MONTHLY BULLETIN

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

Vol. 20 SPRINGFIELD, ILL., JANUARY 1, 1945 No. 10

HAPPY NEW YEAR

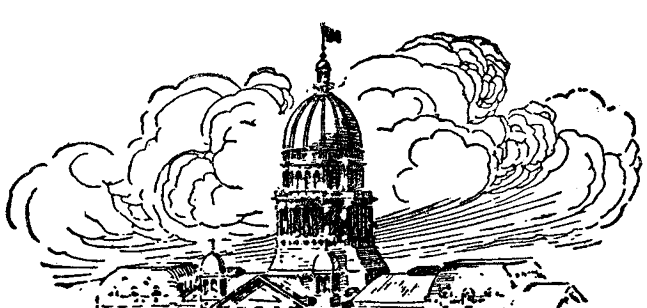
No sincere and thoughtful person can extend that traditional greeting unmindful of the fact that the happiness he wishes for others, as well as his own, is, at this very moment, the priceless stake of a bitter and bloody struggle; one phase of which is now at its climax.

Even during the holiday season, none can escape the sobering realization that between the friendly wish and its fulfillment lies a very formidable barrier; which, to surmount, will cost heavily in our most priceless possessions.

Many who read this have already contributed to that cost and, at the moment, feel that they will never know happiness again. To those bereaved, we can only tender the deep appreciation of a grateful state and nation; with the added hope that the victory and peace won by their beloved dead will bring to them consolation and happiness.

And so, in wishing the people of Illinois a happy new year, I add the fervent prayer that God will speed it to us.

ARTHUR C. LUEDER.



*ANALYSIS OF SECTION 10

On November 29, 1944 Governor Green proclaimed the Section 10 amendment to the Illinois Banking Act to be in force.

In our December issue we submitted to our State banks a copy of the amendment and in this issue we shall attempt to review and analyze its provisions.

This amendment expands banking powers in three clearly defined respects:

(1) the law now recognizes, for the first time, investment purchases;

(2) it eliminates control of loan or investment limit by the capital account;

(3) it establishes special and enlarged limits in favor of government and municipal financing.

An Illinois State bank may now use its entire surplus account in addition to its capital account in determining its loan or investment limit. Formerly in computing its basic (15%) loaning limit it was permitted to use only as much of its surplus account as it had capital in the computation. If surplus exceeded capital the amount of excess was ignored.

Amended Section 10 separates bank loans and investments into four groups, placing limitations upon three groups and establishing one group without limitation.

*Group 1 15% of Capital and Surplus

Limit of total amount that may be loaned (secured or unsecured) to a person, partnership, or corporation; EXCEPT (a) qualified real estate loans (see Sec. 10, Excep. 3) and (b) loans secured by Government obligations (direct and indirect).

Limit of investment in the bonds, notes or debentures of any one maker or obligor; EXCEPT (a) securities issued by the U. S. Government, its instrumentalities, agencies and corporations; (b) securities issued by any of the United States and their municipalities.

*Group 2 50% of Capital and Surplus

Limit of purchase or discount of secured Bills of Exchange from any person, partnership or corporation.

Limit of purchase or discount of commercial or business paper from any person, partnership or corporation.

Limit of purchase from or loan to any person, partnership or corporation secured by a qualified mortgage or trust deed. (For qualification see Section 10. Exception 3).

Limit of total amount that may be loaned to any person, partnership or corporation secured by direct or indirect obligations of the U. S. Government, the State of Illinois and their instrumentalities and agencies.

*Group 3 100% of Capital and Surplus

Obligations and Tax Anticipation Warrants of any †municipality in the United States; EXCEPT the obligations and Tax Warrants of any municipality wholly or partially within the same county as the bank. (See Group 4.)

*Group 4 No Limitation

Investment in the direct or indirect obligations of the U. S. Government.

Investment in the obligations and Tax Anticipation Warrants of any state in the United States.

Investment in the obligations and Tax Anticipation Warrants of any municipality located, wholly or partially, in the same county as the bank.

Loans to any person, partnership or corporation secured by guaranty, commitment or repurchase agreement of any Federal Reserve Bank, the U. S. Government, or any of its departments, bureaus, boards, commissions, establishments or corporations.

Investment in the obligations of U. S. Government corporations, instrumentalities and agencies.

The paragraph dealing with loans to management has been amended to include directors with officers and employees and their affiliated business interests in requiring application to and approval of the Board of Directors for each of such loans.

† Has a special meaning in this statute, i.e. "any municipality, political subdivision, school district, taxing district, or agency."

PERMIT ISSUED

			Capital	Surplus	Reserve	
Lombard	DuPage	State Bank of Lombard	$50,000	$5,000	$5,000	Dec. 16, 1944

CAPITAL STOCK INCREASED

Chicago	Cook	Harris Trust and Savings Bank from $6,000,000 to $8,000,000	Dec. 14, 1944

DISSOLVED

North Chicago	Lake	Lake County State Bank (In receivership February 24, 1933. Dissolved by order of the Circuit Court of Lake County.)	Nov. 29, 1944
Morrisonville	Christian	Morrisonville State Bank (In receivership April 22, 1930. Dissolved by order of the Circuit Court of Christian County.)	Dec. 14, 1944
Roanoke	Woodford	Roanoke State Bank (In receivership October 6, 1937. Dissolved by order of the Circuit Court of Woodford County.)	Dec. 18, 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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BANKING DEPARTMENT

State *of* Illinois

Vol. 20 SPRINGFIELD, ILL., FEBRUARY 1, 1945 No. 11

YEAR-END CALL

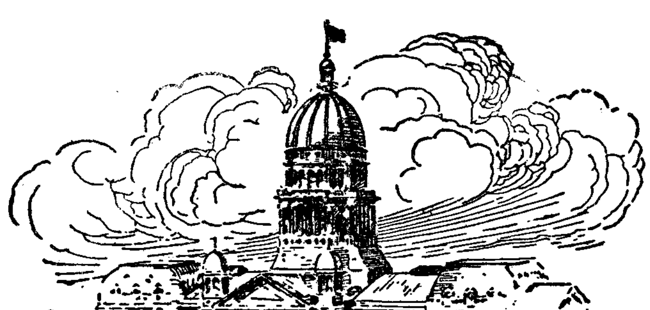
As might be expected, the trends brought out by the comparative Call Report figures for the year 1944, contained on the inner pages of this issue, disclose little more than the mounting costs of war.

Most of the year's increase in deposits (about 600 million) went into Government Bonds which show an increase of approximately 540 million during the 12-month period. During the same period, deposits secured by pledge increased from 192 million to 457 million. This group of deposits is comprised very largely of U. S. Government balances carried in the Federal Reserve War Loan Account.

Loans, after starting the year off with a 5 million 400 thousand dollar gain in the first quarter, not only lost this gain, but an additional million dollars in the two mid-year Calls. In the last quarter, however, collateral loans took a sharp upturn to gain 23 million dollars to show a finish in loans of all types about 27 million dollars ahead of the previous year-end.

The dullness in Real Estate Loans of all types is a rather marked feature of the survey. Loans on urban properties gained about a million dollars during the year.

Number of State banks in operation after declining to 481, closed the year at 483.



REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS

NUMBER OF BANKS	· 484	Increase or Decrease	481	Increase or Decrease	481	Increase or Decrease	481	Increase or Decrease	483
DATE OF CALL	Dec. 31, 1943		March 30, 1944		June 30, 1944		Sept. 18, 1944		Dec. 30, 1944
RESOURCES:									
Cash and Due from Banks	$ 540,130,519.34	$—56,612,811.68	$ 483,517,707.66	$ +88,375,005.85	$ 571,892,713.51	$ —4,965,027.35	$ 566,927,686.16	$ +59,714,342.23	$ 626,642,028.39
Outside Checks and Other Cash Items	25,009,726.45	—8,140,742.24	16,868,984.21	+4,173,688.72	21,042,672.93	—5,026,936.34	16,015,736.59	+11,890,409.75	27,906,146.34
U. S. Governments—Direct & Guaranteed	1,116,790,615.99	+84,694,972.61	1,201,485,588.60	+165,409,307.31	1,366,894,895.91	+75,398,674.41	1,442,293,570.32	+177,859,153.18	1,620,152,723.50
Other Bonds, Stocks & Securities	238,931,139.86	+2,740,200.34	241,671,340.20	+8,531,140.60	250,202,480.80	—19,103,165.23	231,099,315.57	+10,763,464.99	241,862,780.56
Loans and Discounts	295,315,113.90	+5,409,552.74	300,724,666.64	—3,887,416.61	296,837,250.03	—3,693,997.49	293,143,252.54	+29,023,594.71	322,166,847.25
Overdrafts	72,530.75	+132,005.01	204,535.76	—123,277.03	81,258.73	+58,577.12	139,835.85	—19,879.33	119,956.52
Banking House	9,429,066.61	—51,778.01	9,377,288.60	—62,889.76	9,314,398.84	—68,195.39	9,246,203.45	—204,970.95	9,041,232.50
Furniture & Fixtures	1,127,578.17	+4,972.44	1,132,550.61	+9,183.75	1,141,734.36	+24,896.38	1,166,630.74	—105,203.85	1,061,426.89
TOTAL—Bkg. House and Furniture and Fixtures	$10,556,644.78	$—46,805.57	$10,509,839.21	$—53,706.01	$10,456,133.20	$—43,299.01	$10,412,834.19	$—310,174.80	$10,102,659.39
Other Real Estate	$1,042,493.27	$ —62,838.78	$ 979,654.49	$ —103,035.47	$ 876,619.02	$ —22,814.78	$ 853,804.24	$ —498,038.93	$ 355,765.31
Customers' Liability—Letters of Credit	332,055.61	+1,074,833.41	1,406,889.02	—698,215.32	708,673.70	—254,991.94	453,681.76	+592,423.37	1,046,105.13
Customers' Liability—Acceptances	72,394.31	+31,823.78	104,218.09	+6,860.96	111,079.05	—4,618.97	106,460.08	—20,731.64	85,728.44
Other Resources	5,590,875.01	—371,407.43	5,219,467.58	+1,479,118.49	6,698,586.07	—1,709,904.84	4,988,681.23	+2,132,804.25	7,121,485.48
GRAND TOTAL RESOURCES	$2,233,844,109.27	$+28,848,782.19	$2,262,692,891.46	$+263,109,471.49	$2,525,802,362.95	$+40,632,495.58	$2,566,434,858.53	$+291,127,367.78	$2,857,562,226.31
LIABILITIES:									
Deposits									
Demand Deposits	$1,461,425,579.52	$ +3,232,736.38	$1,464,658,315.90	$+222,389,912.61	$1,687,048,228.51	$ +9,028,274.44	$1,696,076,502.95	$+222,251,492.14	$1,918,327,995.09
Time Deposits	485,961,802.56	+18,495,817.70	504,457,620.26	+35,997,282.93	540,454,903.19	+34,281,204.42	574,736,107.61	+52,311,797.07	627,047,904.68
Due to Banks	149,099,760.77	+3,008,692.91	152,108,453.68	+3,717,209.06	155,825,662.74	—5,585,339.62	150,240,323.12	+14,314,660.86	164,554,983.98
Deposits Secured by Pledge	$ 192,094,014.02	$+128,968,999.25	$ 321,063,013.27	$ +31,914,102.24	$ 352,977,115.51	$—60,020,447.64	$ 292,956,667.87	$+164,866,497.32	$ 457,823,165.19
Deposits Not Secured by Pledge	1,904,393,128.83	—104,231,752.26	1,800,161,376.57	+230,190,302.36	2,030,351,678.93	+97,744,586.88	2,128,096,265.81	+124,011,452.75	2,252,107,718.56
TOTAL DEPOSITS	$2,096,487,142.85	$+24,737,246.99	$2,121,224,389 [illegible]	$+262 [illegible] 404.60	$2,383,328,794.44	$+37,724,139.24	$2,421,052,933.68	$+288,877,950.07	$2,709,930,883.75
Other Liabilities									
Bills Payable									
Re-Discounts									
Dividends Unpaid	$ 431,646.07	$ —343,548.12	$ 88,097.95	$+309,896.21	$ 397,994.16	$—349,123.43	$ 48,870.73	$+561,910.27	$ 610,781.00
Letters of Credit	332,405.61	+1,092,353.41	1,424,759.02	—707,415.32	717,343.70	—260,791.94	456,551.76	+592,423.37	1,048,975.13
Bank Acceptances	145,219.45	+6,378.50	151,597.95	+31,609.89	183,207.84	—76,747.76	106,460.08	—18,707.64	87,752.44
Other Liabilities	3,263,472.12	+373,508.55	3,636,980.67	—80,608.90	3,556,371.77	—178,830.01	3,377,541.76	+12,347.67	3,389,889.43
Capital Structure									
Capital Stock	41,440,550.00	+225,000.00	41,665,550.00	+135,000.00	41,800,550.00	—50,000.00	41,750,550.00	+2,102,500.00	43,853,050.00
Income Debentures	1,057,925.00	—78,775.00	979,150.00	—5,000.00	974,150.00	—74,000.00	900,150.00	—328,800.00	571,350.00
Surplus	37,426,800.00	+585,500.00	38,012,300.00	+504,350.00	38,516,650.00	+315,000.00	38,831,650.00	+7,862,000.00	46,693,650.00
Undivided Profits (Net)	24,155,790.69	+1,159,957.31	25,315,748.00	+89,852.36	25,405,600.36	+2,595,520.33	28,001,120.69	—5,768,970.83	22,232,149.86
Reserve Accounts	29,103,157.48	+1,091,160.55	30,194,318.03	+727,382.65	30,921,700.68	+987,329.15	31,909,029.83	—2,765,285.13	29,143,744.70
TOTAL CAPITAL STRUCTURE	$133,184,223.17	$+2,982,842.86	$136,167,066.03	$+1,451,585.01	$137,618,651.04	$+3,773,849.48	$141,392,500.52	$+1,101,444.04	$142,493,944.56
GRAND TOTAL LIABILITIES	$2,233,844,109.27	$+28,848,782.19	$2,262,692,891.46	$+263,109,471.49	$2,525,802,362.95	$+40,632,495.58	$2,566,434,858.53	$+291,127,367.78	$2,857,562,226.31
ANALYSIS—LOANS AND DISCOUNTS:									
Commercial Paper	$ 13,912,422.71	$ —826,212.15	$ 13,086,210.56	$—3,934,937.73	$ 9,151,272.83	$+1,230,896.32	$ 10,382,169.15	$ +2,023,042.70	$ 12,405,211.85
Collateral Loans	50,886,845.19	+4,801,998.82	55,688,844.01	+7,518,764.50	63,207,608.51	—6,319,228.94	56,888,379.57	+23,041,390.69	79,929,770.26
Other Loans	162,999,366.66	+2,316,289.53	165,315,656.19	—8,228,516.15	157,087,140.04	+157,625.27	157,244,765.31	+4,127,098.04	161,371,863.35
Farm Loans	10,074,033.48	+179,996.67	10,254,030.15	+29,574.42	10,283,604.57	—64,574.46	10,219,030.11	—169,780.23	10,049,249.88
Other Real Estate Loans	57,442,445.86	—1,062,520.13	56,379,925.73	+727,698.35	57,107,624.08	+1,301,284.32	58,408,908.40	+1,843.51	58,410,751.91
TOTAL LOANS AND DISCOUNTS	$295,315,113.90	$+5,409,552.74	$300,724,6 [illegible]	$— [illegible] 16.61	$296,837,250.03	$—3,693,997.49	$293,143,252.54	$+29,023,594.71	$322,166,847.25

