MONTHLY BULLETIN

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

VOL. 21 SPRINGFIELD, ILL., JANUARY 1, 1946 No. 10

HAPPY NEW YEAR

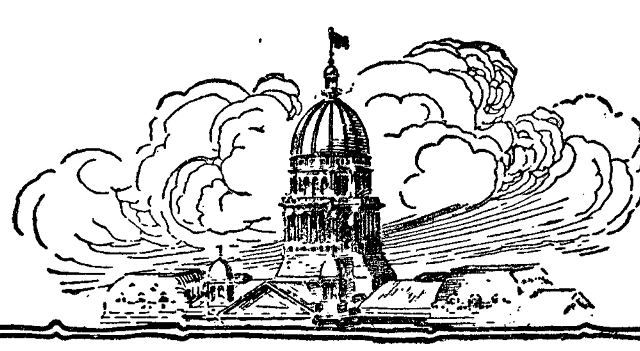
The year that has just passed was indeed a critical one in the history of our beloved country. Within that twelvemonth, we came to death grips with our enemies, conquered and disarmed them.

We have just passed a new milestone in the journey toward our destiny and we march on as a free people, unthreatened by an armed foe.

For these accomplishments, we are deeply grateful to Divine Providence and we are happy.

It is my sincere wish, in which I am joined by my entire staff, that 1946 will bring added happiness and prosperity to all readers of this BULLETIN.

ARTHUR C. LUEDER.



INSURANCE COVERAGE

During our years of pioneering on the projects of, first, getting corporate surety coverage established in all of our State banks and, second, getting adequate coverage against all standard risks, we just about wore the subject threadbare; and, during recent months, have indulged in a breathing spell.

The "American Banker," in a very timely editorial on December 4th, brought us sharply up to date on the matter. Under the editorial caption "Review Your Insurance Coverage" several sound reasons are very ably advanced as to why this important subject should come up for directors' consideration at frequent intervals. The "American Banker" has, very generously, given us permission to reprint the editorial; which we are pleased to present herewith:

"Concern has been expressed at recent banking meetings about the adequacy of insurance coverage in banks. Volume of assets and potential liabilities have materially increased. Casualty protection should be stepped up proportionately.

This fact is pointed up by report of a recent bank defalcation where the loss will run possibly to $90,000.00 against a capitalization of $100,000.00. From the way that the funds were misappropriated, the loss could have run to double that figure, or even more if there had not been a fortunate accident which disclosed the manipulations of the otherwise trusted employee.

Insurance coverage in this case, details of which have not been made public, we are told was $75,000.00. The remaining $15,000.00 will have to be made up out of the bank's reserves and undivided profits account.

In looking at the problem of adequate insurance coverage and bonding, the question may well be raised as to directors' responsibility. If ever heavy losses in excess of insurance coverage fall upon a bank, it would seem quite possible that courts might hold that directors had not performed their duties fully and that they should be held liable for charges falling upon the stockholders' funds, the bank's capital. This would seem to be particularly true if ever losses went so deeply into a bank's capital that an assessment was required upon bank shareholders (in lieu of closing the bank for liquidation or continuing it under new stock capitalization):

Extending your insurance coverage so that there can be no question of its adequacy is not forbiddingly expensive. The fact usually is that the second $100,000.00 or the second $1,000,000.00 of coverage costs only a fraction of the first. This is because the bulk of the losses still will continue to involve relatively small figures. But it would seem extremely important that the bank management bear in mind that with increased volume of deposits, increased volume of cash and negotiable assets and increased bookkeeping activity, opportunity exists for increased size of defalcations.

The average Board of Directors seems to have left the question of adequate bonding and casualty coverage up to the officers of the bank and taken it for granted that the institution was adequately protected at the least possible cost. But it is a subject that ought to be reviewed periodically, and now, as we enter the post-war period of potential large scale bank robberies, employee misfeasance and "mysterious disappearance," seems a particularly appropriate time for such a critical review."

TAX ANTICIPATION WARRANTS

In 1943 our April and June issues contained discussions of this type of investment. We felt at the time that the ideas we advanced would have been far more convincing had we been able to cite, from actual experience, examples of trouble and loss encountered by banks through careless and ill-considered investments of this type.

In our BULLETIN discussions we refrain, as far as possible, from using case histories to support our arguments, as such anecdotes are not difficult to trace; particularly in the neighborhoods in which they occur; and we would far rather sacrifice the exemplary force of a tale from real life than embarrass a bank.

There is, however, a lawsuit recently adjudicated in the October 1945 term of the Appellate Court of the Second District that should be carefully studied by every banker. The case number is 97b and the litigants were Pratt vs. Board of Education of District No. 61, Kankakee County, et al. Inasmuch as it is now a matter of public record, we naturally feel no hesitancy in referring to it as a subject for objective study.

The court's opinion contains a clear and concise review of an interesting variety of circumstances from which the suit developed; all involving the issuance and handling of Tax Anticipation Warrants and the legal issues created thereby.

Space does not permit a review of the opinion, which should be studied in its entirety.

In proclaiming the basic law governing the issuance and collection of Tax Anticipation Warrants, the Court virtually restated the position taken by the Supreme Court in 360 Ill. 535, quoted in our BULLETIN of April 1943; but expanded it somewhat to bring in some additional and interesting judicial thinking on the subject, which we do not want any banker to miss.

The Court said in part:

"It is so well settled as to admit of no argument to the contrary, that when an anticipation warrant is issued, it is a closed transaction. An anticipation warrant is simply an assignment of tax money which directs the treasurer to pay the holder. No debt is created thereby, and, after delivery, there is no obligation upon it, either absolute or contingent, to pay out of anything except the levy anticipated, when collected. They are not liabilities of the municipality or school district by which they are issued, and are not, and cannot be, corporate obligations under Section 9 of Article IX of the Constitution. Changing them into bonds or other forms does not make them corporate liabilities or change the character of the liability and acts purporting to authorize the issuance of such bonds have been held unconstitutional. Even a judgment entered on tax anticipation warrants cannot be paid with the corporate funds. If a supposed liability has inception in a tax anticipation warrant, such liability is still based upon such warrant, in whatever form the claim may thereafter assume, and the invalidity of the original claim cannot be avoided by simply changing the form in which it is presented in an effort to conceal its identity. . . ."

