collateral, such as a defect in the note or pledge, the probability of loss would then become very real.

* * * * * *

The fact was stated above that Section 10 of the Illinois Banking Act is in the process of amendment. From some inquiries that we have received it appears that there may be some misunderstanding as to the status of said amendment.

There are apparently some bankers who are under the impression that the amendment of Section 10 of the Banking Act adopted at the last session of the Illinois Legislature is now in force; which is not a fact.

Under the Illinois Constitution any Act of the Legislature amending the Illinois Banking Act must be ratified by a popular referendum at the next general election following enactment. Therefore the recently enacted amendment will be voted upon at the coming November election. If a majority of the votes for and against its adoption favor it the Governor will proclaim the fact and the amendment will then become law.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Roseville	Warren	Roseville State Bank	$25,000	$5,000	$2,500	June 30, 1944

CAPITAL STOCK INCREASED

Herrin	Williamson	The Bank of Herrin from $50,000 to $100,000	June 2, 1944
Marion	Williamson	The Bank of Marion from $50,000 to $100,000	June 26, 1944
Jerseyville	Jersey	Jersey State Bank from $50,000 to $75,000	June 30, 1944

DISSOLVED

Sidney	Champaign	Winston State Bank (In liquidation March 27, 1944)	Apr. 1, 1944
Kenney	DeWitt	Farmers State Bank of Kenney (In liquidation February 10, 1943)	May 1, 1944
Chicago	Cook	Armitage State Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County)	June 2, 1944
Findlay	Shelby	First State Bank of Findlay (In receivership May 28, 1932. Dissolved by order of the Circuit Court of Shelby County)	June 5, 1944
Springerton	White	Springerton State Bank (In liquidation May 6, 1944)	June 6, 1944
Waltonville	Jefferson	Waltonville State Bank (In receivership February 10, 1933. Dissolved by order of the Circuit Court of Jefferson County)	June 6, 1944
Chicago	Cook	Auburn Park Trust & Savings Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County)	June 6, 1944
Taylorville	Christian	John B. Colegrove and Co. State Bank (In receivership November 2, 1929. Dissolved by order of the Circuit Court of Christian County)	June 9, 1944
Chicago	Cook	Brainerd State Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County)	June 21, 1944
Chicago	Cook	Bryn Mawr State Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County)	June 21, 1944
Chicago	Cook	West Lawn Trust and Savings Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County)	June 21, 1944
Chicago	Cook	Progressive State Bank (In receivership February 11, 1930. Dissolved by order of the Circuit Court of Cook County)	June 22, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	438
Total	481

MONTHLY BULLETIN

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

Vol. 20 SPRINGFIELD, ILL., AUGUST 1, 1944 No. 5

CALL REPORT

The consolidated figures resulting from our Call Reports of the past year, reviewed and compared on the inner pages of this issue, not only continue to show increases in deposits at each call date but a faster tempo in that direction. The quarter that ended on June 30th registered an increase in deposits that was a veritable upward surge of 262 million dollars—the largest quarterly increase ever shown by Illinois state banks.

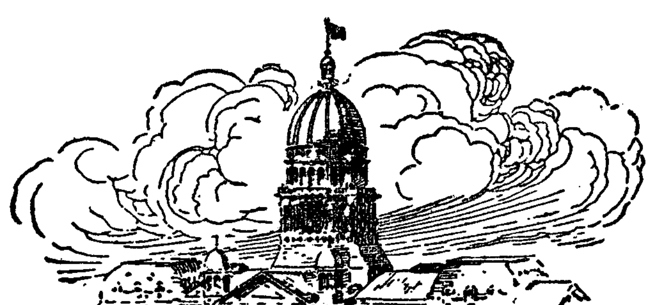
Even the annual spring flight of money from the tax gatherer, which unfailingly results in a sharp drop in deposits in the April call, only succeeded in slowing up the advance this year, when for the first time within our memory deposits showed a gain of nearly 29 million dollars in contrast with the customary decline.

Government bonds continue to dominate the field in the employment of funds, moving up nearly 400 million dollars during the year.

Other bond investments sold off heavily during the last half of 1943, the figures showing a total disposal of 34 million dollars in such investment during that period and less than a third of that amount came back on the books during the first half of the current year. This account finished the mid-year cycle nearly 23 million dollars down.

Loans and discounts showed an encouraging and persistent tendency toward higher levels at each call and marked up a net advance of 24 million dollars for the year; 18 million of which occurred in the collateral group.

Urban and rural real estate financing appears to have had a very dull year with investments in those types of paper off about 5 million dollars. Lack of material and labor is undoubtedly responsible for much of this stagnation.



REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS

NUMBER OF BANKS	484	Increase or Decrease	484	Increase or Decrease	484	Increase or Decrease	481	Increase or Decrease	481
DATE OF CALL	June 30, 1943		Sept. 18, 1943		Dec. 31, 1943		Mar. 30, 1944		June 30, 1944
RESOURCES:									
Cash and Due from Banks	$520,521,612.69	$+20,164,217.64	$ 540,685,830.33	$ —555,310.99	$ 540,130,519.34	$—56,612,811.68	$ 483,517,707.66	$ +88,375,005.85	$ 571,892,713.51
Outside Checks and Other Cash Items	20,216,640.98	—2,206,836.07	18,009,804.91	+6,999,921.54	25,009,726.45	—8,140,742.24	16,868,984.21	+4,173,688.72	21,042,672.93
U. S. Governments—Direct and Guaranteed	970,836,902.83	+92,920,109.03	1,063,757,011.86	+53,033,604.13	1,116,790,615.99	+84,694,972.61	1,201,485,588.60	+165,409,307.31	1,366,894,895.91
Other Bonds, Stocks and Securities	272,916,648.10	—20,105,063.08	252,811,585.02	—13,880,445.16	238,931,139.86	+2,740,200.34	241,671,340.20	+8,531,140.60	250,202,480.80
Loans and Discounts	272,002,034.51	+22,176,532.21	294,178,566.72	+1,136,547.18	295,315,113.90	+5,409,552.74	300,724,666.64	—3,887,416.61	296,837,250.03
Overdrafts	295,490.65	—136,451.60	159,039.05	-86,508.30	72,530.75	+132,005.01	204,535.76	—123,277.03	81,258.73
Banking House	9,926,354.70	+84,500.61	10,010,855.31	—581,788.70	9,429,066.61	—51,778.01	9,377,288.60	—62,889.76	9,314,398.84
Furniture and Fixtures	1,250,767.94	+43,761.36	1,294,529.30	—166,951.13	1,127,578.17	+4,972.44	1,132,550.61	+9,183.75	1,141,734.36
TOTAL—Bkg. House and Furniture and Fixtures	$11,177,122.64	$+128,261.97	$11,305,384.61	$—748,739.83	$10,556,644.78	$—46,805.57	$10,509,839.21	$—53,706.01	$10,456,133.20
Other Real Estate	$1,333,727.06	$—143,780.59	$1,189,946.47	$—147,453.20	$1,042,493.27	$ —62,838.78	$ 979,654.49	$ —103,035.47	$ 876,619.02
Customers' Liability—Letters of Credit	278,304.77	—150,664.78	127,639.99	+204,415.62	332,055.61	+1,074,833.41	1,406,889.02	—698,215.32	708,673.70
Customers' Liability—Acceptances	133,895.95	—19,525.33	114,370.62	—41,976.31	72,394.31	+31,823.78	104,218.09	+6,860.96	111,079.05
Other Resources	5,907,585.30	—900,046.39	5,007,538.91	+583,336.10	5,590,875.01	—371,407.43	5,219,467.58	+1,479,118.49	6,698,586.07
GRAND TOTAL RESOURCES	$2,075,619,965.48	$+111,726,753.01	$2,187,346,718.49	$+46,497,390.78	$2,233,844,109.27	$+28,848,782.19	$2,262,692,891.46	$+263,109,471.49	$2,525,802,362.95
LIABILITIES:									
Deposits									
Demand Deposits	$1,343,897,208.17	$+78,358,166.41	$1,422,255,374.58	$+39,170,204.94	$1,461,425,579.52	$ +3,232,736.38	$1,464,658,315.90	$+222,389,912.61	$1,687,048,228.51
Time Deposits	441,515,851.30	+21,254,938.64	462,770,789.94	+23,191,012.62	485,961,802.56	+18,495,817.70	504,457,620.26	+35,997,282.93	540,454,903.19
Due to Banks	154,880,556.66	+8,616,060.14	163,496,616.80	—14,396,856.03	149,099,760.77	+3,008,692.91	152,108,453.68	+3,717,209.06	155,825,662.74
Deposits Secured by Pledge	$ 148,866,575.26	$+52,270,995.65	$ 201,137,570.91	$ —9,043,556.89	$ 192,094,014.02	$+128,968,999.25	$ 321,063,013.27	$ +31,914,102.24	$ 352,977,115.51
Deposits Not Secured by Pledge	1,791,427,040.87	+55,958,169.54	1,847,385,210.41	+57,007,918.42	1,904,393,128.83	—104,231,752.26	1,800,161,376.57	+230,190,302.36	2,030,351,678.93
TOTAL DEPOSITS	$1,940,293,616.13	$+108,229,165.19	$2,048,522,781.32	$+47,964,361.53	$2,096,487,142.85	$+24,737,246.99	$2,121,224,389.84	$+262,104,404.60	2,383,328,794.44
Other Liabilities									
Bills Payable	---	---	---	---	---	---	---	---	---
Re-Discounts	---	---	---	---	---	---	---	---	---
Dividends Unpaid	$ 375,345.15	$ —352,261.08	$ 23,084.07	$ +408,562.00	$ 431,646.07	$ —343,548.12	$ 88,097.95	$+309,896.21	$ 397,994.16
Letters of Credit	307,768.53	—161,184.78	146,583.75	+185,821.86	332,405.61	+1,092,353.41	1,424,759.02	—707,415.32	717,343.70
Bank Acceptances	150,733.32	—16,470.17	134,263.15	+10,956.30	145,219.45	+6,378.50	151,597.95	+31,609.89	183,207.84
Other Liabilities	3,021,605.95	+865,332.91	3,886,938.86	—623,466.74	3,263,472.12	+373,508.55	3,636,980.67	—80,608.90	3,556,371.77
Capital Structure									
Capital Stock	41,385,550.00	—25,000.00	41,360,550.00	+80,000.00	41,440,550.00	+225,000.00	41,665,550.00	+135,000.00	41,800,550.00
Income Debentures	1,459,425.00	—58,500.00	1,400,925.00	—343,000.00	1,057,925.00	—78,775.00	979,150.00	—5,000.00	974,150.00
Surplus	33,879,800.00	+100,500.00	33,980,300.00	+3,446,500.00	37,426,800.00	+585,500.00	38,012,300.00	+504,350.00	38,516,650.00
Undivided Profits (Net)	26,272,504.53	+1,736,878.09	28,009,382.62	—3,853,591.93	24,155,790.69	+1,159,957.31	25,315,748.00	+89,852.36	25,405,600.36
Reserve Accounts	28,473,616.87	+1,408,292.85	29,881,909.72	—778,752.24	29,103,157.48	+1,091,160.55	30,194,318.03	+727,382.65	30,921,700.68
TOTAL CAPITAL STRUCTURE	$131,470,896.40	$+3,162,170.94	$134,633,067.34	$—1,448,844.17	$133,184,223.17	$+2,982,842.86	$136,167,066.03	$+1,451,585.01	$137,618,651.04
GRAND TOTAL LIABILITIES	$2,075,619,965.48	$+111,726,753.01	$2,187,346,718.49	$+46,497,390.78	$2,233,844,109.27	$+28,848,782.19	$2,262,692,891.46	$+263,109,471.49	$2,525,802,362.95