PERMIT ISSUED

			Capital	Surplus	Reserve	
Chicago	Cook	Chatham Bank of Chicago	$210,000	$25,000	$80,000	Jan. 25, 1945
Libertyville	Lake	First State Bank of Libertyville	$60,000	$30,000	$10,000	Jan. 25, 1945

CHARTER ISSUED

			Capital	Surplus	Reserve	
Erie	Whiteside	Erie State Bank 99 North Street Paul D. Carlson, President J. R. Roberts, Cashier	$30,000	$3,000	$3,000	Jan. 8, 1945

CAPITAL STOCK INCREASED

River Forest	Cook	River Forest State Bank from $75,000 to $100,000	Jan. 19, 1945
Urbana	Champaign	Busey's State Bank from $100,000 to $150,000	Jan. 19, 1945

CHANGE OF PAR VALUE OF CAPITAL STOCK

River Forest	Cook	River Forest State Bank from $100 to $10	Jan. 19, 1945

CHANGE OF LOCATION

Garrett	Douglas	Garrett State Bank from Garrett, Douglas County, Illinois, to 510-512 County Street, Atwood, Piatt County, Illinois	Jan. 2, 1945

CHANGE OF NAME

Garrett	Douglas	Garrett State Bank to The Atwood State Bank	Jan. 2, 1945

CONVERSION

Oak Park	Cook	Prairie State Bank into Oak Park National Bank	Jan. 2, 1945

TRUST CERTIFICATE ISSUED

			Deposit	
Chicago	Cook	South Chicago Savings Bank	$200,000	Jan. 4, 1945
Chicago	Cook	Continental Illinois National Bank and Trust Company of Chicago (Represents consolidation with Continental National Bank and Trust Company of Chicago)	$500,000	Jan. 12, 1945

DISSOLVED

Chicago	Cook	Edgewater Trust & Savings Bank (In liquidation May 14, 1935)	Dec. 14, 1944
Chicago	Cook	West Highland State Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County)	Jan. 16, 1945
Chicago	Cook	Crawford State Savings Bank (In receivership February 3, 1931. Dissolved by order of the Circuit Court of Cook County)	Jan. 18, 1945
Calhoun	Richland	Farmers State Bank of Calhoun (In liquidation September 6, 1930)	Jan. 20, 1945

RECAPITULATION

State Banks in Chicago	17
State Banks in Cook County outside Chicago	25
State Banks in Illinois outside Cook County	441
Total	483

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Vol. 20 SPRINGFIELD, ILL., MARCH 1, 1945 No. 12

OPERATIONS 1943-1944

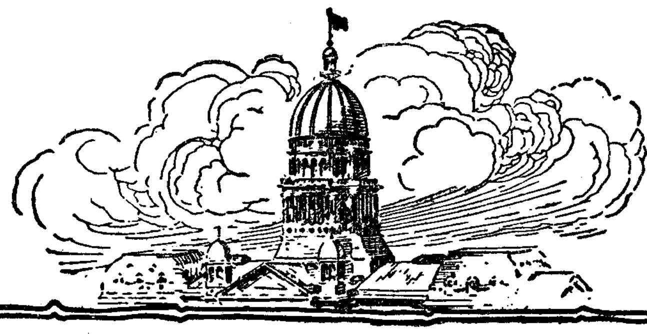
On the inner pages of this issue we present the operating results of Illinois State Banks for the year 1944 arranged for comparison with 1943.

The continuing and rapid movement of banks upward through the various groups also continues to defeat the comparative value of unit averages. In this issue we have inserted the unit averages into the "General Comparison" column; which, we believe, shows more truly the trend of bank operations.

An interesting observation that occurred in reviewing our material was the fact that there are now only eight State banks in Illinois with deposits under $250,000.00.

In analyzing the enclosed figures, we developed some interesting ratios that we are glad to pass along. The following percentages are based upon mean averages of both 1943 and 1944.

Group 1	2	3	4	5	Gen'l. Comp.
Gross Earnings to Resources:					
.0209	.018	.0177	.0176	.0162	.0167
Expenses to Gross Earnings:					
74.03	68.43	67.09	69.69	64.13	65.45
Operating Net to Gross Earnings:					
25.97	31.57	32.91	30.31	35.87	34.55



OPERATING RESULTS FROM ALL ILLINOIS STATE BANKS
FOR THF YEARS 1943-1944

	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	
	1943	1944	1943	1944	1943	1944	1943	1944	1943	1944	1943	1944
Number of Banks	79	40	154	141	208	246	21	28	22	28	477	477
Current Income:												
Loans	299,245	103,872	978,829	668,049	3,256,444	2,885,415	982,309	901,454	5,053,766	5,703,196	10,500,449	10,261,241
Securities	235,373	135,080	844,049	960,426	3,041,597	4,600,632	1,255,233	1,783,702	14,428,070	18,410,180	19,768,807	25,887,125
Exchange, Collection, Commission, etc.	39,937	12,017	117,579	98,343	377,845	366,605	93,495	112,188	498,644	735,422	1,122,845	1,322,287
Foreign Exchange		787	1,668			6,531	142	27	23,174	26,529	24,985	33,874
Service Charges	45,564	25,424	200,488	179,375	711,365	824,487	375,668	352,186	1,036,029	1,234,831	2,359,209	2,614,450
Trust Department	27,327	25,260	452	1,202	68,717	48,461	76,545	64,833	3,382,737	3,954,340	3,555,778	4,093,902
Miscellaneous	28,398	10,343	108,083	80,770	442,095	391,941	236,717	260,919	850,271	939,228	1,659,270	1,681,769
TOTAL INCOME	675,844	312,783	2,251,148	1,988,165	7,898,063	9,124,072	3,020,109	3,475,309	25,272,691	31,003,726	38,991,343	45,894,648
Unit Average	(8555)	(7819)	(14618)	(14100)	(37971)	(37090)	(143814)	(124118)	(1148759)	(1107275)	(81743)	(96215)
Current Expenses:												
Salaries	240,839	120,934	748,480	624,817	2,600,998	2,788,902	971,357	1,125,287	7,632,364	8,601,108	12,153,736	13,251,781
Interest on Borrowings				265	554	829					554	1,093
Interest on Deposits	66,991	23,647	240,017	160,736	781,736	889,468	307,399	334,767	2,533,088	3,273,201	3,911,652	4,681,820
Interest on Capital Debentures	1,899		984	1,022	10,392	5,653	15,306	7,909	17,955	17,979	46,536	32,563
Taxes	52,649	24,684	182,731	153,474	617,929	766,666	171,638	230,982	1,306,572	2,385,158	2,319,028	3,560,773
Miscellaneous	134,153	66,011	430,216	358,299	1,436,656	1,527,490	635,281	727,371	4,606,400	5,716,125	7,219,552	8,386,264
TOTAL EXPENSES	496,531	235,276	1,602,428	1,298,613	5,448,265	5,979,008	2,100,981	2,426,316	16,096,379	19,993,571	25,651,058	29,914,294
Unit Average	(6286)	(5882)	(10405)	(9210)	(26193)	(24306)	(100046)	(86654)	(731654)	(714056)	(53775)	(62713)
OPERATING NET	179,313	77,507	648,720	689,552	2,449,798	3,145,064	919,128	1,048,993	9,176,312	11,010,155	13,340,285	15,980,354
Unit Average	(2269)	(1937)	(4213)	(4890)	(11778)	(12784)	(43768)	(37464)	(417105)	(393219)	(27968)	(33502)
Recoveries and Profits:												
Recoveries on Loans	66,086	42,096	170,911	128,482	682,173	404,106	127,676	286,577	538,038	733,969	1,578,209	1,595,230
Recoveries on Securities	65,023	26,687	108,910	79,762	329,204	407,060	84,379	117,833	713,129	326,474	1,287,491	957,816
Profits on Securities	17,528	6,559	57,375	44,509	216,692	309,467	165,501	176,715	809,307	681,816	1,256,031	1,219,066
Miscellaneous	29,402	6,394	78,585	53,010	339,887	245,365	144,836	183,735	514,354	480,666	1,104,542	969,171
Net Earnings—plus Recoveries and Profits	357,352	159,243	1,064,501	995,315	4,017,754	4,511,062	1,441,520	1,813,853	11,751,140	13,233,080	18,566,558	20,721,637
Losses:												
On Loans	41,556	5,051	49,671	42,665	169,965	80,166	78,193	54,295	147,337	531,000	474,394	713,127
On Securities	28,771	7,561	80,816	102,851	449,016	420,892	191,504	255,013	2,426,168	3,709,837	3,169,208	4,496,024
Banking House, Furniture and Fixtures	27,109	11,022	94,881	78,437	266,475	282,142	66,516	153,079	325,854	233,284	778,756	757,938
Miscellaneous	14,753	2,468	30,742	16,825	165,943	98,986	30,693	79,829	72,282	90,808	308,618	288,912
TOTAL LOSSES	112,189	26,102	256,110	240,778	1,051,399	882,186	366,906	542,216	2,971,641	4,564,929	4,730,976	6,256,001
NET TO UNDIVIDED PROFITS	245,163	133,141	808,391	754,537	2,966,355	3,628,876	1,074,614	1,271,637	8,779,499	8,668,151	13,835,582	14,465,636
Capital, Surplus, Undivided Profits, Reserves	3,273,253	1,665,211	9,208,804	7,541,441	28,460,249	29,783,276	9,077,230	10,825,604	82,106,760	92,107,061	131,650,227	141,736,263
TIME DEPOSITS	6,414,783	2,935,998	23,328,201	19,757,987	103,980,191	127,528,457	51,090,589	64,423,303	301,328,036	412,402,157	484,646,338	627,001,914
GROSS DEPOSITS	28,095,305	14,260,201	112,788,064	105,703,005	396,437,627	503,807,159	148,818,313	199,679,773	1,410,348,024	1,886,480,744	2,090,459,311	2,707,611,232