PERMIT ISSUED

			Capital	Surplus	Reserve	
Nebo	Pike	State Bank of Nebo	$25,000	$5,000	$5,000	Dec. 17, 1945

TRUST CERTIFICATE ISSUED

			Deposit	
Herrin	Williamson	The Bank of Herrin	$50,000	Dec. 12, 1945

IN LIQUIDATION

Oquawka	Henderson	The First State Bank of Oquawka	Nov. 3, 1945
Quincy	Adams	Broadway Bank of Quincy	Dec. 17, 1945
Quincy	Adams	The Peoples Bank of Quincy	Dec. 17, 1945

DISSOLVED

Tallula	Menard	Tallula State Bank (In receivership October 1, 1932. Dissolved by order of the Circuit Court of Menard County)	Nov. 14, 1945
Oquawka	Henderson	The First State Bank of Oquawka (In liquidation November 3, 1945)	Nov. 15, 1945
Chicago	Cook	Service State Bank (In receivership February 2, 1932. Dissolved by order of the Circuit Court of Cook County)	Dec. 21, 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

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VOL. 21 SPRINGFIELD, ILL., FEBRUARY 1, 1946 No. 11

YEAR END CALL

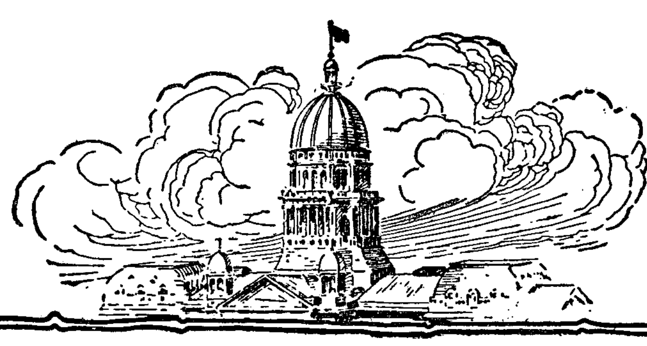
The main trends of the 1945 call report figures from Illinois State banks, as exhibited herein, show little more than a continuation of increasing deposits, cash and government bonds.

Savings deposits, particularly, show steady and substantial increases at each quarter. Demand deposits fell off during two quarters, which is the first recession shown in this account since the April call of 1943. These two decreases were due entirely to Government transfers; aside from which the trend was upward.

A heavy fourth-quarter increase in loans sent receivables to an all-time peak since pre-Moratorium days.

In following the break-down of loan trends at the bottom of our exhibit, particular note should be made of our footnote appended in connection with the third-quarter changes in "Collateral" and "Other Loans." The shift in trends therein indicated is probably due to a large extent, to our new Call Report form put into use with the September call, where we introduce a new classification for loans secured by the guarantees of the U. S. Government and its agencies and which we now treat as "Collateral" loans.

There was a net increase of 7 State banks during 1945; resulting from 14 new organizations and 7 withdrawals. Of the last-mentioned group 4 became National banks and 3 went into voluntary liquidation with full payment to creditors. No going institutions were placed in receivership during 1945.