ANALYSIS—LOANS AND DISCOUNTS:									
Commercial Paper	$ 8,276,592.62	$ +2,380,438.55	$ 10,657,031.17	$+3,255,391.54	$ 13,912,422.71	$ —826,212.15	$ 13,086,210.56	$—3,934,937.73	$ 9,151,272.83
Collateral Loans	45,196,386.65	+8,791,517.56	53,987,904.21	—3,101,059.02	50,886,845.19	+4,801,998.82	55,688,844.01	+7,518,764.50	63,207,608.51
Other Loans	146,340,834.74	+11,626,796.04	157,967,630.78	+5,031,735.88	162,999,366.66	+2,316,289.53	165,315,656.19	—8,228,516.15	157,087,140.04
Farm Loans	10,912,966.67	—367,124.80	10,545,841.87	—471,808.39	10,074,033.48	+179,996.67	10,254,030.15	+29,574.42	10,283,604.57
Other Real Estate Loans	61,275,253.83	—255,095.14	61,020,158.69	—3,577,712.83	57,442,445.86	—1,062,520.13	56,379,925.73	+727,698.35	57,107,624.08
TOTAL LOANS AND DISCOUNTS	$272,002,034.51	$+22,176,532.21	$294,178,56[illegible]	$+1[illegible],547.18	$295,315,113.90	$+5,409,552.74	$300,724,666.64	$—3,887,416.61	$296,837,250.03

PERMIT ISSUED

			Capital	Surplus	Reserve	
Tiskilwa	Bureau	Tiskilwa State Bank	$27,500	$5,000	$1,875	July 8, 1944
Erie	Whiteside	Erie State Bank	$30,000	$3,000	$3,000	July 17, 1944

CONVERSION

Ursa	Adams	Farmers Bank of Ursa into First National Bank of Ursa	July 6, 1944

DISSOLVED

Kewanee	Henry	Union State Savings Bank & Trust Company (In receivership October 13, 1931. Dissolved by order of the Circuit Court of Henry County)	July 5, 1944
Cairo	Alexander	Cairo-Alexander County Bank (In receivership August 15, 1933. Dissolved by order of the Circuit Court of Alexander County)	July 8, 1944
Mt. Vernon	Jefferson	Jefferson State Bank (In receivership January 22, 1931. Dissolved by order of the Circuit Court of Jefferson County)	July 10, 1944
Chicago	Cook	Ridgeway State Bank of Chicago (In receivership April 21, 1931. Dissolved by order of the Superior Court of Cook County)	July 26, 1944
Ottawa	LaSalle	Ottawa Banking and Trust Company (In receivership October 28, 1931. Dissolved by order of the Circuit Court of LaSalle County)	July 26, 1944
Ottawa	LaSalle	Peoples Trust & Savings Bank of Ottawa (In receivership October 28, 1931. Dissolved by order of the Circuit Court of LaSalle County)	July 26, 1944
Chicago Heights	Cook	Commercial Bank of Chicago Heights (In receivership February 2, 1932. Dissolved by order of the Circuit Court of Cook County)	July 28, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	437
Total	480

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 20 SPRINGFIELD, ILL., SEPTEMBER 1, 1944 No. 6

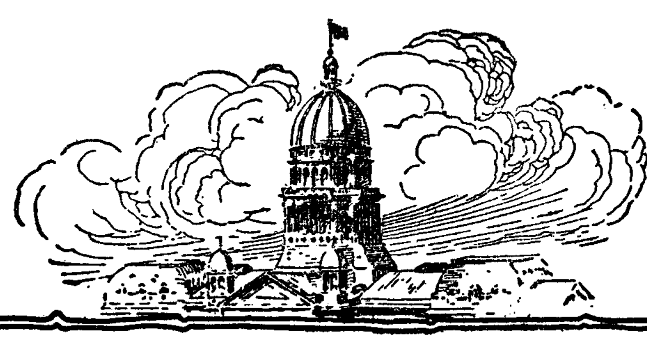
CALL REPORTS

A mild headache that this Department has to contend with every three months arises from errors appearing in published bank call reports. Having to republish a call report is embarrassing to a bank and costs $25.00 up.