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

CHARTER ISSUED

			Capital	Surplus	Reserve	
Chicago	Cook	Steel City Bank of South Chicago 3026 East 92nd Street Eugene A. DuFresne, President Walter T. Larsen, Cashier	$200,000	$50,000	$20,000	Feb. 2, 1945
Chicago	Cook	Devon-North Town State Bank 2345 West Devon Avenue L. Shirley Tark, President Edward T. Nordholm, Cashier	$200,000	$50,000	$30,000	Feb. 16, 1945

TRUST CERTIFICATE ISSUED

			Deposit	
Oak Park	Cook	Oak Park National Bank	$50,000	Feb. 6, 1945

TRUST CERTIFICATE CANCELLED

Oak Park	Cook	Prairie State Bank	Feb. 6, 1945

DISSOLVED

Chicago	Cook	First Italian State Bank (In receivership September 25, 1931. Dissolved by order of the Circuit Court of Cook County)	Feb. 9, 1945
Denver	Hancock	Harmony State Bank (In liquidation April 3, 1929. Dissolved by order of the Circuit Court of Hancock County)	Feb. 13, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	25
State Banks in Illinois outside Cook County	441
Total	485

MONTHLY BULLETIN

Issued by

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

Vol. 21 SPRINGFIELD, ILL., APRIL 1, 1945 No. 1

OUR INHERITANCE

The February issue of Great Lakes Banker carries a splendid address by Hon. Robert H. Jackson, Associate Justice of the Supreme Court of the United States.

Speaking before the New York State Bankers Association, Justice Jackson drew upon his experience as a former bank lawyer and director to revive the bank and banker of a generation ago.

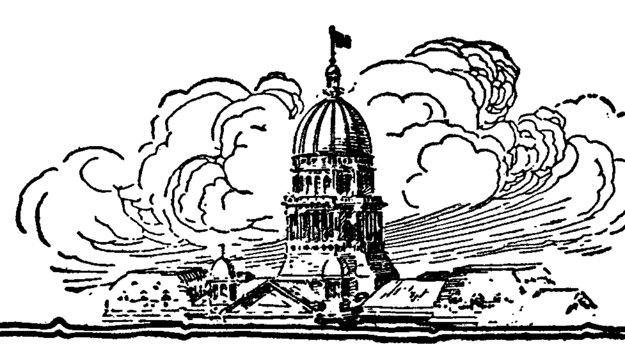
Using his native community as the focal point of study, he recalled the development and expansion of its industries through the aid of bank credit and how the resultant gains and benefits circled back into the banking business.

He made one very significant observation in connection with this mutual development when he said:

> "As I see now what is required of good banks, I realize that the industry of my community was largely built on what today is regarded as bad banking."

Justice Jackson's delineation of the banker who in that day was the hub of the wheel of progress, was as interesting as it was accurate.

> "The kind of banker I am talking about literally loaned on character. When I first was a director of a small city bank, the president would submit loan applications to the Board, usually after the loan was made.



He rarely had a borrower's financial statement. He never thought of such a thing as an independent audit or appraisal. . . . This banker loaned on what he knew about the borrower, not what he knew about his business. A favorable report to the Board went something like this: 'I've known this borrower since he was a boy; knew his father before him. Hard workers, sober, good habits. Gets down in the morning before any of his help. Lives within his means. Pays when he says he will. Word is as good as his bond.' I still think that is a good credit statement, but I don't think you could raise much cash on just that today."

Justice Jackson's next utterance was disappointing:

"That kind of banker and that kind of bank has pretty much passed away. Who, if anybody, is to blame is not my subject."

We wish that it had been; for we are sure that he could have carried that theme to its conclusion as ably as he commenced it. It may be premature to drop "that kind of banker and that kind of bank" too abruptly and completely as outmoded economic tools irrevocably discarded. We may need both again—and in this generation.

In his next sentence he referred to our present phase as the "scientific period." History may call it by another name; perhaps the "period of suspense," or "period of experiment," or maybe the "period of destruction." Anyhow the period, as far as we have seen it, is so utterly devoid of clarity in economic outline as to lead us to consider the possibility of a mild touch of sarcasm in the eminent jurist's reference to it as the "scientific period."

We would like to snatch the baton from Justice Jackson at the point where he digressed from the banker and bank of the previous generation. We don't think that either should be entirely forgotten; for in the period of reconstruction that we hope lies not far ahead, we may have to call upon the initiative, energy, courage and vision of both. We may have some pioneering to do and the banker whom we sought to discard after 1933 was undeniably an effective ally of the pioneer.

What became of him and why?

He was thoroughly discredited when his creditors descended upon him in a body, wanted their money and he could not pay. He was branded as a failure and "cast out of the temple." His bank was taken away from him and either scrapped or had its face lifted and restored to operation with "the old man cast out."

Why?—Because his vision was progressive; so much so that he was unable to see the gathering of the forces that were to destroy him—until it was too late.

Because he thought that the United States of America that he and his predecessors had helped to build had outgrown panics and reached economic stability.

Because in a vague sort of way he thought we had a central bank organization that would supply whatever leadership would be needed to deal with economic problems of national proportions.

Because within his ranks was an average infiltration of mountebanks and fools whose crime and misdeeds of commission and omission were used to indict and convict the profession as a whole.

We could go on with additional reasons but that in a general way is what happened to the banker of a generation ago and the why of it.

Our current economic phase is now entering its thirteenth year and neither the theories nor the generation of bankers that have grown up with it have been tested. Actually it has been confined mainly to two projects and has done an outstanding job of both. It has cleaned house and financed a war. Either is not a particularly difficult assignment. Even Hitler has done both. The real challenge lies just around the next turn in the road.

It will be a reconstruction assignment involved with all of the historical and well known postwar complications and many new ones magnified many times beyond anything heretofore encountered.

Doubtless there are many who expect to have their courses charted for them through the strange waters that lie ahead; and undoubtedly the charts will be furnished in one form or another. However, the charted waters have not been sailed and at some point along the line it may be necessary to "throw away the book" and take individual bearings. It will indeed be a wise banker who knows when and how to do that.

Self-reliance and independent thinking were the outstanding virtues of the past generations of bankers. They had to develop those virtues to survive. They watched each other, studied each other, and learned from each other. What grew out of those competitive operations was a banking machinery described by a current leading economist as a "hodge podge" which it undoubtedly was; but it built enduringly.

The purpose of this article is not to glorify the banker of the past nor to build him up to heroic stature through nostalgic appeal. There was nothing heroic about him. He was mostly a drab and colorless person—just a business man who was in the banking business for about the same reason as the fellow in the middle of the block was in the clothing business or another across the street ran a drug store. He pretended to neither a divine calling nor inspiration. He simply ran a bank.

Long before he started to run the bank he realized that the fortunes of his business were inextricably bound up with the fortunes of his community; that if his community became known as a good business community and a good place to live, it grew and prospered. Thus community welfare and development occupied a large part of his thoughts. His thoughts led him to watch and study other communities, other banks and bankers—copying shamelessly what was good and what worked.

Through that simple process and the "hodge podge" banking machinery that they just sort of rigged up, the composite business minds of the nation—competing and yet cooperating— developed their communities. Without master pattern or plan they welded them together into the United States of America that we have today; which has come to be recognized by all the world as rather above average.

The point is that the genius behind our accomplishments was in generations of very ordinary men scattered over the entire nation. They had no theories, but here and there, ideas sprouted—lots of them—continuously and increasingly. The good ones flourished and spread. The bad withered and died. What came into universal use had been thoroughly tested and proven.

If that heritage is now in the laboratory of science, let us, at least, not forget where it came from and who gave it to us.

PERMIT ISSUED

City	County	Bank	Capital	Surplus	Reserve	Date
Roanoke	Woodford	Peoples State Bank of Roanoke	$30,000	$10,000	$5,000	Mar. 12, 1945
Chicago	Cook	First State Bank of Elmwood Park	$100,000	$25,000	$25,000	Mar. 13, 1945
Weldon	DeWitt	Weldon State Bank	$30,000	$6,000	$3,000	Mar. 24, 1945

DURATION EXTENDED

DeSoto	Jackson	Albon State Bank Charter extended 25 years from December 21, 1945	Mar. 22, 1945
New Holland	Logan	New Holland State Bank Charter extended 20 years from June 26, 1945	Mar. 22, 1945

TRUST CERTIFICATE CANCELLED

Chicago	Cook	Mid-City Trust & Savings Bank	Mar. 20, 1945

DISSOLVED

Chatham	Sangamon	Caldwell State Bank (In liquidation November 7, 1931.)	Jan. 25, 1945
Elmwood Park	Cook	Westwood State Bank (In receivership February 1, 1932. Dissolved by order of the Circuit Court of Cook County.)	Feb. 21, 1945
Quincy	Adams	State Savings, Loan and Trust Company (In receivership January 27, 1933. Dissolved by order of the Circuit Court of Adams County.)	Feb. 27, 1945
Chicago	Cook	Halsted Street State Bank (In receivership December 19, 1933. Dissolved by order of the Superior Court of Cook County.)	Feb. 28, 1945
Cambridge	Henry	Cambridge State Bank (In liquidation November 17, 1924. Dissolved by order of the Circuit Court of Henry County.)	Mar. 7, 1945
Basco	Hancock	Basco State Bank (In receivership April 14, 1932. Dissolved by order of the Circuit Court of Hancock County.)	Mar. 21, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	25
State Banks in Illinois outside Cook County	441
Total	485

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 21 SPRINGFIELD, ILL., MAY 1, 1945 No. 2

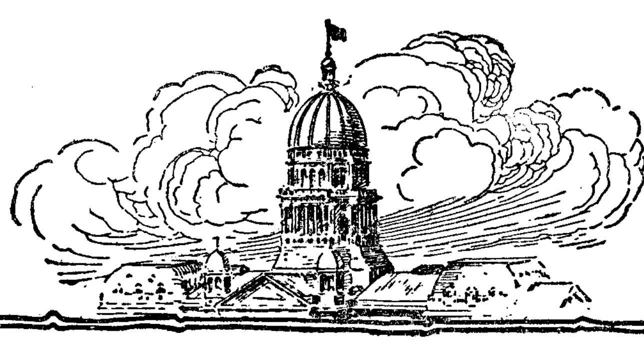
TWENTY YEARS

A careful reader of our last month's BULLETIN may have noticed, in its banner, the designation Vol. 21, No. 1; meaning that our modest publication had launched out into its 21st year. On April 1, 1925 the first issue was published and its monthly publication has been continuous ever since.

As we look back over the twenty-year career of our BULLETIN, it seems rather remarkable that such a strictly amateur effort has been sustained throughout so long and varied a period. Also remarkable is the fact that it has "changed hands" several times without deviating in the slightest degree from its original purpose, as set forth in its very first article:

"ANNOUNCEMENT

As a medium of conveying information of interest to the State Banks of Illinois, the Banking Department has decided upon the issuing of a monthly bulletin, such as is herewith presented for your consideration. It will contain, regularly, the various changes occurring from month to month in the capitalization of banks, permits granted, new charters issued, changes in names of banks under the jurisdiction of this department. Other items



of interest affecting State banks will be printed from time to time, so that as a whole, this little monthly visitor will be found a connecting link between the State Banking Department and the banks of Illinois."

So wrote Edgar Ellis Nicholson, Chief Bank Examiner, as he launched his pet project in the early days of the first term of the Honorable Oscar Nelson as Auditor of Public Accounts, just twenty years ago.

During the eighteen months that elapsed between the adoption of the Illinois Banking Act of 1919 and its enforcement in 1921, the growth in number of State banks was greatly augmented by an influx of private banks that, under the new Act, had to incorporate either under State or National law or go out of business.