REVIEW OF CALL REPORTS
COVERING ALL ILLINOIS STATE BANKS

NUMBER OF BANKS	483	Increase or Decrease	485	Increase or Decrease	487	Increase or Decrease	490	Increase or Decrease	490
DATE OF CALL	Dec. 30, 1944		March 20, 1945		June 30, 1945		Sept. 21, 1945		Dec. 31, 1945
RESOURCES:									
Cash and Due from Banks	$ 626,642,028.39	$—36,354,953.10	$ 590,287,075.29	$ +40,529,595.93	$ 630,816,671.22	$ —8,269,414.50	$ 622,547,256.72	$ +99,732,955.33	$ 722,280,212.05
Outside Checks and Other Cash Items	27,906,146.34	—3,057,946.62	24,848,199.72	—5,551,280.57	19,296,919.15	—4,463,053.71	14,833,865.44	+1,998,941.46	16,832,806.90
U. S. Governments—Direct & Guaranteed	1,620,152,723.50	+11,399,784.34	1,631,552,507.84	+141,359,211.97	1,772,911,719.81	—48,252,086.15	1,724,659,633.66	+101,967,372.30	1,826,627,005.96
Other Bonds, Stocks & Securities	241,862,780.56	—6,660,738.37	235,202,042.19	+18,292,485.68	253,494,527.87	—2,633,946.75	250,860,581.12	+13,233,356.61	264,093,937.73
Loans and Discounts	322,166,847.25	—23,750,222.27	298,416,624.98	+39,969,241.69	338,385,866.67	—5,636,736.86	332,749,129.81	+58,879,692.34	391,628,822.15
Overdrafts	119,956.52	+19,387.12	139,343.64	—45,002.71	94,340.93	+48,225.51	142,566.44	—18,618.42	123,948.02
Banking House	9,041,232.50	—35,738.13	9,005,494.37	—107,194.80	8,898,299.57	—255,775.39	8,642,524.18	—207,492.29	8,435,031.89
Furniture & Fixtures	1,061,426.89	—10,377.33	1,051,049.56	+30,262.11	1,081,311.67	—133,884.80	947,426.87	—60,650.51	886,776.36
TOTAL—Bkg. House and Furniture and Fixtures	$10,102,659.39	$—46,115.46	$10,056,543.93	$—76,932.69	$9,979,611.24	$—389,660.19	$9,589,951.05	$—268,142.80	$9,321,808.25
Other Real Estate	$ 355,765.31	$ —87,483.03	$ 268,282.28	$ —93,058.83	$ 175,223.45	$ +2,677.48	$ 177,900.93	$ —27,197.27	$ 150,703.66
Customers, Liability—Letters of Credit	1,046,105.13	—193,172.75	852,932.38	+349,472.13	1,202,404.51	+1,458,842.67	2,661,247.18	—1,040,898.90	1,620,348.28
Customers, Liability—Acceptances	85,728.44	+89,620.69	175,349.13	—139,571.93	35,777.20	+101,544.46	137,321.66	+171,084.60	308,406.26
Other Resources	7,121,485.48	—1,790,604.46	5,330,881.02	+2,325,197.38	7,656,078.40	—2,036,092.22	5,619,986.18	+1,718,257.71	7,338,243.89
GRAND TOTAL RESOURCES	$2,857,562,226.31	$—60,432,443.91	$2,797,129,782.40	$+236,919,358.05	$3,034,049,140.45	$—70,069,700.26	$2,963,979,440.19	$+276,346,802.96	$3,240,326,243.15
LIABILITIES:									
Deposits									
Demand Deposits	$1,918,327,995.09	$—97,506,010.29	$1,820,821,984.80	$+175,968,850.74	$1,996,790,835.54	$—114,261,440.75	$1,882,529,394.79	$+210,694,443.68	$2,093,223,838.47
Time Deposits	627,047,904.68	+35,267,466.09	662,315,370.77	+49,730,201.49	712,045,572.26	+44,678,296.24	756,723,868.50	+44,305,418.15	801,029,286.65
Due to Banks	164,554,983.98	—2,124,367.41	162,430,616.57	+8,922,225.61	171,352,842.18	—5,053,812.59	166,299,029.59	+20,771,851.95	187,070,881.54
Deposits Secured by Pledge	$ 457,823,165.19	$—142,443,749.47	$ 315,379,415.72	$+193,155,262.87	$ 508,534,678.59	$—194,084,273.74	$ 314,450,404.85	$+175,181,827.83	$ 489,632,232.68
Deposits Not Secured by Pledge	2,252,107,718.56	+78,080,837.86	2,330,188,556.42	+41,466,014.97	2,371,654,571.39	+119,447,316.64	2,491,101,888.03	+100,589,885.95	2,591,691,773.98
TOTAL DEPOSITS	$2,709,930,883.75	$—64,362,911.61	$2,645,567,972.14	$+234,621,277.84	$2,880,189,249.98	$—74,636,957.10	$2,805,552,292.88	$+275,771,713.78	$3,081,324,006.66
Other Liabilities									
Bills Payable	----------	$+1,000,000.00	$ 1,000,0[illegible]0	$—1,[illegible],000.00	----------	$ +100,000.00	$ 100,000.00	$ —100,000.00	----------
Rediscounts	----------	----------	----------	----------	----------	----------	----------	----------	----------
Dividends Unpaid	$ 610,781.00	—440,178.16	170,602.84	+378,415.31	$ 549,018.15	—356,224.70	192,793.45	+170,169.35	$ 362,962.80
Letters of Credit	1,048,975.13	—194,483.75	854,491.38	+355,725.63	1,210,217.01	+1,451,050.92	2,661,267.93	—1,040,569.65	1,620,698.28
Bank Acceptances	87,752.44	+384,428.89	472,181.33	—436,404.13	35,777.20	+101,544.46	137,321.66	+171,084.60	308,406.26
Other Liabilities	3,389,889.43	—114,048.93	3,275,840.50	+371,835.03	3,647,675.53	—214,393.68	3,433,281.85	+294,864.68	3,728,146.53
Capital Structure									
Capital Stock	43,853,050.00	+105,000.00	43,958,050.00	+135,000.00	44,093,050.00	—145,000.00	43,948,050.00	—50,000.00	43,898,050.00
Income Debentures	571,350.00	—5,500.00	565,850.00	+32,800.00	598,650.00	----------	598,650.00	—11,000.00	587,650.00
Surplus	46,693,650.00	+110,257.42	46,803,907.42	+948,492.58	47,752,400.00	+170,000.00	47,922,400.00	+1,690,500.00	49,612,900.00
Undivided Profits (net)	22,232,149.86	+2,106,187.08	24,338,336.94	+52,203.36	24,390,540.30	+2,649,580.45	27,040,120.75	—1,104,150.84	25,935,969.91
Reserve Accounts	29,143,744.70	+978,805.15	30,122,549.85	+1,460,012.43	31,582,562.28	+810,699.39	32,393,261.67	+554,191.04	32,947,452.71
TOTAL CAPITAL STRUCTURE	$142,493,944.56	$+3,294,749.65	$145,788,694.21	$+2,628,508.37	$148,417,202.58	$+3,485,279.84	$151,902,482.42	$+1,079,540.20	$152,982,022.62
GRAND TOTAL LIABILITIES	$2,857,562,226.31	$—60,432,443.91	$2,797,129,782.40	$+236,919,358.05	$3,034,049,140.45	$—70,069,700.26	$2,963,979,440.19	$+276,346,802.96	$3,240,326,243.15
ANALYSIS—LOANS AND DISCOUNTS:									
Commercial Paper	$ 12,405,211.85	$— 1,863,312.97	$ 10,541,898.88	$ —3,381,411.65	$ 7,160,487.23	$ +80,302.36	$ 7,240,789.59	$ +9,233,526.69	$ 16,474,316.28
Collateral Loans	79,929,770.26	—15,730,026.46	64,199,743.80	+42,166,122.92	106,365,866.72	*+49,990,249.58	156,356,116.30	+22,109,738.54	178,465,854.84
Other Loans	161,371,863.35	—6,257,460.23	155,114,403.12	—2,637,374.00	152,477,029.12	—55,955,047.32	96,521,981.80	+22,308,555.24	118,830,537.04
Farm Loans	10,049,249.88	+446,163.35	10,495,413.23	+345,639.85	10,841,053.08	+338,377.52	11,179,430.60	—693,537.89	10,485,892.71
Other Real Estate Loans	58,410,751.91	—345,585.96	58,065,165.95	+3,476,264.57	61,541,430.52	—90,619.00	61,450,811.52	+5,921,409.76	67,372,221.28
TOTAL LOANS AND DISCOUNTS	$322,166,847.25	$—23,750,222.27	$298,416,624.98	$+39,969,241.69	$338,385,866.67	$—5,636,736.86	$332,749,129.81	$+58,879,692.34	$391,628,822.15

* Contains $32,005,549.11 secured by commitment or guaranty of U.S. Government, its agencies, etc.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Table Grove	Fulton	Table Grove State Bank	$50,000	$25,000	$5,000	Jan. 31, 1946