Republication becomes particularly annoying — and mutually so — when the error is comparatively small and would appear to be of little practical consequence. In such instances any reasonable person would much prefer to waive republication and save the bank the bother and cost involved. But the Auditor of Public Accounts is not only without discretion in the matter, the law makes him responsible for the publication when it provides that "And he (the Auditor) shall cause such report to be published at the expense of such bank in some newspaper published in the city or town where such bank is located; . . .".

It is idle to speculate upon the possible or probable effects of the publication of an erroneous call report, even when the error is of minor consequence and would not materially affect a bank's condition as represented to the public; for no one can fully visualize or forsee the wide variety of uses and purposes a call report may be called upon by the public to serve.

Obviously the legal importance of this document is very great, for one whole section of the Banking Act is devoted



to its filing with the Auditor and publication. The statute first requires that it be filed by the bank and to insure its correctness and accuracy, one of the two key officers (president or cashier) must verify it under oath. Responsibility for publication is then placed upon the Auditor of Public Accounts.

These requirements are so rigid and clear cut as to leave absolutely no room for implied discretion in any of the parties involved. In other words the provisions of Section 7 of the Illinois Banking Act were designed by the Legislature to insure that the quarterly call reports filed and published be correct in every detail.

That the vast majority of our banks are thoroughly impressed with the seriousness and strictness of the requirements of Section 7 is demonstrated by the large number of banks that have filed and published their quarterly reports, year after year as far back as our records go without even the slightest error. And to that long list we can add a number of banks that have discovered errors in publication and have promptly republished call reports before we discovered them.

Within recent weeks we made it a point to call one of our large and very excellent banking institutions, that had a perfect record in this respect, to inquire as to what steps they took to file and publish a perfect call report and we were advised of the following procedure:

(1) When our call for a statement of condition and accompanying forms are received by the bank from this Department, they are immediately turned over to an officer who has a formula for condensing their numerous general ledger accounts into the form prescribed by this Department.

(2) This officer obtains his figures from the bookkeeping department, compiles the statement and sends it to the auditing department for checking.

(3) After the statement has been verified by the auditing department, Form 9 (printer's copy) is prepared and sent to the publisher with instructions to return printer's proof for inspection before publishing.

(4) When proof comes back from the printer it is sent to the bank's advertising department where it is independently checked and proofread.

(5) The printer is then instructed to proceed with publication.

We know, of course, that there are few banks staffed to provide the checking routine above outlined. We merely use it to show the extent to which a bank will go when it is actuated by a determination to do all things correctly.

To bank officers who are inclined to deal with the filing and publication of the quarterly call report as a nuisance to be disposed of in the shortest possible time and with the minimum of effort, we would submit this friendly reminder:

The law requires a correct call report and makes no allowance for error. All it takes to meet that requirement is determination to do the job correctly.

* * * * *

CURRENCY EXCHANGES

The 63rd Illinois General Assembly enacted a law to regulate Community Currency Exchanges. This law, inspired mainly by the industry itself, is designed to establish ownership responsibilities through licensing requirements and a degree of public protection in the form of surety bonds and insurance protection against operational risks. Licensing and examining authority is vested in the Auditor of Public Accounts.

The law went into effect on October 1, 1943; since when this Department has issued nearly 450 licenses that are now in effect. Nearly all of these licenses are within the City of Chicago and Cook County.

We have reason to believe that there may be currency exchanges operating in Chicago and Cook County without license as well as some downstate.

Unlicensed currency exchange operators will, of course, be ferreted out in time and prosecuted; but it occurred to us that bankers can put a stop to such illegal operations much more effectively and quicker than legal proceedings under the penalty section of the statute.

A currency exchange must have a banking connection, both for cash and clearing facilities and upon which to draw its money orders. It is difficult to see how an unlicensed business could carry on if a bank refused to handle its account. And certainly an ethical banker should not hesitate, in public interest, to refuse the account of an illegal business of this nature.

We feel that all bankers in Illinois should do this not only in the interest of public welfare but as a matter of self protection; for we are not at all sure that a bank honoring the money orders of an unlicensed, unprotected currency exchange and aiding and abetting its operation through its banking facilities could escape involvement and consequent liability.

All that a bank has to do to cooperate toward this end, is to refuse an unlicensed currency exchange account and this Department will be glad to answer promptly any Illinois banker's inquiry concerning the existence of a currency exchange license.

We have not gone into a detailed description of the currency exchange law but any bank can promptly secure a copy from this office in pamphlet form.

* * * * *

ANECDOTE OF THE ROAD

A short while back one of our examiners and two assistants entered a downstate bank to make an examination. They had not been there long when they discovered that the Cashier was a talented whistler.

He practised his art constantly and seemed to have an inexhaustible supply of both wind and melodies.

During the two and a half or three hours that the crew spent in the bank that afternoon the air seemed to scintillate with chirps and bird calls.

When the crew returned to resume the examination the following morning the Cashier was right at the door to welcome them with a friendly greeting which trailed off into a stanza of skillfully articulated lip music.

As the examiners were settling down to their work, one of the assistants remarked to the examiner in charge:

"That cashier's a smart chap."

"How do you mean?"

"We've only been working here about three hours and he's on to us already."

"What do you mean—on to us?"

"Didn't you hear what he was whistling when he let us in just now?"

"No—what was it?"

"Three Blind Mice."