Some of these private banks were splendidly managed and in excellent condition and are today fine institutions. Others of lesser quality ascertained their faults, corrected them and worked their way up to top rating.

But there was another group, and unfortunately it was large, that reacted to the requirements and implications of the law like wild horses to bit and bridle. Some of these were sullenly indifferent and others were openly antagonistic to any person or thing that represented the Banking Law of Illinois.

This, it should be remembered, was only four years after the enforcement of the new Act and there was, indeed, a wide gap between the State Banking Department of Illinois and a large number of State Banks.

Auditor Nelson, a banker himself, was quick to sense this and decide to do something about it. Nicholson, who had had newspaper experience before becoming a bank examiner, with a natural esteem for the printed word and a knowledge of how to use it, suggested a monthly bulletin. Auditor Nelson liked the idea; and so on April 1, 1925, four months after he took office, the first BULLETIN went into the mail.

The original objective was to let the recalcitrant and hostile element know that the Department's mission was not destructive but constructive; that it was not an enemy of private business but could be a helpful friend. It was a difficult subject to approach without grave risk of being misunderstood and a consequent weakening of the Department's legal position. It is therefore interesting to note in the early issues how subtly and deviously the main objective was approached.

The first issue contained only the "Announcement" and statistical information; the second, a notice of the inauguration of the practice of sending copies of our examination reports back to the banks examined for study by the Board of Directors—also statistical information. The third issue contained a brief suggestion concerning the curtailment of overdrafts; a practice flagrantly abused in those days. In the fourth issue (July 1st), banks tardy with their April 6th call reports were urged to get them on file so that the consolidated figures could be compiled—nearly three months after the call.

Statistical information and brief news items of interest to State bankers continued to dominate the BULLETIN until January 1, 1926, when the "New Year's Greeting" on the front page made acknowledgment of the "spendid response upon the part of the bank officers and directors, to all suggestions and requests made . . ." and suggesting a New Year's resolution "to so work in cooperation during the forthcoming twelve-months that the State banking institutions of Illinois may be placed on the very highest plane as sound community units."

In the following March issue, cooperation was again urged and bankers reminded that "The success of any movement lies in the one important thing—cooperation;" and pointing out that "The Department because of its contacts with bankers from the entire State, through the medium of bank reports and personal interviews, is in a position to give a direct service to the bank wherever desired. You are reminded again of the ever growing need of cooperation: we offer ours and urge yours."

During 1926 editorials began to displace statistical material; and through those editorials, the real objective of the BULLETIN began to come to the surface. These editorials dealt with banking practices, policies and procedures. They were casual in tone and academic in style. Actually they were expositions and subtle warnings against practices and abuses found to exist to a dangerous extent among our State banks.

It is also interesting to note that much of the statistical material was published with the obvious intention of making the former private bankers conscious of their relationship to the economic structure of the State of Illinois; and of cultivating an interest in the State banking system.

During the late 20s, the signs of the times began to point toward trouble. An alarmingly large number of banks were overextended. Warnings were sounded against continuous bank borrowing. Weaknesses in secondary reserves were pointed out and early in 1928 two issues carried a very prophetic article on the kinds of bonds that should be selected for secondary reserve purposes.

Naturally, the bleak months of 1930-31-32 threw their macabre shadows over the issues of those disastrous years; particularly in the tabulation of bank changes reported each month on the back page. The casualty lists in those years were appalling.

After the Moratorium, statistical information just about disappeared from the BULLETIN. Short articles on operational practices and procedures, court decisions, legal opinions, etc., furnished practically all of the reading material for several ensuing years.

In September 1936, we launched into an explanation of our new examination report form that occupied all of our BULLETIN space for the next three years.

Since 1939 our BULLETIN articles have been confined largely to discussions of topics of mutual interest; injecting from time to time such statistical material as we felt could be obtained from no other source.

Almost from the outset, we have had convincing and gratifying proof that the BULLETIN has been quite generally and steadily read. Whatever its literary defects, they have been generously overlooked and there is ample evidence that our ideas and recommendations have received fair and serious consideration.

It would be idle and vain to attempt to evaluate its accomplishments, but of one thing we are very certain and that is that the attitude of this Department toward the State banks within its jurisdiction is no longer misunderstood.

It is very likely that there are able and straight thinking bankers who disagree with our ideas, theories, and conclusions from time to time; but we are very thoroughly convinced that there are none who entertain the slightest doubt as to our sincerity of purpose and the good will upon which all of our activities are founded.

We hope that our monthly BULLETIN is entitled to a congratulatory pat on the back on the occasion of its twenty-first birthday.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Brookfield	Cook	Fidelity State Bank	\$100,000	\$10,000	\$5,000	Apr. 3, 1945

CHARTER ISSUED

			Capital	Surplus	Reserve	
Libertyville	Lake	First State Bank of Libertyville 542 Milwaukee Avenue R. J. Dwyer, President Russell W. Towner, Cashier	\$60,000	\$30,000	\$10,000	Apr. 18, 1945
Weldon	DeWitt	Weldon State Bank Northeast Corner Maple and Oak Streets Roy H. Campbell, President V. L. Shinneman, Cashier	\$30,000	\$6,000	\$3,000	Apr. 26, 1945

CHANGE OF PAR VALUE OF CAPITAL STOCK

East St. Louis	St. Clair	Union Trust Company of East St. Louis from \$50.00 to \$16.66⅔	Apr. 3, 1945

TRUST CERTIFICATE ISSUED

			Deposit	
Chicago	Cook	Central National Bank in Chicago	\$200,000	Apr. 17, 1945
Effingham	Effingham	First National Bank of Effingham	\$50,000	Apr. 18, 1945

DISSOLVED

Cullom	Livingston	Farmers State Bank of Cullom, Illinois (In receivership April 14, 1943. Dissolved by order of the Circuit Court of Livingston County)	Apr. 10, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	25
State Banks in Illinois outside Cook County	443
Total	487

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 21 SPRINGFIELD, ILL., JUNE 1, 1945 No. 3

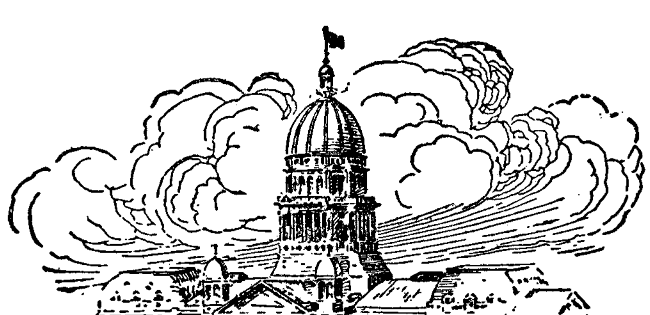
CHARTER CHANGES

Section 12 of the Illinois Banking Act is a statute with which Illinois State bank officers and directors should be more than casually familiar; for it marks the limit of operations beyond which the management may not go without the consent and approval of the stockholders.

As far as the Banking Act itself is concerned, once the Board of Directors has been elected and qualified, they "serve as managers for one year, and until their successors are elected." Their managerial authority is therefore unrestricted until they move to alter or change the bank in any of its charter aspects; or alter or change their own membership. Then they are required to consult the stockholders and secure consent from at least two-thirds of the bank's proprietorship.

The following are the changes that the stockholders are required by law to approve:

1. Change the bank's name;
2. Change its place of business;
3. Increase, decrease or change its capital stock;
4. Change the par value of its shares;
5. Extend the duration of its charter;
6. Increase or decrease the number of directors;
7. Consolidate with another bank.



Any or several of the foregoing changes may be made at either the regular annual meeting or at a special meeting of the stockholders.

If they are submitted to a regular annual stockholders' meeting, no previous special notice or publication of notice is required. Most banks, however, make special mention of any of the foregoing changes to be submitted to an annual stockholders' meeting in the annual meeting notice that they customarily send out.

If a special meeting of the stockholders, to make any of subject changes, is necessary, the following requirements of the law must be strictly observed:

(a) The call for the special meeting must originate with the Board of Directors; a majority of which must sign the call. It would seem most appropriate to frame the call in a resolution.

(b) The call must contain specific notice of the TIME, PLACE and OBJECT OF the meeting; and the date of the meeting must not be sooner than THIRTY DAYS from the date of the call.

(c) A notice of the meeting must be published at least once each week for three successive weeks in the local or nearest newspaper.

The notice could be somewhat along the following lines:

PUBLIC NOTICE

is hereby given that a special meeting of the stockholders of the Banner State Bank, Banner, Victory County, Illinois has been called to be held at the bank at three o'clock, P. M. (Central War Time), (insert date) for the purpose of acting upon the following proposal(s)

Resolved (each proposed change should be framed in a separate resolution)

BY ORDER OF THE BOARD OF DIRECTORS
BANNER STATE BANK, BANNER, ILLINOIS.

For the sake of emphasis, we repeat, that in order to effect any of the subject changes, at least two-thirds of all of the outstanding shares of the bank's capital stock must vote in favor of adoption.

Whenever such changes are made, either at a regular or special stockholders' meeting, this Department should be notified immediately; and we will promptly furnish forms and instructions necessary to make the change legally effective.

It is important to remember that none of the changes under discussion become legally effective upon stockholders' ratification; but only after the certificate of stockholders' proceedings and the Auditor of Public Account's certificate of approval have been filed for record in the office of the Recorder of Deeds in the county in which the bank is located.

Whether a charter change is made at a regular or special meeting of the stockholders, it is necessary to publish notice of the change at least once each week for three successive weeks in the local or nearest newspaper.

A notice that would seem to adequately cover the subject matter could be somewhat along the following lines:

PUBLIC NOTICE

is hereby given that the stockholders of the Banner State Bank, Banner, Illinois have adopted the change(s) of organization stated in the following resolution:

RESOLVED, etc.

All Statutory requirements having been complied with, aforesaid change(s) became legally effective (insert date of recording)

BANNER STATE BANK
BANNER, ILLINOIS.

One of the very important steps in procedure is the notification of the stockholders, if the change is to be made at a special stockholders' meeting. At the directors' meeting from which the call for a special stockholders' meeting issues, a resolution should be adopted instructing the secretary or cashier to notify each stockholder, at least thirty days prior to meeting, personally, or by mailing notice of the call to the address of each stockholder as shown by the bank's records. At the stockholders' meeting, one of the first orders of business should be the filing by the secretary or cashier of a detailed report of just what steps he took to notify each of the stockholders.

Ordinarily all of such notices are mailed and the secretary or cashier files an affidavit with the meeting to that effect; showing the time and place of mailing and stating that sufficient postage was affixed to each envelope to insure its delivery to the stockholder addressed.

One of the Section 12 changes that most frequently becomes necessary is reduction in Board membership. The reason is that vacancies occur that cannot immediately be filled and reduction of membership is the only way to insure the election of full membership; and maintenance of full Board membership is very advisable. The reason is that quorum requirements are based on full membership. For instance, if the legal number of directors in a given bank is nine, five directors must be present to transact business. If there are two vacancies in that Board the number of directors required to constitute a quorum is still five; and five out of seven members must be present to hold a legal meeting.

It is also more than likely that where vacancies are ignored and allowed to continue on indefinitely, that legal quorum requirement will eventually be overlooked and result in numerous illegal Board meetings.

This is a phase of operation that this Department watches very closely and we do everything that we can to prevent Board vacancies from existing beyond a few months at the most.

THE PUMP

We have before us the original of a very penetrating inquiry addressed to a Chicago commission house by a southern merchant in 1904. A notation on this original indicates that it was promptly answered but the file from whence it came does not contain a copy. Perhaps none was made and small wonder:

"Dear Sir:

Will you kindly give me your candid opinion on the Grain Market? How high this month do you think May Oats will react to and how low will they go first? In April, a year ago, the low and high were 33 & 38c. What do you think will principally effect the price of Oats and what will be the course of the market? Will supply of Barley have much effect and what?

What will be course of Corn market and why? What about foreign demand and Grain Rate War?

Why are May, July and Sept. Oats at Chicago closer together than at St. Louis? Why May corn lower than July at St. Louis? Why St. Louis corn so much lower than Chicago? (How about July Wheat at St. Louis being a good buy?)

Which month and market (Chicago or St. Louis) do you consider the best buy or sale of Corn or Oats and at what price and for what profit? And your reasons, if you will give them?