CAPITAL STOCK INCREASED

Benton	Franklin	Bank of Benton from $50,000 to $100,000	Jan. 18, 1946
Mount Carmel	Wabash	Security Bank of Mount Carmel from $50,000 to $100,000	Jan. 19, 1946
Waggoner	Montgomery	State Bank of Waggoner from $20,000 to $25,000	Jan. 21, 1946

DURATION EXTENDED

Minier	Tazewell	The Farmers State Bank of Minier Charter extended 20 years from October 1, 1946	Jan. 17, 1946

CONVERSION

Rock Island	Rock Island	State Bank of Rock Island to First National Bank of Rock Island	Jan. 2, 1946

DISSOLVED

East Peoria	Tazewell	Fon Du Lac State Bank (In receivership June 13, 1934. Dissolved by order of the Circuit Court of Tazewell County)	Jan. 10, 1946

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	444
Total	489

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BANKING DEPARTMENT

State of Illinois

Vol. 21 SPRINGFIELD, ILL., MARCH 1, 1946 No. 12

1945 EARNINGS

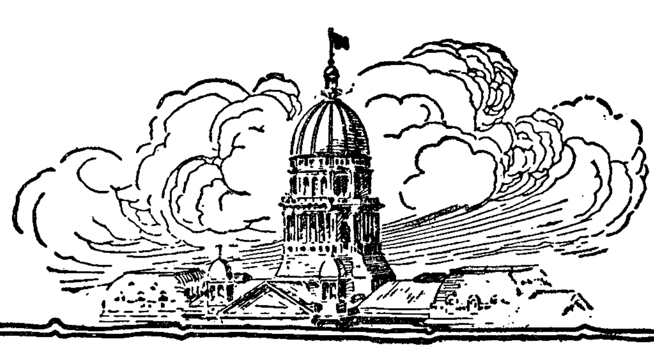
$18,700,000 was the net gain from earnings and profits, after all adjustments, shown by 476 State Banks that operated in Illinois throughout 1944 and 1945. 72% of that amount stayed in the banks to increase capital structures for the protection of depositors, 17% went to stockholders in the form of dividends, and 11% was paid out to Deferred Certificate holders.

The foregoing are results that space does not permit us to show in the exhibit of operating returns contained in the inner pages of this issue, and they are results that clearly demonstrate that artificial curtailment of bank earnings will affect banks and bank creditors far more seriously than bank stockholders.

Columns 11 and 12 in the following exhibit compare the operating returns of 476 banks that operated throughout both years of 1944-45.

This comparison shows a gain in strictly operating net of $2,000,000. An additional $1,000,000 was gained from recoveries after deducting charge-offs. Salaries, interest on deposits, taxes, and miscellaneous expenses absorbed most of the $6,000,000 gain in income.

Ratios of operating expenses and net to gross income remain the same at 65% and 35%, respectively.



OPERATING RESULTS FROM ALL ILLINOIS STATE BANKS
FOR THE YEARS 1944-1945

	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 $10,000,000 and over		General Comparison	
	1944	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944	1945
Number of Banks	40	28	141	113	246	278	28	35	28	36	476	476
Current Income:												
Loans	103,872	40,730	668,049	459,359	2,885,415	2,881,835	901,454	1,024,171	5,703,196	6,367,806	10,109,580	10,717,270
Securities	135,080	70,936	960,426	820,831	4,600,632	5,550,202	1,783,702	2,276,073	18,410,180	22,388,988	25,524,982	31,072,641
Exchange, Collection, Commission, etc.	12,017	7,664	98,343	70,628	366,605	393,584	112,188	132,848	735,422	951,869	1,282,198	1,550,134
Foreign Exchange	787				6,531	3,237	27		26,529	46,614	33,874	49,838
Service Charges	25,424	11,950	179,375	128,310	824,487	809,596	352,186	314,567	1,234,831	1,356,556	2,541,628	2,609,128
Trust Department	25,260	36,884	1,202	765	48,461	24,236	64,833	83,201	3,954,340	3,792,026	4,083,365	3,937,113
Miscellaneous	10,343	6,759	80,770	51,586	391,941	361,942	260,919	305,150	939,228	1,063,897	1,656,028	1,772,564
TOTAL INCOME	312,783	174,923	1,988,165	1,531,479	9,124,072	10,024,632	3,475,309	4,136,010	31,003,726	35,967,756	45,231,655	51,708,688
Unit Average	(7819)	(6247)	(14100)	(13552)	(37090)	(36059)	(124118)	(118170)	(1107275)	(999104)	(95024)	(108631)
Current Expenses:												
Salaries	120,934	76,062	624,817	496,580	2,788,902	2,954,584	1,125,287	1,241,338	8,601,108	9,812,725	13,067,055	14,505,027
Interest on Borrowings			265	5,728	829	3,531		373		3,527	1,093	13,160
Interest on Deposits	23,647	11,366	160,736	108,856	889,468	1,018,832	334,767	380,531	3,273,201	4,405,919	4,618,241	5,920,431
Interest on Capital Debentures			1,022	2,019	5,653	10,913	7,909	3,562	17,979	10,104	32,563	26,598
Taxes	24,684	15,998	153,474	150,140	766,666	977,843	230,982	322,046	2,385,158	2,851,127	3,457,952	4,315,962
Miscellaneous	66,011	42,308	358,299	288,128	1,527,490	1,679,065	727,371	785,704	5,716,125	6,509,521	8,285,365	9,227,127
TOTAL EXPENSES	235,276	145,734	1,298,613	1,051,451	5,979,008	6,644,768	2,426,316	2,733,554	19,993,571	23,592,923	29,462,269	34,008,305
Unit Average	(5882)	(5205)	(9210)	(9305)	(243[illegible]	(23902)	(86654)	(78101)	(714056)	(655358)	(61895)	(71446)
OPERATING NET	77,507	29,189	689,552	480,028	3,145,064	3,379,864	1,048,993	1,402,456	11,010,155	12,374,833	15,769,386	17,700,383
Unit Average	(1937)	(1042)	(4890)	(4248)	(12784)	(12157)	(37464)	(40069)	(393219)	(343746)	(33129)	(37185)
Recoveries and Profits:												
Recoveries on Loans	42,096	6,772	128,482	71,693	404,106	328,632	286,577	163,086	733,969	668,668	1,560,461	1,238,850
Recoveries on Securities	26,687	3,081	79,762	31,688	407,060	298,981	117,833	105,484	326,474	573,875	898,281	1,013,109
Profits on Securities	6,559	2,149	44,509	80,498	309,467	443,227	176,715	302,496	681,816	1,375,840	1,171,446	2,200,899
Miscellaneous	6,394	18,626	53,010	17,210	245,365	148,556	183,735	207,918	480,666	783,439	951,495	1,175,611
Net Earnings plus Recoveries and Profits	159,243	59,817	995,315	681,117	4,511,062	4,599,260	1,813,853	2,181,440	13,233,080	15,776,655	20,351,069	23,328,852
Losses:												
On Loans	5,051	347	42,665	11,269	80,166	100,142	54,295	39,413	531,000	330,492	699,306	481,270
On Securities	7,561	4,790	102,851	56,638	420,892	478,030	255,013	219,276	3,709,837	2,285,031	4,382,925	3,042,644
Banking House, Furniture and Fixtures	11,022	3,812	78,437	48,428	282,142	275,122	153,079	118,389	233,284	252,587	745,824	696,960
Miscellaneous	2,468	4,589	16,825	14,787	98,986	118,106	79,829	44,990	90,808	215,897	285,033	394,614
TOTAL LOSSES	26,102	13,538	240,778	131,122	882,186	971,400	542,216	422,068	4,564,929	3,084,007	6,113,088	4,615,488
NET TO UNDIVIDED PROFITS	133,141	46,279	754,537	549,995	3,628,876	3,627,860	1,271,637	1,759,372	8,668,151	12,692,648	14,237,981	18,713,364
Capital, Surplus, Undivided Profits, Reserves	1,665,211	1,321,990	7,541,441	5,771,918	29,783,276	30,757,821	10,825,604	12,022,468	92,107,061	102,520,173	140,119,381	151,166,412
TIME DEPOSITS	2,935,998	1,620,206	19,757,987	15,817,386	127,528,457	144,544,951	64,423,303	72,348,326	412,402,157	566,698,415	616,775,412	798,741,983
GROSS DEPOSITS	14,260,201	9,138,493	105,703,005	85,875,747	503,807,159	579,750,467	199,679,773	236,098,707	1,886,480,744	2,170,460,591	2,678,254,947	3,070,399,279