CHARTER ISSUED

			Capital	Surplus	Reserve	
Mazon	Grundy	Mazon State Bank Depot Street George E. Mellen, President Stuart H. Switzer, Cashier	$25,000	$5,000	$2,500	Aug. 29, 1944

CHANGE OF LOCATION

Astoria	Fulton	Farmers State Bank of Astoria from 610 Pearl Street, Astoria, Illinois to 602 Broadway, Astoria, Illinois	Aug. 9, 1944

IN LIQUIDATION

Mason City	Mason	Central Illinois State Bank	Aug. 31, 1944

DISSOLVED

Kell	Marion	Kell State Bank (In receivership September 22, 1942. Dissolved by order of the Circuit Court of Marion County)	Aug. 14, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	437
Total	480

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 20 SPRINGFIELD, ILL., OCTOBER 1, 1944 No. 7

THE ANSWER

Our May BULLETIN carried an article on "Post-War Expansion." Its theme was based on, what has seemed to us to be a universal assumption, that as soon as peace is won in Europe, banks will resume normal loaning activities.

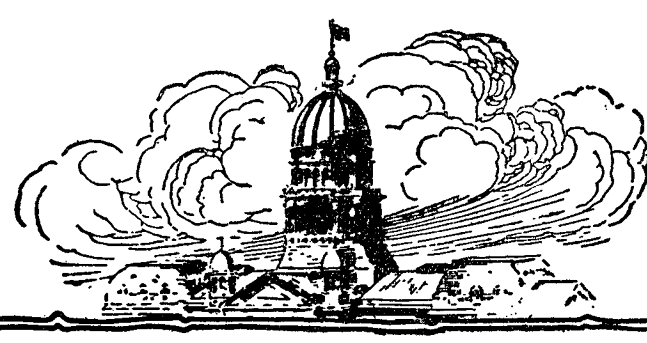
In developing this topic, we reminded our State banks of how deeply their positions have been invaded in their own communities. We urged them to resist this movement through confining loan expansion within community limits.

There was a natural reaction to an article of that type; both agreeable and critical. The criticism that impressed us most came from a very able banker whom we have always held in high esteem and who had obviously misread the article.

His criticism assumed that this Department had fallen in line with a nation-wide policy advocated by a school of economic thought that would expand loans as an economic panacea or business stimulant rather than for the purpose of meeting individual credit needs.

He waxed a bit caustic in concluding that:

"It has been my observation through the years that bankers have somehow contrived to make a sufficient number of loans that turned out to be bad, without encouragement from the supervisory authorities to increase the volume of loans made."



This critical letter conveyed to us a rather broad implication that this Department is part and parcel of a general movement among supervisory authorities to encourage the expansion of bank loan volume on a rather reckless scale. This we categorically deny.

We in this Department are not economic theorists. Our primary concern is the condition of our State banks on the day we examine them. Future developments and policy making are entirely in the hands of bank managements.

We thought we were only being realistic in recognizing a general desire among bankers for and the probability of counter loan expansion. Our only objective was to suggest what we believe to be a safe and profitable direction for such development.

The entire article is based on a statement in the opening paragraph of what we believe to be a fact; i. e., "Bankers.....are looking forward eagerly to the return of their counter loan business and anticipate a large expansion in this phase of banking."

We then went on to urge that in developing this expansion, they thoroughly explore their own communities as fields for this venture on a retail basis; rather than wholesale credit to their competitors.

Depression — the Moratorium — war. The impact of these three economic cataclysms has had our banks off of their economic foundations for over a decade. The first caught them with bulging note cases, the second left them with loan portfolios nearly empty, during the third they have stayed that way and made money.

As we pointed out in our May BULLETIN practically all bankers hope for and expect the return of their counter loans; but relatively few seem to be doing anything about it. Many do not seem to realize that when this business does start to come back that they will be facing a competition multiplied many times over what they had to contend with a dozen years ago.

This competition is adequately financed and money lending is its specialty. It has already established a foothold and its public relations have been excellent. At the moment there is comparatively little counter loan business to compete for but as soon as the swing back to peacetime pursuits gets under way the competitors for this business will be back in action stronger than ever; for it is still organized and only marking time.

As a matter of fact, there are some financial institutions already moving into communities and, strangely enough, under bank sponsorship. We know of banks that are making loans and selling them to competing financial concerns.

We hasten to admit that much of what they sell is not of bank investment grade, but it seems to us that each time this is done, the bank's source of supply is diminished to that extent. And a more unfortunate result is that they are sending business out of their communities.

In effect, there are bankers who are now introducing their customers to competing money lenders, who need only that one contact.

In the meantime, there may be many banks who are letting a golden opportunity slip away. They are right in the midst of fertile acres of new business; where they can maintain and improve customer and potential customer relations with an intimate approach. And this includes a chance to do some fence mending where necessary.

At the moment aggressive bankers are at work on their loaning organization and personnel, which must be brought down to date and made adequate to handle the new business properly and safely. They are also making their neighbors aware of the ability and willingness of their banks to take care of community credit needs.

We feel no apprehension over bank loan expansion. We do not shudder at the thought of note cases starting to fill up again. We think that our bank men have learned a great deal about loaning money during the past fifteen years; learned it the hard way and thoroughly. We see plenty of evidence of that in our current examinations.

Our only fear is that the confusion of the past ten or twelve years and the present abnormal conditions may have produced a lethargy among bankers that will cause them to miss the boat.