I trust you will do me the courtesy of writing me your valuable opinion; and if requested, I promise not to quote you.

Thanking you for your kindness, I am,

Yours respectfully,"

PERMIT ISSUED

			Capital	Surplus	Reserve	
Pearl City	Stephenson	The State Bank of Pearl City	$25,000	$5,000	$2,500	May 2, 1945
Monticello	Piatt	First State Bank of Monticello, Illinois	$50,000	$15,000	$10,000	May 4, 1945
Chicago	Cook	United State Bank	$200,000	$40,000	$20,000	May 24, 1945

CHARTER ISSUED

			Capital	Surplus	Reserve	
Roanoke	Woodford	Peoples State Bank of Roanoke 12 South Main Street Simon E. Naffziger, President Byron E. Naffziger, Cashier	$30,000	$10,000	$5,000	May 14, 1945

CAPITAL STOCK INCREASED

Skokie	Cook	Niles Center State Bank from $125,000 to $150,000	May 9, 1945
South Holland	Cook	South Holland Trust & Savings Bank from $50,000 to $100,000	May 25, 1945

DISSOLVED

Flat Rock	Crawford	The Peoples State Bank of Flat Rock (In liquidation June 17, 1936)	May 1, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	25
State Banks in Illinois outside Cook County	444
Total	488

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

Vol. 21 SPRINGFIELD, ILL., JULY 1, 1945 No. 4

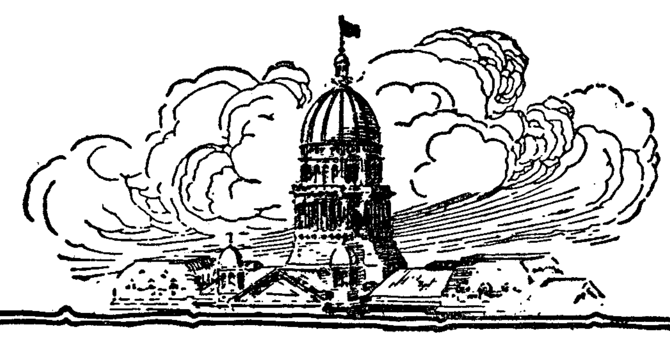
QUALIFIED EXCESS LOANS

". . . 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 oath of two disinterested appraisers, is double the amount of the principal debt secured, and which mortgage or trust deed is ascertained by a guarantee 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; . . . shall not be considered as money borrowed within the meaning of this section."

(Exception 3 of Section 10—Illinois Banking Act.)

Such a loan may be made up to 50% of unimpaired capital and surplus or 25% of deposits, whichever is the lesser amount. This is the type of "qualified excess loan" that we propose to discuss in this article.

Determined bank managements and recent legislation have reduced violations of Section 10 (excess loans) almost to the vanishing point; and we have, of course, watched this



development with growing satisfaction. On the other hand, "qualified excess loans" are definitely on the increase.

Theoretically "qualified excess loans" should be entitled to a "top quality" investment rating; and generally speaking they are. But they are by no means an investment that should be given the green light into a bank portfolio simply because they possess the legal qualifications stipulated under Exception 3 of Section 10.

Such a loan can fulfill all of the requisites of the law and still cause a bank plenty of trouble and loss. It is true, of course, that "qualification" will eliminate the personal liability of the directors and officers, and while that is an extremely important consideration, the vast majority of bank directors are equally concerned that their bank does not lose any money either.

An excess loan, qualified under Exception 3 is supposed to establish two vital factors of safety—title to and value of security pledged. Once properly established, the title remains a constant factor of safety. Value, on the other hand, is not only an inconstant factor but it is not established beyond legal theory; and it remains so until the owner and a purchaser agree on its price. It seems to us, that whenever a bank officer is contemplating or discussing the value of his security, he would do well to keep himself constantly reminded that what he will actually collect his loan from is the price the pledged security will bring when, as and if he has to sell it.

This possible difference between today's appraised value and ultimate selling price is particularly important now, when land prices may be at or near their peak. Any long term real estate loan made now may have to liquidate under a downward curve in real estate prices.

Much of this risk will be overcome by installment reductions; not so much by the amount of reductions, which could lag considerably behind a downward curve in prices, but more by reason of the borrower's growing equity in the pledged real estate that he will be increasingly anxious to protect.

From the foregoing conclusion a logical question arises that seems to us of paramount importance in considering an application for a "qualified excess loan"—what is the applicant's intention and ability to steadily reduce the loan?

We put intention first because if there is any question as to applicant's intention, the second part of the question may well be ignored. In probing the question of a real estate loan applicant's intention in the matter of loan reduction, the bank officer should learn whether the loan is to be used for genuine development or speculative purposes. It is in the latter purpose that the greatest danger lies.

The land speculator is almost invariably in an equity position. He may start accumulating properties owning one clear title and in a rising market acquire a number. His profits usually go into more equities and while he goes on pyramiding his holdings, he will be able to make a very good credit statement. But it will be made up entirely of equities.

His main objective will be, quite naturally, to sell his properties at or near the top of the market and take his profits. Debt retirement will be incidental to the success of his program. If he fails in his main objective, his creditors will have to look out for themselves. Obviously they will be in a far better position to do so than such a borrower.

Contrast a bank's outlook in the foregoing case against that of the borrower whose sole objective is to own and use the security pledged and the importance of the borrower's intention will be quickly and properly understood.

The main objective of the man who borrows to own and use the pledged property will be to pay the debt; and this intention will become an increasingly fixed determination as debt reduction increases his equity.

Under present conditions, the ability of such a borrower to manage a heavy load of debt acquired at peak prices and reduce it through a period of transition should also be very carefully studied.

The "land boom" that began during World War I, only to collapse several years afterward, should be well remembered by most of the readers of this BULLETIN. We use the word collapse only to mark the end of the land boom but not to indicate the same kind of an economic panic as occurred when the stock market collapsed in 1929.

When the "stock market crash" is mentioned, it is commonly understood to mean the collapse of security prices that occurred in October 1929. We doubt that anyone, with the possible exception of a statistician, would attempt to say just when the collapse of land prices occurred following World War I.

As we recall it, there was a period prior to 1920 when it seemed as though everyone wanted to buy land at any price; and somewhere along about that time we very gradually became aware of the fact that nobody wanted to buy land at any price. Just when the market vanished, we do not know and we doubt that there are very many run of the mine bankers who know either.

There was a drop in farm produce prices in 1920 and land owners, who had bought and borrowed heavily at high prices, began to experience increasing difficulty in managing their debts. This was probably the first intimation that many bankers had that the land boom was over.

Wishful thinkers took the natural position that the general price recession was only temporary and continued to appraise their real estate loans at war prices.

As time went on many borrowers becoming weary of their load of debt gave up the struggle and banks began to own high priced real estate with no buyers in sight at such prices.

Along about 1923, bills payable began to appear on bank statements, as it became necessary to borrow cash to meet depositor demands and maintain reserves.

The first bank failures began to occur in 1925 and they continued, with increasing frequency, during the ensuing eight years.

Our only reason for the foregoing digression into a very unpleasant history, is to emphasize against a background very familiar to all of us the potential difference between value and price during the life of a real estate loan even when secured by a pledge of property so essential as real estate.

It is not our purpose, in this discussion, to frown upon the making of any qualified excess loans, as we have seen many loans of this type that will stand up under all circumstances as good investments. But we do want to caution all bank managements against placing too much reliance on legal qualifications and taking for granted elements of safety that can only be established by careful study and analysis.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Homewood	Cook	Bank of Homewood	$50,000	$5,000	$7,500	June 11, 1945
Sesser	Franklin	Bank of Sesser	$25,000	$10,000	$5,000	June 12, 1945
DeLand	Piatt	DeLand State Bank	$30,000	$6,000	$3,000	June 26, 1945

CAPITAL STOCK INCREASED

Campus	Livingston	Campus State Bank from $10,000 to $20,000	June 4, 1945
Campbell Hill	Jackson	First State Bank of Campbell Hill from $15,000 to $25,000	June 14, 1945

DURATION EXTENDED

Shabbona	DeKalb	Farmers' and Traders' State Bank Charter extended 99 years from August 2, 1945	May 23, 1945

TRUST CERTIFICATE ISSUED

			Deposit	
Belvidere	Boone	The Farmers National Bank of Belvidere	$50,000	June 20, 1945

CONVERSION

Hillsboro	Montgomery	The Montgomery County Bank into Montgomery County National Bank	June 1, 1945

DISSOLVED

Crystal Lake	McHenry	United State Bank of Crystal Lake (In receivership June 29, 1931. Dissolved by order of the Circuit Court of McHenry County)	May 26, 1945
Waukegan	Lake	Waukegan State Bank (In receivership July 28, 1931. Dissolved by order of the Circuit Court of Lake County)	June 2, 1945
Rochelle	Ogle	Peoples Loan & Trust Company (In receivership March 15, 1932. Dissolved by order of the Circuit Court of Ogle County)	June 6, 1945
Chicago	Cook	Mid-City Trust & Savings Bank (In liquidation May 6, 1933)	June 14, 1945
Chicago	Cook	West-City Trust and Savings Bank (In receivership February 9, 1932. Dissolved by order of the Circuit Court of Cook County)	June 18, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	25
State Banks in Illinois outside Cook County	443
Total	487

MONTHLY BULLETIN

Issued by

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

Vol. 21 SPRINGFIELD, ILL., AUGUST 1, 1945 No. 5

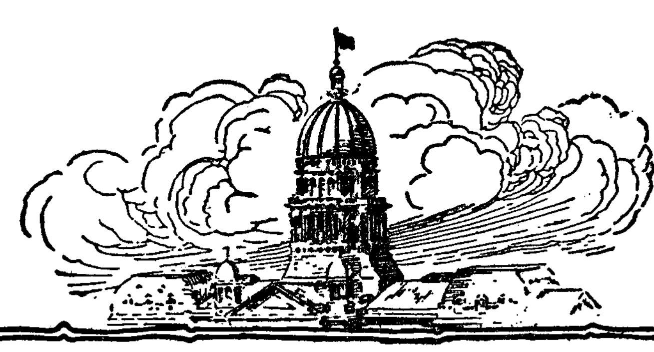
MID-YEAR CALL

The review of Call Report figures contained in the inner pages of this BULLETIN, projecting account totals from June 30, 1944 through each "call" to June 30, 1945 might be broadly summarized as "more of the same."

Steadily increasing deposits are reflected, almost entirely, in the Cash and Government Bond accounts. For instance, during the past two years deposits have increased about one billion dollars, of which 802 million has gone into governments, 110 million into cash and 66 million into loans.

The advance that occurred during the quarter just closed brought the resources of the State banks of Illinois well up beyond the three billion dollar mark, while the number of operating units has increased from 481 to 487.

Loans showed no trend whatever until the final quarter of the year under review, during which collateral loans shot up 42 million. This may have been the beginning of a definite trend in that type of loan and it will be interesting to note the effect that recent governmental restrictions will have upon it. The dwindling trend of Farm loans appears to have been arrested, temporarily at least, with a gain showing in each of the last two quarters of the period under observation totaling approximately $800,000.00.



REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS

NUMBER OF BANKS	481	Increase or Decrease	481	Increase or Decrease	483	Increase or Decrease	485	Increase or Decrease	487
DATE OF CALL	June 30, 1944		Sept. 18, 1944		Dec. 30, 1944		March 20, 1945		June 30, 1945
RESOURCES:									
Cash and Due from Banks	$ 571,892,713.51	$ —4,965,027.35	$ 566,927,686.16	$ +59,714,342.23	$ 626,642,028.39	$—36,354,953.10	$ 590,287,075.29	$ +40,529,595.93	$ 630,816,671.22
Outside Checks and Other Cash Items	21,042,672.93	—5,026,936.34	16,015,736.59	+11,890,409.75	27,906,146.34	—3,057,946.62	24,848,199.72	—5,551,280.57	19,296,919.15
U. S. Governments—Direct & Guaranteed	1,366,894,895.91	+75,398,674.41	1,442,293,570.32	+177,859,153.18	1,620,152,723.50	+11,399,784.34	1,631,552,507.84	+141,359,211.97	1,772,911,719.81
Other Bonds, Stocks & Securities	250,202,480.80	—19,103,165.23	231,099,315.57	+10,763,464.99	241,862,780.56	—6,660,738.37	235,202,042.19	+18,292,485.68	253,494,527.87
Loans and Discounts	296,837,250.03	—3,693,997.49	293,143,252.54	+29,023,594.71	322,166,847.25	—23,750,222.27	298,416,624.98	+39,969,241.69	338,385,866.67
Overdrafts	81,258.73	+58,577.12	139,835.85	—19,879.33	119,956.52	+19,387.12	139,343.64	—45,002.71	94,340.93
Banking House	9,314,398.84	—68,195.39	9,246,203.45	—204,970.95	9,041,232.50	—35,738.13	9,005,494.37	—107,194.80	8,898,299.57
Furniture & Fixtures	1,141,734.36	+24,896.38	1,166,630.74	—105,203.85	1,061,426.89	—10,377.33	1,051,049.56	+30,262.11	1,081,311.67
TOTAL—Bkg. House and Furniture and Fixtures	$10,456,133.20	$—43,299.01	$10,412,834.19	$—310,174.80	$10,102,659.39	$—46,115.46	$10,056,543.93	$—76,932.69	$9,979,611.24
Other Real Estate	$ 876,619.02	$ —22,814.78	$ 853,804.24	$ —498,038.93	$ 355,765.31	$ —87,483.03	$ 268,282.28	$ —93,058.83	$ 175,223.45
Customers' Liability—Letters of Credit	708,673.70	—254,991.94	453,681.76	+592,423.37	1,046,105.13	—193,172.75	852,932.38	+349,472.13	1,202,404.51
Customers' Liability—Acceptances	111,079.05	—4,618.97	106,460.08	—20,731.64	85,728.44	+89,620.69	175,349.13	—139,571.93	35,777.20
Other Resources	6,698,586.07	—1,709,904.84	4,988,681.23	+2,132,804.25	7,121,485.48	—1,790,604.46	5,330,881.02	+2,325,197.38	7,656,078.40
GRAND TOTAL RESOURCES	$2,525,802,362.95	$+40,632,495.58	$2,566,434,858.53	$+291,127,367.78	$2,857,562,226.31	$—60,432,443.91	$2,797,129,782.40	$+236,919,358.05	$3,034,049,140.45
LIABILITIES:									
Deposits									
Demand Deposits	$1,687,048,228.51	$ +9,028,274.44	$1,696,076,502.95	$+222,251,492.14	$1,918,327,995.09	$—97,506,010.29	$1,820,821,984.80	$+175,968,850.74	$1,996,790,835.54
Time Deposits	540,454,903.19	+34,281,204.42	574,736,107.61	+52,311,797.07	627,047,904.68	+35,267,466.09	662,315,370.77	+49,730,201.49	712,045,572.26
Due to Banks	155,825,662.74	—5,585,339.62	150,240,323.12	+14,314,660.86	164,554,983.98	—2,124,367.41	162,430,616.57	+8,922,225.61	171,352,842.18
Deposits Secured by Pledge	$ 352,977,115.51	$—60,020,447.64	$ 292,956,667.87	$+164,866,497.32	$ 457,823,165.19	$—142,443,749.47	$ 315,379,415.72	$+193,155,262.87	$ 508,534,678.59
Deposits Not Secured by Pledge	2,030,351,678.93	+97,744,586.88	2,128,096,265.81	+124,011,452.75	2,252,107,718.56	+78,080,837.86	2,330,188,556.42	+41,466,014.97	2,371,654,571.39
TOTAL DEPOSITS	$2,383,328,794.44	$+37,724,139.24	$2,421,052,933.68	$+288,877,950.07	$2,709,930,883.75	$—64,362,911.61	$2,645,567,972.14	$+234,621,277.84	$2,880,189,249.98
Other Liabilities									
Bills Payable						$+1,000,000.00	$ 1,000,000.00	$—1,000,000.00	
Rediscounts									
Dividends Unpaid	$ 397,994.16	$—349,123.43	$ 48,870.73	$+561,910.27	$ 610,781.00	—440,178.16	170,602.84	+378,415.31	$ 549,018.15
Letters of Credit	717,343.70	—260,791.94	456,551.76	+592,423.37	1,048,975.13	—194,483.75	854,491.38	+355,725.63	1,210,217.01
Bank Acceptances	183,207.84	—76,747.76	106,460.08	—18,707.64	87,752.44	+384,428.89	472,181.33	—436,404.13	35,777.20
Other Liabilities	3,556,371.77	—178,830.01	3,377,541.76	+12,347.67	3,389,889.43	—114,048.93	3,275,840.50	+371,835.03	3,647,675.53
Capital Structure									
Capital Stock	41,800,550.00	—50,000.00	41,750,550.00	+2,102,500.00	43,853,050.00	+105,000.00	43,958,050.00	+135,000.00	44,093,050.00
Income Debentures	974,150.00	—74,000.00	900,150.00	—328,800.00	571,350.00	—5,500.00	565,850.00	+32,800.00	598,650.00
Surplus	38,516,650.00	+315,000.00	38,831,650.00	+7,862,000.00	46,693,650.00	+110,257.42	46,803,907.42	+948,492.58	47,752,400.00
Undivided Profits (Net)	25,405,600.36	+2,595,520.33	28,001,120.69	—5,768,970.83	22,232,149.86	+2,106,187.08	24,338,336.94	+52,203.36	24,390,540.30
Reserve Accounts	30,921,700.68	+987,329.15	31,909,029.83	—2,765,285.13	29,143,744.70	+978,805.15	30,122,549.85	+1,460,012.43	31,582,562.28
TOTAL CAPITAL STRUCTURE	$137,618,651.04	$+3,773,849.48	$141,392,500.52	$+1,101,444.04	$142,493,944.56	$+3,294,749.65	$145,788,694.21	$+2,628,508.37	$148,417,202.58
GRAND TOTAL LIABILITIES	$2,525,802,362.95	$+40,632,495.58	$2,566,434,858.53	$+291,127,367.78	$2,857,562,226.31	$—60,432,443.91	$2,797,129,782.40	$+236,919,358.05	$3,034,049,140.45
ANALYSIS—LOANS AND DISCOUNTS:									
Commercial Paper	$ 9,151,272.83	$+1,230,896.32	$ 10,382,169.15	$ +2,023,042.70	$ 12,405,211.85	$ —1,863,312.97	$ 10,541,898.88	$ —3,381,411.65	$ 7,160,487.23
Collateral Loans	63,207,608.51	—6,319,228.94	56,888,379.57	+23,041,390.69	79,929,770.26	—15,730,026.46	64,199,743.80	+42,166,122.92	106,365,866.72
Other Loans	157,087,140.04	+157,625.27	157,244,765.31	+4,127,098.04	161,371,863.35	—6,257,460.23	155,114,403.12	—2,637,374.00	152,477,029.12
Farm Loans	10,283,604.57	—64,574.46	10,219,030.11	—169,780.23	10,049,249.88	+446,163.35	10,495,413.23	+345,639.85	10,841,053.08
Other Real Estate Loans	57,107,624.08	+1,301,284.32	58,408,908.40	+1,843.51	58,410,751.91	—345,585.96	58,065,165.95	+3,476,264.57	61,541,430.52
TOTAL LOANS AND DISCOUNTS	$296,837,250.03	$—3,693,997.49	$293,143,25[illegible]	$+29,[illegible] 594.71	$322,166,847.25	$—23,750,222.27	$298,416,624.98	$+39,969,241.69	$338,385,866.67

PERMIT ISSUED

			Capital	Surplus	Reserve	
Ridge Farm	Vermilion	Ridge Farm State Bank	$25,000	$5,000	$7,500	July 16, 1945
Seneca	LaSalle	Community State Bank of Seneca, Ill	$25,000	$6,000	$4,000	July 30, 1945

CHARTER ISSUED

			Capital	Surplus	Reserve	
Sesser	Franklin	Bank of Sesser 102 East Franklin Avenue Dr. H. M. Fry, President Ralph E. Gordon, Cashier	$25,000	$10,000	$5,000	July 27, 1945

CONVERSION

Lawrenceville..Lawrence......Farmers' State Bank of Lawrenceville, Ill~~inois~~ to Lawrenceville National Bank and Trust Co.............July 31, 1945

DISSOLVED

Galena..........JoDaviess...... First State and Savings Bank of Galena..................May 24, 1945
(In receivership August 8, 1933. Dissolved by order of the Circuit Court of JoDaviess County)

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	25
State Banks in Illinois outside Cook County	443
Total	487

MONTHLY BULLETIN

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

Vol. 21 SPRINGFIELD, ILL., SEPTEMBER 1, 1945 No. 6

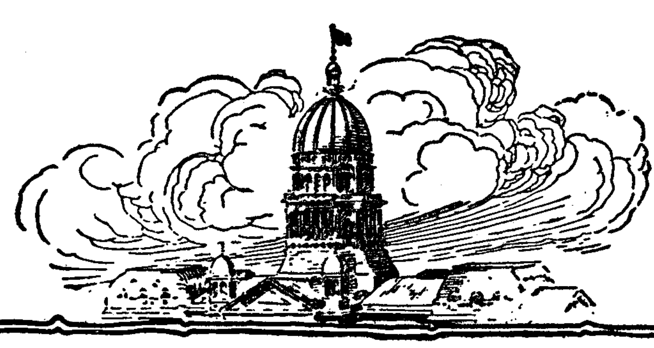
BANK EARNINGS

The steadily rising curve in bank earnings during the past few years has come in for a bit of scrutiny lately in quarters that have been inclined to view this development with alarm. It has even been broadly hinted and suggested that supervisory authorities do something about it.

In the light of our experience with the operating results in the State banks of Illinois over a period of years, this favorable trend in bank earnings moves this Department no further than to declare that it is about time that our banks are beginning to earn a little money.

It should hardly be necessary to remind any one at all conversant with recent banking history, that our banks are only a few years out of one of the blackest periods in the history of American banking; during which the average bank was not only a profitless venture for its owners but a bill of expense and a liability as well.

No critical study of bank operations will even approach fairness that does not cover all of the past fifteen years; for most of the banks that are showing good earnings today are only in operation today because of the sacrifices of capital and earnings made by their owners during the greater part of that period.



A very cursory glance at our departmental record of Illinois State bank operation during that period will convey a rough view of what we mean:

In 1929 the average net earnings after all charges for Illinois State banks was 8.1% of the total capital accounts. In 1934 the average was an operating loss of 8.6% of the capital structure. The return for 1939 was 7.85% which increased to 10.25% in 1944.

The foregoing sample returns taken from four significant years out of the past fifteen show a mean average return of 4.4% for each of the sample years; and these figures, we believe, are fairly comparable to the national experience as a whole. This average return, meagre as it is, does not even begin to tell the whole story; for it does not take into account losses of capital and contributions of capital that occurred before, during, and after the Moratorium of 1933. These adjustments used up millions of dollars of stockholders' funds.

We have never had the facilities available to recapitulate this gigantic phase of the picture, but we are very sure that if it were brought into the operating calculations that the net operating results for the average Illinois State bank for the past fifteen years would show a loss.

It is also pertinent to point out that, during the period under review, Illinois State banks have paid out of their earnings over 34 million dollars to deferred certificate and debenture holders.

The foregoing historical facts cannot be overlooked when bank earnings come up for discussion; for they explain why most Illinois State bank stockholders went without dividends from 1930 to 1941-2-3.

It should also explain why supervisory authorities might be inclined to view the favorable developments of the past few years with benign satisfaction.

POLICY OF MOTION

Wayne Hummer & Co., in "Bank Bond Comment" (July 16, 1945) calls attention to an operating aberration indulged in by some banks that has given us much wonderment down through the years.

The Hummer article accepts a very gentle term in referring to it as "an investment (sic) policy of motion" in the bond account. A bank examiner, with characteristic bluntness, would be very apt to call it "speculating in the bond account" and he would not be very far wrong.

The operation is of very ancient origin, even among banks, and consists merely of selling bonds that show a profit marketwise and investing the proceeds in bonds that are likely to increase in market value; in other words, using the investment account, as a trading account.

The banker who esteems himself to be a smart bond trader figures to "catch the turns" in the market and thereby greatly augment his operating earnings with bond trading profits.

If an individual carried on such an operation in his own name, he would be referred to as a "trader" or "speculator" in bonds. And even when a bank so operates and uses medium or low grade bonds as a trading medium, no one hesitates to call it speculation.

It seems however, that when the same operation involves only the so called "money bonds" (Governments, high grade municipals, etc.) that "speculation" becomes too coarse a term and the more subtle phrase "investment policy of motion" becomes the appropriate appellation.