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

PERMIT ISSUED

City	County	Bank	Capital	Surplus	Reserve	Date
Sheridan	LaSalle	Sheridan State Bank	$50,000	$10,000	$5,000	Feb. 2, 1946
Stronghurst	Henderson	Bank of Stronghurst	$35,000	$10,000	$7,500	Feb. 25, 1946

CHARTER ISSUED

City	County	Bank	Capital	Surplus	Reserve	Date
Manteno	Kankakee	Manteno State Bank Chestnut Street (N. 21½ ft. Lot 9, Block 6) Francis W. Smith, President S. H. Switzer, Cashier	$25,000	$5,000	$5,000	Feb. 13, 1946
Kempton	Ford	Kempton State Bank 4 West Main Street A. J. McKinney, President A. J. Wilken, Cashier	$25,000	$5,000	$7,500	Feb. 14, 1946

CAPITAL STOCK INCREASED

Herrin	Williamson	The Bank of Herrin from $100,000 to $150,000	Feb. 1, 1946
Chicago	Cook	Amalgamated Trust & Savings Bank from $400,000 to $800,000	Feb. 4, 1946

CHANGE OF NAME

McHenry (P. O. West McHenry)	McHenry	West McHenry State Bank to McHenry State Bank	Jan. 22, 1946

TRUST CERTIFICATE ISSUED

			Deposit	
Rock Island	Rock Island	First National Bank of Rock Island	$50,000	Feb. 2, 1946

TRUST CERTIFICATE CANCELLED

Rock Island	Rock Island	State Bank of Rock Island	Feb. 2, 1946

DISSOLVED

Chicago	Cook	Chatham State Bank (In receivership July 10, 1931. Dissolved by order of the Superior Court of Cook County)	Jan. 30, 1946
Chicago	Cook	Prudential State Savings Bank (In receivership July 11, 1932. Dissolved by order of the Superior Court of Cook County)	Feb. 6, 1946

RECAPITULATION

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

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

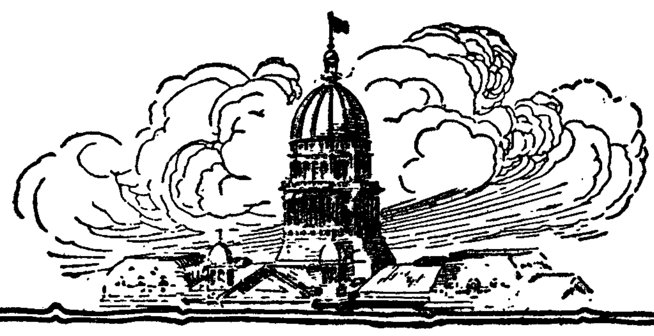
VOL. 22 SPRINGFIELD, ILL., APRIL 1, 1946 NO. 1

FULL FAITH AND CREDIT, ETC.

Due to our annual custom of reserving our February and March issues of this BULLETIN for the publication of statistical material arising from the year end "Call Report" and the annual Earnings, Expenses and Dividends Report, we were unable to comment upon the address delivered on January 16 by Professor Simeon E. Leland before the Institute on Business and Economic Problems at the University of Pittsburgh on the subject of "The Government, the Banks, and the National Debt."

Despite the fact that the speech and critical comment were well publicized, we believe Prof. Leland's conclusions are of such far reaching import to the banking industry that they should be given more than a casual reading. They should be carefully studied and pondered; for they contain a clear and competent presentation of an economic philosophy that has to a very considerable degree influenced governmental policies during the past thirteen years.

While the speaker took pains to explain that his opinions and conclusions were entirely personal and in nowise official, bankers are understandably interested in even the personal views of Prof. Leland, who is Chairman of the Board of Directors of the Federal Reserve Bank of Chicago.



It was an able address, in which our national debt situation was honestly and competently analyzed. It was also shocking and quite revealing.