We are confident that alertness and aggressiveness on the part of our bankers now will prepare them to move away from their present unnatural position back to their normal foundations without abandoning one whit of the traditional policies and safeguards necessary to protect their depositors' money.

CUSTOMERS' VAULT KEYS

A recent Scarborough & Co. bulletin reported a large bank defalcation; part of which was the result of an officer having custody of the vault keys of certain customers.

We would be greatly surprised if this were to occur in an Illinois State bank; for we have devoted a great deal of attention to the danger of bank employees or officers holding customers' vault keys.

We have used this BULLETIN to warn banks against it and an inquiry along that line is made a routine part of each examination.

Thoughtless customers may frequently importune bank officers to take charge of their keys and sometimes offer very good reasons why a bank should accommodate them.

If a bank has a Trust Department where such an arrangement would be under the usual dual control, special necessities may be accommodated. If such facilities are not available, bank officers and employees should be instructed to absolutely refuse to accept custody of the vault key of any customer. The practice is loaded with dynamite.

PERMIT ISSUED

			Capital	Surplus	Reserve	
San Jose	Mason	San Jose Tri-County Bank	$25,000	$5,000	$2,500	Sept. 26, 1944

CHARTER ISSUED

			Capital	Surplus	Reserve	
Roseville	Warren	Roseville State Bank Northwest Corner North Main Street and Penn Avenue Burley M. White, President H. A. Berg, Cashier	$25,000	$5,000	$2,500	Sept. 16, 1944
			Capital	Surplus	Reserve	
Tiskilwa	Bureau	Tiskilwa State Bank Part of Lot 130, Main Street E. B. Pettegrew, President J. L. Brown, Cashier	$27,500	$5,000	$1,875	Sept. 21, 1944

DISSOLVED

Mason City	Mason	Central Illinois State Bank (In liquidation August 31, 1944)	Sept. 9, 1944
Marion	Williamson	Marion Trust & Savings Bank (In receivership January 8, 1931. Dissolved by order of the Circuit Court of Williamson County)	Sept. 12, 1944
Clinton	DeWitt	State Bank of Clinton (In receivership January 25, 1932. Dissolved by order of the Circuit Court of DeWitt County)	Sept. 26, 1944
Chicago Heights	Cook	First State Bank of Chicago Heights (In receivership February 3, 1932. Dissolved by order of the Circuit Court of Cook County)	Sept. 29, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	439
Total	482

Monthly Bulletin
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ARTHUR C. LUEDER
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BANKING DEPARTMENT
State *of* Illinois

Vol. 20 SPRINGFIELD, ILL., NOVEMBER 1, 1944 No. 3

CREDIT MERCHANTS

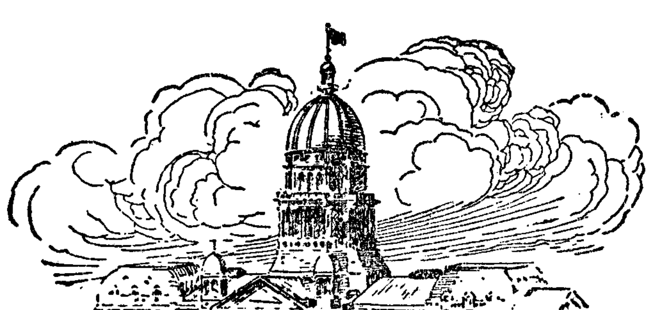
Banks are often referred to and they frequently like to refer to themselves as merchants of credit. It does make a rather nice catch phrase and we have used it glibly from time to time. We just recently got around to a scrutiny of the phrase and its applicability to the banking business—past and present.

Have our banks been merchants of credit to the same extent other mercantile ventures have been merchants of their commodities?

At a casual glance, there is little similarity in the two businesses. Lay them side by side and there is an impressive likeness in several very important aspects of both.

Both have an inventory—the merchant's is his merchandise, the bank's is credit. The merchant is permitted to sell all of his merchandise while the bank is only allowed to sell a part of its inventory. But there is a point where the merchant's and banker's inventory problems become almost exactly the same.

When the bank has amply provided for the probable demands of its depositors by establishing a good reserve of cash and a strong secondary reserve of readily marketable investments, it usually has a surplus of inventory that it can sell at retail. There, it seems to us, is where the banker and merchant stand on common ground.



And yet, we can think of only one merchandising process that the two use in common—advertising. Both advertise—the merchant lavishly and scientifically, the banker conservatively. We hasten to explain here that in using the adjective "conservatively" we are not applying it to space used but to the form of appeal to their retail trade.

In times past the vast bulk of bank advertising has been an appeal for deposits. It is only in recent years that much of an attempt has been made to reach prospective borrowers—the people who will use what the bank has to sell. But this is not a critique on bank advertising. We agreed above that both advertise.

Which of the two has the most penetrating sales contact in the community?

The merchant makes it his business to learn as thoroughly and accurately as possible his trade and community needs in the line of merchandise that he handles. He wants and goes after every good account in his trade territory; and he has learned, in one way and another, a wide variety of approaches to that objective—advertising, display, service in many forms.

He schools himself and trains his personnel to the knack of making his customers like to do business with him and recommend his concern to their friends. Occasionally he will not be satisfied with his own efforts along this line and will bring into his business especially trained assistants to help him develop and maintain his community sales contacts. Good merchants really work on this phase of their operations.

Can a bank safely and properly use such an approach on a customer who will become a debtor?