Most bankers shun the practice completely and in ordinary times, only a comparative few have the "traders itch." For the past few years, however, the market movements of Government bonds and high grade municipals have provided narrow trading ranges from which trading profits have been taken.

While these trading ranges have been small the great volume available for trading purposes has magnified the profit potential; and inasmuch as the trading medium has been unassailable "money bonds" an additional group of bankers have been induced to add a bit of motion to their investment accounts.

Examination of individual instances of this practice has never failed to baffle us. It leaves us wondering what it is all about and naively asking "why."

It is enough to disturb the poise and self-confidence of any bank examiner to review a bond account that has turned over eight or ten times during a year, with a profit showing of thirty or forty thousand dollars and find out about the same amount added to bond premiums paid on reinvestment; and at the same time be told and expected to believe that the bank has made money on such activities. True enough, such trading transactions may show profits but not the kind that can be called "keeping" or "take home" profits; for obviously such a bank has had to reinvest at the same market levels on which they sold and the recorded profits have gone into higher premium bonds. In such banks large trading profits and heavy premium accounts go hand in hand.

Sound as they may be in intrinsic value, money bonds are vulnerable marketwise and might be particularly so as we gradually branch off from the one highway of war into the widely divergent paths of peace.

The peacetime demand for capital is expected to be tremendous. If that causes a recession of only two or three points in the money bonds, banks that have built up heavy premium accounts through trading operations may have to choose between sacrificing trading profits in order to meet peacetime demands or remaining tied to premium accounts that it will take years to work off. And it is possible that they may not even get that choice.

Bond trading for profit at best and in the long run is generally a pointless and profitless operation; at its worst it is dangerous and intolerable.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Kempton	Ford	Kempton State Bank	$25,000	$5,000	$7,500	Aug. 6, 1945
Chicago	Cook	Southmoor Bank of Chicago	$200,000	$25,000	$25,000	Aug. 20, 1945

CHARTER ISSUED

			Capital	Surplus	Reserve	
Ridge Farm	Vermilion	Ridge Farm State Bank N. E. Corner State and Owen Streets Frank Carsman, President Carl G. Bauer, Vice President and Cashier	$25,000	$5,000	$7,500	Aug. 23, 1945
Elmwood Park	Cook	First State Bank of Elmwood Park 7300 Grand Avenue R. J. McKay, President Emil S. Aschermann, Vice President and Cashier	$100,000	$25,000	$25,000	Aug. 24, 1945
DeLand	Piatt	DeLand State Bank N. W. Corner Highway Avenue and Third Street W. B. Trenchard, President G. R. Madden, Cashier	$30,000	$6,000	$3,000	Aug. 30, 1945

CHANGE OF LOCATION

Quincy	Adams	Broadway Bank of Quincy from 1719 Broadway, Quincy, Illinois, to 539 Hampshire Street, Quincy, Illinois	Aug. 25, 1945

DISSOLVED

Maywood	Cook	Maywood Trust and Savings Bank (In liquidation October 31, 1930)	July 2, 1945
Mt. Carroll	Carroll	First Carroll County State Bank (In receivership August 8, 1933. Dissolved by order of the Circuit Court of Carroll County)	July 13, 1945
Rockford	Winnebago	Peoples Bank and Trust Company (In receivership September 4, 1931. Dissolved by order of the Circuit Court of Winnebago County)	July 26, 1945
Chicago	Cook	West Central State Bank of Chicago (In receivership May 2, 1930. Dissolved by order of the Circuit Court of Cook County)	Aug. 27, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	445
Total	490

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

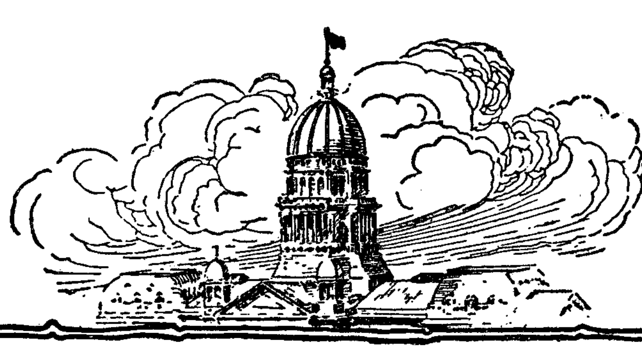
Vol. 21 SPRINGFIELD, ILL., OCTOBER 1, 1945 No. 7

NEW CALL REPORT

Our new call report form that we put into use with the past September call has met its test very satisfactorily. It came back to us from the banks with considerably less errors than we have ever had heretofore. And in many instances returns were accompanied with highly commendatory letters. This marks definite progress toward an objective long sought by this Department, i.e. a call report that fulfills the whole intent of the law and requires a minimum effort from the banks compiling it.

Many banks have found it convenient to pattern their general ledgers after the arrangement of accounts on pages 3 and 4 of the call report form. This enables them to assemble their figures quickly and completely on pages 3 and 4 simply by copying their general ledger balances into the proper form lines. After this has been done the bracket totals in the right-hand column of pages 3 and 4 automatically condense the statement to the showing required on page 1. Bank officers will also be interested to learn that the examination report form has been revised to follow the same statement pattern.

A few bank officers continue to have trouble with the inner schedule showing secured and unsecured deposits.



Care should be taken that line 1 of that schedule plus line 2 equals line 3, and that line 3 equals the total of lines 17, 18, 19 just above it. This is the place where most of the errors occur that require republication; and those are very expensive errors.

If a bank has a Trust Department and deposits trust cash with itself, it commingles its trust funds with its own and is therefore required under Section 3 of the Trust Companies Act to fully secure it with a deposit of legally designated securities with its trust officer. It is therefore a secured deposit and the total of lines 17d, 17e and 18d should be included in the special bracket for secured deposits on page 4; the total of which must agree with line 1 of the inner schedule of deposits (secured and unsecured) on page 1.

In computing the available cash reserve in Schedule C on page 2 the balance due the Trust Department and outstanding trust checks are deducted and separated from the cash so as to provide for full payment of cash liabilities to trust creditors before computing the bank's cash position.

We had some inquiry concerning loan classifications on page 3 that we shall briefly cover here. "Installment Paper," whether secured or unsecured should all be classified together, i.e. in the same group. Loans wholly or partially secured by U. S. Government commitments should be classified in the same group. A note, secured by a note, which is in turn secured by a mortgage on real estate, should be reported as a collateral loan.

If a bank has more capital reserve accounts than there are spaces provided under line 16, page 4, we have no objection to the consolidation of expense reserves, i.e. interest, insurance, taxes, etc., into one account under the general term "Expense Reserves."

We hope that bank officers responsible for the filing of call reports have made note of any difficulties they encountered with the call just filed and will let us know about them.

BANK LIQUIDATIONS

Considerable attention has been attracted to a mild wave of bank liquidations that has occurred throughout the nation during the past four or five years, several of which have been effected in the State of Illinois. The purpose and pattern of these liquidations have been identical. An individual or group would gather in, at prices considerably below book value, sufficient shares of the stock of a given bank to gain control of its management. After operating it for a short period, a stockholders' meeting would be called and liquidation authorized. The depositors would then be called in and paid and the capital assets converted into cash and distributed among the stockholders.

Result—a handsome profit for the controlling group and the loss of a bank to a community—in the majority of instances, the only bank it had. In one Illinois community so affected, it was necessary to immediately organize a new bank.

The legality of the proceedings is, in Illinois at least, beyond question; in view of which it would seem pointless to question the ethics of the operation. There can be no doubt, however, that the results, in the main have been extremely unfortunate.

Every community needs and should have at least one bank. It is a matter of necessity and convenience and a facility that community business needs. There is a high degree of public interest wrapped up in the existence of every community bank. These facts are recognized in a special way in the laws of every state in the Union as well as the Federal Government; all of which seems to us to set the community bank somewhat apart from its other corporations and businesses for profit.

It may be of interest and service to bank directors and stockholders to review some of the circumstances that have attracted the promoters of these liquidations.

In the first place, for a period of about ten years prior to 1940, most bank stocks were just about unsalable and when shares did change hands it was usually at the buyer's price and considerably below its book value. Strangely enough, bank statements never more accurately reflected book or intrinsic values than they did during that same ten-year period; for during the early years of that period, losses and depreciation had been removed from the statements and asset values very conservatively stated.

By 1940 most banks were showing favorable operating returns and a number were able to return to a moderate dividend basis; and at about the same time many banks began to encounter some pleasant and unexpected surprises from charged off and depreciated assets. Old notes, reduced to judgments, real estate titles and equities, low grade bonds that had been charged off years before as valueless began to regain value. Having been charged out of the statement these returning values began to shape up as hidden assets.

As the war years of 1942-43-44 brought Government securities into dominance over the entire investment market, the constant and heavy demand for "Governments" created two circumstances particularly to the advantage of liquidation promoters: (1) potential profit in the sale of government securities and (2) a high degree of liquidity to pay off depositors.

The high liquidity prevailing in all banks enabled the liquidators to quickly dispose of their liabilities to creditors and convert capital assets into cash, distribute it among the shareholders and realize their profits.

The point of this article is to suggest to bank officers, directors and stockholders who are mindful of community welfare to be on the alert and guard against such invasions. Estates holding large blocks of stock are particularly vulnerable points, especially if many of the heirs or beneficiaries are non-residents. Efforts should be made to keep such shares in local hands; in fact, we know of many Boards of Directors who make it their business to arrange a market for any of the stock of their banks that comes up for sale. If they can maintain a market at a fair and reasonable price, they will encounter no competition from liquidation promoters; for they are only looking for bargains.

CHARTER ISSUED

			Capital	Surplus	Reserve	
Lombard	DuPage	State Bank of Lombard 1 South Park Avenue Carl C. Cruikshank, President Elmer Mohling, Vice President and Cashier	$50,000	$5,000	$5,000	Sept. 10, 1945
Seneca	LaSalle	Community State Bank Block 5, Crotty's Addition, S. E. Corner of Williams and Bridge Streets Jesse G. Baker, President Elmer P. Maier, Cashier	$25,000	$6,000	$4,000	Sept. 28, 1945

RECEIVER APPOINTED

Chicago	Cook	Old Dearborn State Bank William M. Jeffrey (Harry R. Spellbrink, Receiver, resigned)	Oct. 1, 1945
Chicago	Cook	Union Bank of Chicago William M. Jeffrey (Harry R. Spellbrink, Receiver, resigned)	Oct. 1, 1945

CONVERSION

Urbana	Champaign	Busey's State Bank to Busey First National Bank	Sept. 1, 1945

DISSOLVED

Chicago	Cook	North Avenue State Bank (In receivership June 28, 1932. Dissolved by order of the Circuit Court of Cook County)	Aug. 10, 1945
Arlington Heights	Cook	Peoples State Bank of Arlington Heights (In receivership August 15, 1932. Dissolved by order of the Superior Court of Cook County)	Sept. 5, 1945
Palatine	Cook	State Bank of Palatine (In receivership August 7, 1933. Dissolved by order of the Circuit Court of Cook County)	Sept. 6, 1945
Freeport	Stephenson	Union Bank & Trust Company of Freeport (In receivership August 8, 1933. Dissolved by order of the Circuit Court of Stephenson County)	Sept. 7, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	446
Total	491

NOTE: Effective October 1, 1945, John W. F. Smith appointed Receiver of 44 banks to fill vacancy caused by resignation of Harry R. Spellbrink.

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

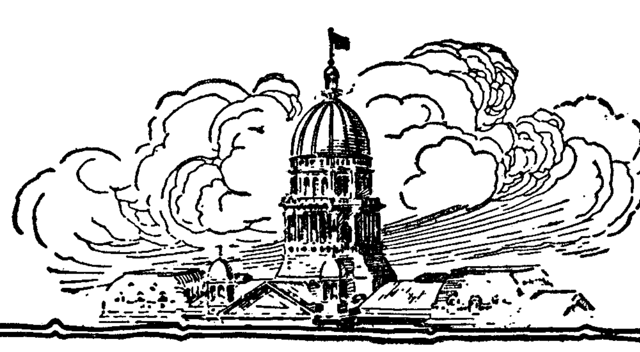
VOL. 21 SPRINGFIELD, ILL., NOVEMBER 1, 1945 No. 8

FOREIGN EXCHANGE

The phase of foreign exchange that we propose to discuss here is the sending of money by individuals in this country to impoverished friends and relatives throughout the world. During the war years facilities for such transfers were necessarily suspended and there can be no doubt of the existence of a veritable flood of private funds in the United States ready to relieve the misery and suffering of friends and relatives of many of our citizens. And there can also be no doubt that individual remittances from this country will play a major role in relieving distress throughout the world in general and the war-torn countries of Europe in particular. The anxiety of our citizens of recent foreign extraction over the welfare of friends and relatives in the lands of their birth and their desire to help is very understandable.