To the banker, who has been brought up under the standards of such virtues as honesty and integrity; to whom "the full faith and credit of the United States government" has meant the ultimate in credit value, it will come as a distinct shock to learn from one of Prof. Leland's conclusions, that our government owes 278 billion dollars and that it is futile and a waste of a good economist's time to even think about paying, or even reducing it.

Here is his own admission: "This conclusion may be distressing to many Americans who believe in the inherent virtue of redemption of public debts and who proudly cite the record of the United States in reducing its indebtedness from previous wars."

To such Americans he suggests that "We must find consolation and pride in the wise management of the national obligations."

"Wise debt management" to a banker means payment of principal and interest according to the terms of the instrument of debt. But in the economic lexicon that Prof. Leland uses, "wise debt management" means something else; and not only bankers, but all men of enterprise should fully understand the Leland meaning and all of its potential impacts on the business activities of the American people.

Our concept of debt management, with the normal objective of payment eliminated, would simply mean payment of interest and arranging for new financing to meet maturities. In the management of our national debt Prof. Leland says that the Treasury is dominated by two motives: "(1) to prevent inflation or deflation—in other words, the stabilization of the economy; and (2) minimizing the carrying costs of the debt consistent with assuring the credit standing of the government." In advancing these two laudable objectives we wonder if it did not occur to the speaker that both could be accomplished through a business-like effort to pay the debt. He goes on to say that "The Federal Reserve System is also interested in the attainment of these objectives. It will have a weather eye too, on the welfare of banking institutions and the way they perform expected functions. Both agencies, therefore, are vitally concerned with preventing the bank ownership of governments from adding fuel to the lurking danger of inflation *via* monetary expansion."

A comparison of these two concepts of debt management not only develops a startling contrast but an amusing paradox. We find a suggestion of the debtor saying to the creditor, "I owe you more than I can pay; so I'm going to take you under control in order that you may not embarrass me."

Prof. Leland's askant view of the banks of the nation arises from the fact that they hold just about one-third of the national debt. In his analysis of our debt situation, he exhibits a table showing Commercial and Savings banks owning 34%, Federal Reserve Banks, Insurance Companies and U. S. Agencies and Trust Funds owning 27%, and 39% in the hands of "All other investors."

That 34%, in the Leland thesis, bears watching and requires control. It represents the organized money lenders of the nation who, under prevailing arrangements can sell large quantities of low yield governments in a government supported market and use the proceeds through uncontrolled money lending to send the inflation spiral beyond all control.

The speaker offered two solutions which seemed to him profitable for consideration: "(1) legislation providing a special non-marketable security for bank ownership; (2) the payment of outstanding bank-held obligations with Federal Reserve credits, and the readjustment of reserve requirements for all banks with the payment of interest on reserve balances."

Obviously both proposals would have the same effect on bank operations. Either would freeze for an indefinite period any amount of investable bank funds that the economic planners would decide to take out of circulation. And that is not all.

If proposal No. 1 is adopted, Prof. Leland says that "These securities should bear no definite maturity date but could be paid at the pleasure of the government. The rate of interest paid would be low but would have a close relation to the cost of providing credit, or checking facilities, and the riskless nature of Federal obligations. . . . The interest rate paid could also be made to vary as economic conditions changed and as it became desirable to cause banks to hold more or less than the minimum reserve in these securities."

Thus, our banking system will go on the Federal payroll—at a living wage—said wage to be determined by the planning authority.

A notable and very significant feature of the Leland speech is the means by which he seeks to solve the debt problem. He proposes control of the banks and that alone. He assigns no task to the government and imposes no duty upon the citizens, whom the government is supposed to represent. Quite to the contrary, he blandly assured his audience that fiscal deficits will probably continue and that "Substantial reductions will be—far too costly—for taxpayers to desire debt redemption in preference to reduction in current taxes."

This attitude is in sharp contrast with public policy after World War I, when debt reduction was started shortly after the war's end. Between 1919 and 1930 the national debt was reduced from 26½ billion to 16 billion dollars—almost 40%.

And so the solution of our national debt problem as proposed by Prof. Leland boils down to this, or so it appears to us: as far as debt payment is concerned, we cannot even think about that now. The best we can do is to manage it; and in order to do that we will have to corrall the banks, bind and gag them and feed them just enough to keep them available for such service as the government may need them to perform.

This solution seems to us to follow the same unmoral pattern inaugurated in 1933 when the "full faith and credit of the United States government" was violated for the first time with the abandonment of the gold standard. It springs from the same economic philosophy as advocated financing the war against depression by adding nearly 27 billion dollars to our national debt on the happy theory that we could borrow and spend our way to prosperity.

It seems to be a philosophy that emanates from a desire to establish a government to rule subjects rather than serve its citizens; and any means that will serve that end are paramount to any moral standard that may have governed our actions in the past.

It is to be hoped that Prof. Leland's proposal remains just what it is—an economic theory and that the actual solution will be more American in concept. Let us look for a blue print that calls for the unshackled industry, energy and genius of the American people—HONESTLY APPLIED.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Homewood	Cook	Bank of Homewood (Previous permit cancelled and capital structure revised)	$50,000	$10,000	$15,000	Mar. 11, 1946

CHARTER ISSUED

			Capital	Surplus	Reserve	
Table Grove	Fulton	Table Grove State Bank South Side East Main Street Corner at Public Square Lee Cassidy, President Q. D. Baily, Cashier	$50,000	$25,000	$5,000	Mar. 4, 1946

CAPITAL STOCK INCREASED

DeKalb......DeKalb......DeKalb Trust and Savings Bank from $75,000 to $100,000......Mar. 1, 1946

Marengo.....McHenry....Marengo State Bank from $25,000 to $50,000..................Mar. 1, 1946

TRUST CERTIFICATE CANCELLED

Chicago......Cook........Kaspar-American State Bank..............................Mar. 30, 1946

DISSOLVED

Chicago......Cook........Second North-Western State Bank..........................Mar. 22, 1946
(In receivership July 22, 1931. Dissolved by order of the Circuit Court of Cook County)

Grant Park...Kankakee....Grant Park State Bank.....................................Mar. 29, 1946
(In liquidation June 30, 1927. Dissolved by order of the Circuit Court of Kankakee County)

Grant Park...Kankakee....Grant Park Trust & Savings Bank...........................Mar. 29, 1946
(In liquidation June 14, 1924. Dissolved by order of the Circuit Court of Kankakee County)