Let us see how the merchant manages his debtors.

So much of the retail merchant's sales go on his books as accounts receivable, that his success or failure in business depends on his management of these accounts. Nobody knows any better than the banker who reads this how many good merchants have failed only because they were poor collectors.

Most retail concerns extend credit on advance knowledge—knowledge that they have either gained from past dealings with old customers or information acquired in cooperation with other merchants.

Equipped with this knowledge, good retail merchants extend or reject applications for credit promptly. The person who receives it appreciates it, knows why he received it and what he has to do to remain eligible to receive it. The applicant refused credit is tactfully told the reason for refusal and how he can establish his credit with that concern.

If a debtor begins to waiver in attending to his account with a retail merchant, his credit department loses no time in ascertaining the reason. If it is simply carelessness, the debtor is tactfully shown that he is injuring his credit. If the debtor is in failing circumstances, the alert merchant will usually be among the first to know about it and act accordingly. Ordinarily a merchant will deal very warily with a debtor who shows signs of "slipping" or "going behind."

We believe it reasonable to say that the credit policy of all successful retail mercantile concerns is based very largely on performance. Now here is the point where we think a constructive comparison can be drawn.

In former times, when counter loans were more frequently made, the debtor's performance was not given the same consideration by the banker as by the retail merchant.

Then the debtor established his credit and borrowed money either on the basis of a financial statement or a pledge of collateral. Once it was so established to the satisfaction of the banker, it usually became a fixed arrangement and very frequently continued so for years. And if such a loan came under the scrutiny of inquiring board members or bank examiners, justification was always sought in the original circumstances and arrangements. The assumption seemed to be that both borrowers' financial condition and value of collateral would remain fixed and unchangeable. Debtors' performance, or the lack of it, was not generally considered vitally important.

The retail merchant pushes his merchandise vigorously and intelligently and with equal vigor and genius he manages to get paid for it. He has long recognized the vital importance of these two phases of his operations.

The skill of merchandising has for many years been sharpened by keen competition. Bankers have never had to face that to the extent that they will face it when they again return to more normal activities. When banking conditions were last normal there was little need to consider such merchandising processes as we have mentioned above.

We make no recommendations in this respect. What we have said above are only thoughts that occurred to us in contemplating banks as merchants of credit. If there is anything useful in these observations, alert bankers will be quick to discover it and devise ways to apply it.

The first-class retail merchant may have something that the merchant of credit can use.

Is such a technique as we have considered above compatible with the dignity of the banking business?

Perhaps the dignity of the banking business would stand a little scrutiny.

Is it an attitude of mind that demands respect for the banking business as a community economic utility of great value; or is it a pose calculated to hold the greater part of its customers and potential customers at arms length?

If the dignity of banking is to be established under the first principle, any sound undertaking that increases a bank's usefulness and economic value to its community will enhance its dignity.

All we can visualize under the second principle is encouragement of competition.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Chicago	Cook	Devon-North Town State Bank	$200,000	$50,000	$30,000	Oct. 18, 1944
Keithsburg	Mercer	State Bank of Keithsburg	$25,000	$10,000	$2,500	Oct. 25, 1944

CHARTER ISSUED

			Capital	Surplus	Reserve	
San Jose	Mason	San Jose Tri-County Bank Northeast Corner of Second and Vine Streets W. G. Kelly, President Roy B. Poppleton, Cashier	$25,000	$5,000	$2,500	Oct. 21, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	440
Total	483

MONTHLY BULLETIN

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BANKING DEPARTMENT
State of Illinois

Vol. 20 SPRINGFIELD, ILL., DECEMBER 1, 1944 No. 9

SECTION 10 AMENDED

As this is being written, unofficial returns from the November 7th election indicate that the proposal to amend Section 10 of the Illinois Banking Act was approved by the required referendum.

It is quite likely that by the time this BULLETIN has been distributed, the Governor will have proclaimed the effective date of Section 10 as amended.

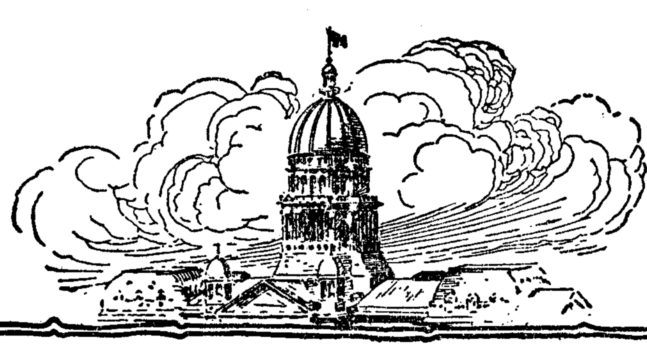
This Department will, in the near future, distribute the entire Banking Act, revised to date, in pamphlet form.

It occurred to us that it would be useful to our State Banks to have advance copies of the amended section for immediate study and same is furnished hereinbelow.

In our January BULLETIN, we plan to analyze the amendment. It would be beneficial to such an analysis if our State bankers would communicate to us such questions as may arise from their first reading of amended Section 10.