The return of peace has, therefore, brought this type of financial service to the public up to a degree of importance heretofore unknown.

The facilities available to handle foreign exchange transactions for individuals are very ample and well protected by law in Illinois. It remains for citizens who need such facilities to use only legally established foreign exchange agencies and thus support the law especially designed for their protection.



The law of Illinois governing foreign exchange transactions between this State and foreign countries was adopted by our Legislature in 1923 and became in force on October 1 of that year. It is commonly referred to as "The Foreign Exchange Act."

Under that Act only banks (State and National) and licensed individuals and firms, governmental departments or offices, are permitted to "engage in the business of transmitting or transferring money to foreign countries, or buying and selling foreign money, or receiving money on deposit to be transmitted or transferred to foreign countries."

While State and National banks are conceded foreign exchange powers under provisions of the Foreign Exchange Act, they are exempted from its requirements by reason of legal responsibilities established under other State and Federal laws.

When an individual or firm desires to handle foreign exchange transactions, a license to do so must be obtained from the Auditor of Public Accounts; and in meeting the legal requirements to qualify for a license, an applicant must establish in tangible form a very substantial financial responsibility.

An applicant must first furnish proof of good moral character in the form of an affidavit signed by five householders who are citizens of Illinois.

He is then required to furnish a $25,000.00 bond underwritten by a responsible and solvent surety company, approved by the Auditor of Public Accounts. The bond itself, is on a form furnished by this Department, the terms of which insure that licensee will pay all final judgments recovered against him growing out of the conduct of the licensed business.

Under the law, the powers conveyed under the license are limited to one year; at the expiration of which, licensee is required to apply to the Auditor of Public Accounts for renewal and furnish a new bond.

This Department is required to examine the business of each licensee at least once each year and the Auditor of Public Accounts has authority to refuse or revoke a license for any one or combination of the following causes:

A) Conviction of a felony;

B) The obtaining of, or an attempt to obtain a license by fraudulent misrepresentation;

C) Fraud or dishonesty in any transaction relating to such business;

D) Failure to keep authentic records of business transactions as required or failure to issue a proper receipt for all money accepted for exchange or transmission or failure to transmit money within the time required. (Three days.)

From a review of the foregoing it is evident that there is no excuse for any individual being victimized by an absconder or a manipulating curbstone broker.

The absconder is an individual well known in the history of larger cities who by reason of his nationality, knowledge of one or more foreign languages, and acquaintance in neighborhoods of foreign extraction offers his services (for a fee) in helping people of foreign birth to make remittances to friends and relatives abroad. This type, after building up a sizable clientele, withholds remittances until he is cornered and then disappears with his "take."

The manipulating curbstone broker is the individual who plays the foreign exchange market. Let us suppose he is given $50.00 to transmit its equivalent in Italian lire and that the relative value of the lire to the United States dollar is, at the time, depreciating, or the manipulator has reason to believe that it will depreciate. He will then withhold remittance for weeks, or even months, if he thinks he can get away with it, until the lire has reached a low point; whereupon he can buy the amount of lire that he agreed to transmit for much less than the $50.00 given to him and thus make a substantial profit in addition to the commission he has already charged. In this connection it should be noted above that a licensed dealer is required by law to make remittance within three days after receiving the money from the transmitter or risk losing his license; and any loss suffered by a remitter through a licensed dealer would be recoverable under the dealer's bond.

In times past a large number of our citizens have been victimized and lost huge sums of money to both of the above described operators and there is absolutely no excuse for it when legally responsible facilities are so easily available.

Any individual who finds it difficult to transact business in the English language will find little difficulty in finding a bank where his native tongue is spoken and in all probability will find a licensed dealer who can speak the required language right in his own neighborhood. Licensed dealers are permitted, under the foreign exchange act, to establish branches approved by and under the supervision of the Auditor of Public Accounts.

Each licensee holds a written certificate signed by the Auditor of Public Accounts and under the State seal of Illinois which is always available for inspection; and if there arises at any time any doubt as to the qualification of any dealer or branch office, a call to our Springfield office (4222) or to our Chicago office (Central 0166) will promptly clear it up.

There is one more phase of this discussion that we would like to bring out here and that is the matter of relationship between banks and licensed dealers with unlicensed curbstone brokers.

No bank or licensed dealer should handle any foreign exchange transaction for an unlicensed broker. Such transactions are illegal, unethical and unfair. Licensed dealers, who at considerable cost and pains, establish the required financial responsibility and integrity are entitled to protection against unfair and illegal competition. Both banks and licensed dealers should be constantly mindful of the purpose of the law and studiously avoid any hair-splitting arrangement devised to circumvent the law. As a matter of fact, we know of a number of Chicago banks that will not accept a foreign remittance from a dealer who does not produce a license.

As a matter of information, we desire to state here that Currency Exchanges do not have the power under their licenses to either make foreign remittances or to act as agent for a person desiring to make a foreign remittance.

This Department publishes, semi-annually, a book listing all financial institutions chartered or licensed by the Auditor of Public Accounts and in that book we list all licensed foreign exchange dealers.

CHARTER ISSUED

		Capital	Surplus	Reserve	
Pearl City..Stephenson...	The State Bank of Pearl City... Main Street (Lot 7, Block 8) M. W. Hooker, D.D.S., President Wayne E. Beddow, Cashier	$25,000	$5,000	$2,500...	Oct. 17, 1945
Monticello..Piatt.........	First State Bank of Monticello.. 105 West Main Street J. D. Leiper, President C. G. Holforty, Cashier	$50,000	$15,000	$10,000...	Oct. 25, 1945

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	448
Total	493

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MONTHLY BULLETIN

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

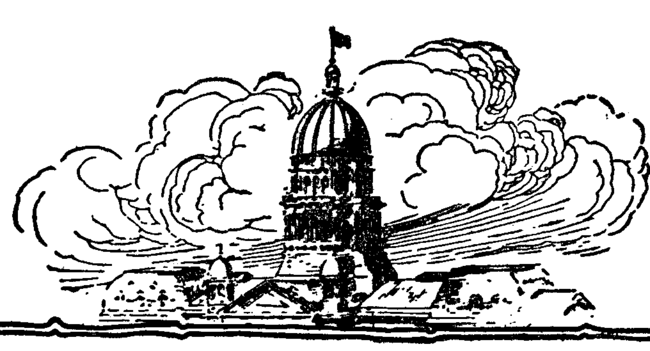
VOL. 21 SPRINGFIELD, ILL., DECEMBER 1, 1945 No. 9

REGULATION

Surprisingly often, we receive inquiries from attorneys or bankers, as to our departmental rules or regulations concerning this or that phase of bank operation. When we reply that there is no such thing as a code of Banking Department rules or regulations in Illinois, they are genuinely amazed. In fact, there have been occasions when such amazement was so profound as to make us feel derelict in not providing something of the sort, despite the fact that the Illinois Banking Act makes no provision for supplemental rules or regulations.

It is also surprising how many there are, both in and out of the banking business, who seem to feel the need of a code of departmental regulations to fill in, as they say, the gaps in the Illinois Banking Act. Such critics feel that a gap exists by reason of failure of the law to regulate such operating features as cash reserve, secondary reserve, ratio of loan volume to capital or deposits, ratio of real estate loans to savings deposits, ratio of property value to a real estate loan, marginal excesses on collateral loans and a host of other aspects of bank operation.

Actually no such gap exists in the Banking Act of Illinois; for authority and responsibility for all operating decisions are placed exactly where they belong. In Section 3, a



Board of Directors is required, "—to serve as managers for one year, and until their successors are elected." The authority conferred in those few words is very broad and general. It is also unqualified and unrestricted, except as to acquisition and holding of real estate, branch banking, individual loan limitations, withdrawals of capital and payment of dividends. No provision is made for a superior authority in management matters, either specifically or by implication.

The Illinois Banking Act is probably one of the briefest and simplest of any State banking code in the Union; but by reason of its brevity and simplicity, it is occasionally criticized as inadequate. Such critics seem to miss its logic and consistency.

Illinois law recognizes a bank as a commercial enterprise for profit, highly dependent on community necessity and convenience and requires a broad community representation in bank organization.

It vests full management authority in a Board of Directors made up of qualified stockholders. It recognizes the deep public interest in banking corporations and appoints the Auditor of Public Accounts to represent that interest. The Auditor is given authority and facilities to examine the bank and fully acquaint himself with its condition any time he so desires.

At any time the Auditor determines that the public interest in a State bank is in jeopardy, the law provides him with ways and means of correcting the threatening conditions. If they prove inadequate, further provisions authorize the Auditor to take possession of the bank and terminate its operation.

In Illinois, there is no divided responsibility for the success or failure of a State bank—the credit or blame is the Board of Director's.

We in this Department have seen a large number of bank failures, resulting from a wide variety of causes; but we have never seen one that could have been prevented by a regulatory code. The reason is that bank failures result from causes that cannot be controlled by supervisory regulation or bank legislation.

No amount of supervisory regulation could have prevented the epidemic of bank closings that swept across our nation in the early 1930s but a large number of well managed banks survived it.

The strictest kind of regulations will not prevent staff defalcations but skillful management will come very close to doing so.

This Department can honestly claim credit for saving a number of banks down through the years; but not in a single instance was it accomplished by regulatory interference on our part. What we have done in this respect has been through bringing about the strengthening or replacement of weak managements, largely through persuasion.

It is indeed gratifying to watch from an inside position, such as ours, the change for the better that takes place after a capable management succeeds a weak one. And we have seen so much of this that we long ago came to the conclusion that the success or failure of a bank will be determined almost entirely by the quality of its management.

And conversely, it is equally disturbing to observe the operating results and the change that takes place in a bank, the management of which, for one reason or another, deteriorates in character from strong to weak. Fortunately, this is a rare occurrence; but we have seen it and such experiences have emphasized to us that internal management is paramount to all other factors in determining the destiny of any bank.

It has been our observation that good banks operate under self-imposed rules and regulations, some of which are much stricter than any supervisory authority would think of imposing. Such regulations grow out of the experiences of a particular bank and fit that particular bank. From such natural and logical origins they develop into an unwritten code under which the staff is trained to become officers and directors. To that bank they are necessary and beneficial, and yet to another they might be unnecessary and even harmful.

The genius of our Illinois law, which we have come to appreciate more and more, is the clear cut and logical manner in which it divides and defines the responsibilities for the organization, operation and termination of a bank.

Sections 1 and 9 definitely enumerate and limit its corporate powers. It very explicitly outlines every step of organization procedure and places the management in the hands of the Board of Directors. The stockholders are made responsible for all corporate changes.

In connection with organization qualifications and procedure as well as corporate changes, the Auditor is designated to inspect proceedings and issue authenticating documents when they conform with the law.

Sections 7 and 8 furnish the Auditor with complete powers of investigation into the affairs of the bank and Section 11 clearly states when the Auditor is required to act in public interest.

At that point complete responsibility and authority shifts to the Auditor and remains with him until the bank is either restored to operation or liquidated and dissolved.

The whole pattern of our Illinois Banking Act seems to suggest that its framers were quite mindful of the old notion that legislation or regulation will not guarantee sound banking; so they turned to a very logical and practical alternative—the prevention of unsound banking.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Manteno	Kankakee	Manteno State Bank	$25,000	$5,000	$5,000	Nov. 26, 1945
Northbrook	Cook	Northbrook Trust & Savings Bank	$50,000	$15,000	$10,000	Nov. 29, 1945

DISSOLVED

Elkhart	Logan	Elkhart State Bank (In liquidation October 11, 1932)	Sept. 27, 1945
Homer	Champaign	Raynor-Babb State Bank (In liquidation July 25, 1932)	Nov. 3, 1945
Chicago	Cook	Logan Square State and Savings Bank (In receivership June 29, 1932. Dissolved by order of the Circuit Court of Cook County)	Nov. 16, 1945

RECAPITULATION

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