RECAPITULATION

State Banks in Chicago	19
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	447
Total	492

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

VOL. 22 SPRINGFIELD, ILL., MAY 1, 1946 NO. 2

IMPORTANT LAWS

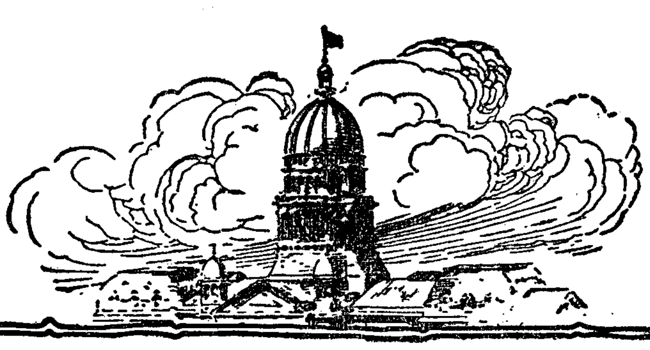
In reviewing a recent publication issued by this Department containing "Laws of Illinois Concerning Trust Companies," we noticed several statutes, the application of which are of general interest to all Illinois bankers. It therefore occurred to us that it might be useful to bring these to the special attention of bank executives through our BULLETIN.

DEPOSITS IN TRUST—Chapter 16½ Paragraph 23

"If a deposit is made with any corporation doing a banking or trust business by one person in trust for another, the name and residence of the person for whom it is made shall be disclosed, and it shall be credited to the depositor as trustee for such person; and if no other notice of the existence and terms of a trust has been given in writing to such corporation, the deposit, or any part thereof, together with the interest thereon, may, in the event of the death of the trustee, be paid to the person for whom said deposit was made, or to his legal representative."

JOINT RIGHTS AND OBLIGATIONS — Chapter 76 Paragraphs 1, 1a, 2, 3, 4, 5

A general understanding of this subject is necessary for all bank executives.



There are three kinds of joint ownership of property: (1) "tenancy in common," wherein the death of a tenant causes his share of the property to pass into his estate; (2) "joint tenancy, with right of survivorship," wherein the share of a deceased tenant passes to the surviving tenants; and (3) "tenancy by entirety," which last form is not legal in Illinois.

Illinois law favors "tenancy in common," in that the law presumes that all joint ownership is "tenancy in common" unless the instrument of title expressly shows ownership "not in tenancy in common but in joint tenancy."

Special provision is made for joint bank accounts as follows:

> ". . . provided, that when a deposit in any bank or trust company transacting business in this State has been made or shall hereafter be made in the names of two or more persons payable to them when the account is opened or thereafter, such deposit or any part thereof or any interest or dividend thereon may be paid to any one of said persons whether the other or others be living or not, and when an agreement permitting such payment is signed by all said persons at the time the account is opened or thereafter the receipt or acquittance of the person so paid shall be valid and sufficient discharge from all parties to the bank for any payment so made."

Section 1a makes provision for joint tenants in contracts to purchase real estate, where it is stipulated that tenancy is "joint" and not "in common." When a joint purchaser dies, his interest in the contract passes to surviving co-purchasers; provided that it does not change the effect of any assignment made by any of the co-purchasers.

Provision is also made to honor survivorship rights in joint ownership of stocks, bonds or other evidences of indebtedness or interest, as well as nontransferable United States Savings Bonds, when said rights are expressly stated.

FIDUCIARY OBLIGATIONS—Chapter 98

Paragraphs 238, 239, 240, 241, 242 and 243 are of particular interest to bank executives for they define and limit the liability of banks in handling checks drawn by trustees or other fiduciaries against their fiduciary bank accounts.

Generally speaking, these sections protect banks against liability for breaches of trust committed by fiduciaries through their bank accounts except in such cases as the bank has actual knowledge that a breach of trust has been committed by a fiduciary.

LIABILITY FOR FORGED OR RAISED CHECKS—Chapter 16½

Paragraph 24 provides that, "No bank, banking association or trust company, which has paid and charged to the account of a depositor any money on a forged or raised check issued in the name of said depositor shall be liable to said depositor for the amount paid thereon unless either (1) within one year after notice to said depositor that the vouchers representing payments charged to the account of said depositor for the period during which such payment was made are ready for delivery, or (2) in case no such notice has been given, within one year after the return to said depositor of the voucher representing such payment, said depositor shall notify the bank that the check so paid is forged or raised."

Paragraph 25: "The notice referred to in the preceding section shall be given by registered mail with return receipt demanded to said depositor at his last known address with postage prepaid."

LOANS TO BANK OFFICER—Chapter 38 Paragraph 63

"It shall not be lawful for any savings bank to loan any deposit or trust fund to any officer or officers of such savings bank, and any savings bank so loaning, shall, upon proof thereof, if organized under the laws of this state, be considered to have forfeited its chartered rights and franchise, or liable to a fine of twice the amount so loaned at the discretion of the court before which such case may be brought and the officer or officers receiving such deposit or trust fund, shall be deemed guilty of having obtained the same under false pretenses, and shall be punished therefor according to law."

SAVINGS BANK NOT TO BE GUARANTOR, ETC.—Chapter 38

Paragraph 64: "It shall not be lawful for any savings bank, individual or individuals doing banking business, banking company, or incorporated bank receiving savings deposit, or deposits of trust funds, to assume the payment of, or to become liable for, or to guarantee to pay the principal of, or interest on, any bonds, notes or other evidence of indebtedness of, for, or on account of any person or persons, company or incorporation; and in any assumption, liability or guarantee, whereby such deposits or trust funds could be jeopardized or impaired shall be null and void."

ADMINISTRATION OF ESTATES — Chapter 3 Paragraphs 151 to 501

This is commonly known as the "Probate Act" and contains a great deal of information useful to bankers both in the extension of credit and in the collection of loans of deceased debtors or in the establishment of legal rights against guarantors or endorsers.