Section 10 of "An Act to revise the law with relation to banks and banking," approved June 23, 1919, as amended, is amended to read as follows:

Sec. 10. The total liabilities to any association, of any person, or of any corporation or partnership for money borrowed, including in the liabilities of a partnership the liabilities of the several members thereof, shall at no time exceed fifteen per cent of the amount of the



capital stock of such association actually paid in and unimpaired, and fifteen per cent of its unimpaired surplus fund: Provided, however, that undivided profits shall not be construed as a part of the surplus. But (1) the purchase or discount of bills of exchange drawn in good faith against actually existing values; (2) the purchase or discount of commercial or business paper actually owned by the person negotiating the same; (3) the purchase of or loaning money in exchange for evidences of indebtedness which shall be secured by mortgage or trust deed upon productive real estate the value of which, as ascertained by the oath of two disinterested appraisers, is double the amount of the principal debt secured, and which mortgage or trust deed is ascertained by a guaranty policy of a title guaranty company approved by the Auditor of Public Accounts or by a registrar's certificate of title in any county having adopted the provisions of the Land Titles Act, or by the opinion of a reputable attorney-at-law to be a first lien upon the real estate therein described; (4) the purchase of marketable investment securities; shall not be considered as money borrowed within the meaning of this section.

And provided, also, that the total liabilities of any one person, partnership or corporation for money borrowed, or otherwise, shall not exceed twenty-five per cent (25%) of the deposits of any such bank or association, and also that such total liabilities shall at no time exceed one-half the amount of the capital stock and unimpaired surplus of such bank or association.

Any association may purchase for its own account marketable investment securities without regard to any other liability to the association of the maker, obligor or guarantor of any such marketable investment securities, but in no event shall the total amount of such marketable investment securities of any one maker or obligor held by the association for its own account exceed at any time fifteen per cent (15%) of its capital stock actually paid in and unimpaired and fifteen per cent (15%) of its unimpaired surplus fund. As used in this section the terms "marketable investment securities" shall mean marketable obligations evidencing indebtedness of any person, partnership, association or corporation in the form of bonds, notes, or debentures commonly known as investment securities.

To the extent of fifty per cent (50%) of the capital stock and unimpaired surplus of such bank or association, the limitations hereinabove provided upon the liabilities of any one person, partnership or corporation and upon the purchase or holding of marketable investment securities shall not apply to loans to or obligations of any person, partnership or corporation to the extent that the same shall be secured by a like amount of obligations of or guaranteed by the United States, or by a like amount of obligations of any corporation wholly owned directly or indirectly by the United States or of any agency or instrumentality of the United States or of the State of Illinois; provided, however, that the total liabilities to any association of any one person, partnership or corporation shall not exceed fifty per cent (50%) of such capital stock and unimpaired surplus.

The limitations hereinabove provided upon the liabilities of any one person, partnership or corporation and upon the purchase or holding of marketable investment securities shall not apply to the following as to which there shall be no limitation: (1) obligations of, or guaranteed by, the United States; (2) loans to or obligations of any person, partnership, association or corporation to the extent that the same shall be secured or covered by guaranty or by commitment or agreement to take over or purchase, made by any Federal Reserve Bank or by the United States or any department, bureau, board, commission or establishment of the United States, including any corporation wholly owned, directly or indirectly, by the United States; (3) obligations of any corporation wholly owned, directly or indirectly, by the United States or of any agency or instrumentality of the United States; (4) obligations and tax anticipation warrants of any state of the United States.

The word "municipality" whenever used hereinafter shall mean "any municipality, political subdivision, school district, taxing district or agency". The said limitations hereinabove provided upon the liabilities of any one person, partnership or corporation and upon the purchase or holding of marketable investment securities shall not apply to the purchase or holding by any bank or association of the obligations or tax anticipation warrants of any municipality of any state of the United States. Any bank or association may purchase and hold in an amount not exceeding the amount of its capital stock and unimpaired surplus the obligations of each municipality located in the state of Illinois or in any other state of the United States and may purchase and hold to the same extent the tax anticipation warrants of each such municipality; provided, however, that any bank or association may purchase and hold without limit the obligations and tax anticipation warrants of each municipality located in whole or in part in the county in which such bank or association is located.

Every such loan made or obligation or security purchased or discounted in violation of the provisions hereof shall be due and payable according to its terms and the remedy for the recovery of any money loaned or obligation or security purchased or discounted in violation of the provisions hereof or for the enforcement of any agreement, collateral or otherwise, made in connection with any such loan or obligation or security shall not be held to be impaired, affected or prohibited by reason of such violation, but such remedy shall exist notwithstanding the same. But every director, or officer, of any such association, who shall violate, or participate in, or assent to such violation, or who shall permit any of the officers, agents or servants of the association to violate the provisions hereof, shall be held liable in his personal or individual capacity for all damages which the association, its shareholders or any other person shall have sustained in consequence of such violation.

It shall not be lawful for any bank to loan to its president, or to any of its vice-presidents or its salaried officers or employees or directors, or to corporations or firms, controlled by them, or in the management of which any of them are actively engaged, until an application for such loan shall have been first approved, both as to security and amount, by the board of directors.

PERMIT ISSUED

City	County	Bank	Capital	Surplus	Reserve	Date
Chicago	Cook	Steel City Bank of South Chicago	$200,000	$50,000	$20,000	Nov. 9, 1944

CAPITAL STOCK INCREASED

Trenton	Clinton	The Farmers Bank of Trenton from $25,000.00 to $50,000.00	Nov. 16, 1944
Arthur	Moultrie	State Bank of Arthur from $25,000.00 to $50,000.00	Nov. 24, 1944

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	440
Total	483

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