ABSENTEES IN MILITARY SERVICE MISSING IN ACTION—Chapter 3 Paragraphs 521 to 523

This is an enactment of our last legislature which provides temporary legal representation for persons missing in action while on military duty. In the event such missing person has not left power of attorney to deal with his property, the courts may designate a person to serve, under bond, in a representative capacity, until such missing person either returns or the fact of his death becomes established; whereupon an administrator supplants the temporary appointee.

Reference to decisions of our Supreme and Appellate Courts construing any of these laws may be found by examining the Smith-Hurd Illinois Annotated Statutes under the Chapters and Paragraphs cited hereinabove, which are identical to the Illinois Revised Statutes, State Bar Association Edition.

Our own publication that we have been discussing has been sent to all banks. Any person desiring additional copies may have them upon request directed either to our Springfield or Chicago offices.

PERMITS ISSUED

			Capital	Surplus	Reserve	Date
Wenona	Marshall	Wenona State Bank	$50,000	$20,000	$10,000	Apr. 23, 1946
Urbana	Champaign	Champaign County Bank and Trust Co.	$100,000	$20,000	$40,000	Apr. 27, 1946
Poplar Grove	Boone	The Poplar Grove Bank	$35,000	$10,000	$5,000	Apr. 29, 1946
Chicago	Cook	Bank of Rogers Park	$200,000	$80,000	$20,000	Apr. 30, 1946

CHARTERS ISSUED

			Capital	Surplus	Reserve	Date
Chicago	Cook	Southmoor Bank of Chicago 6760 Stony Island Avenue William G. Zander, President Roy E. Evans, Cashier	$200,000	$25,000	$25,000	Apr. 5, 1946
Chicago	Cook	Chatham Bank of Chicago 7936-7940 Cottage Grove Avenue Walter J. Riley, President Frank H. Tinsley, Vice President and Cashier	$210,000	$25,000	$80,000	Apr. 10, 1946
Stronghurst	Henderson	Bank of Stronghurst Northeast Corner of Broadway and Main Streets Clarence E. Neff, President Howard E. Grigsby, Cashier	$35,000	$10,000	$7,500	Apr. 24, 1946
Northbrook	Cook	Northbrook Trust & Savings Bank 1901 Shermer Avenue Thomas R. Adams, President Henry B. Evans, Cashier	$50,000	$15,000	$10,000	Apr. 25, 1946

DISSOLVED

Findlay	Shelby	Farmers State Bank of Findlay (In liquidation May 31, 1927. Dissolved by order of the Circuit Court of Shelby County.)	Apr. 13, 1946
Pontiac	Livingston	Pontiac Loan and Trust Company (In liquidation June 14, 1930. Dissolved by order of the Circuit Court of Livingston County.)	Apr. 20, 1946
Winfield	DuPage	Winfield State Bank (In liquidation September 27, 1923. Dissolved by order of the Circuit Court of DuPage County.)	Apr. 22, 1946
Ottawa	LaSalle	Merchants and Farmers Trust & Savings Bank (In liquidation February 11, 1928. Dissolved by order of the Circuit Court of LaSalle County.)	Apr. 24, 1946

RECAPITULATION

State Banks in Chicago	21
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	448
Total	496

MONTHLY BULLETIN

Issued by

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

VOL. 22 SPRINGFIELD, ILL., JUNE 1, 1946 NO. 3

MANAGEMENT VS. CAPITAL

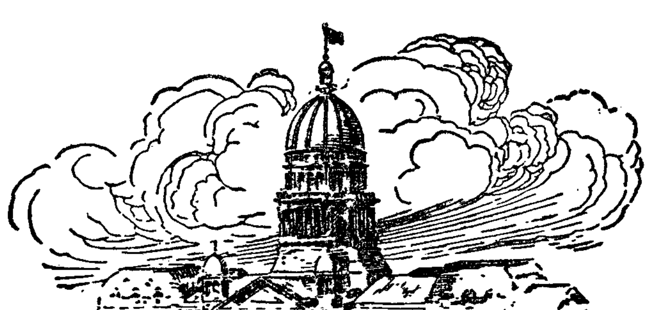
Throughout the past twenty years this Department has devoted special attention to State bank capital structures. During that period we have used every device available to encourage constant strengthening of capital positions.

Illinois State bank managements generally have been very generous in "plowing back" their earnings to build up their capital structures. In our last March BULLETIN we pointed out that the State Banks of Illinois left 72% of their 1945 earnings, after all charges, remain in their capital accounts. That, we contend, is a good record.

An interesting comparison arises here. The Comptroller of the Currency has just released National bank operating results for 1945. They show that net profits after all charges were 10.53% of Capital investment. Illinois State bank ratio was 10.18%.

National bank dividend distribution was 3.34% of Capital; Illinois State Bank 2.03%. National bank dividends were 31.76% of profits; Illinois State Banks 17%.

Good as it is, however, and despite the fact that heavy "plow backs" have been made in every year since the Moratorium, Capital structures have run a very poor second against the phenominal expansion in deposits that has taken place during the past ten years.



At the end of 1935, 599 Illinois State banks had a capital investment of 110 million dollars—a ratio of about 1 to 9. When 1945 closed, the number of banks had decreased to 490 with capital invested to the amount of 152 million dollars and liabilities to creditors of 3 billion 88 million dollars—ratio 1 to 20.

In 1935 the percentage of Illinois State bank resources invested in risk assets was 23. At the close of 1945, so called risk assets had dwindled to 12%. Or to put it another way around, money and money investments made up 77% of Illinois State bank resources in 1935. By the end of 1945 such liquidity had risen to 88% of resources and 91% of liabilities to creditors. This leaves 259 million of creditors' claims invested in 411 million of so-called risk assets; 391 million of which are loans.

One hundred fifty-two millions of capital funds attain considerable stature in that analysis. And many there are today who are measuring capital needs by that kind of a yard stick.

It is not our purpose, however, in this article to discuss standards of capital ratio.

We are convinced that most bank managements are inwardly aware of their capital needs and are striving to meet them with every means at their command. We are also aware that new bank capital is becoming increasingly available and that some of that capital may not prove to be a healthful tonic to the banking industry.

Capital in itself, while an indispensable factor in banking, is an inert thing without management to give it life and character, and this Department, within the limits of its authority and influence, is more interested in the ability and purpose of management than the amount of capital it can supply.

Not many years ago we had to make a choice between management and capital, the story of which vividly illustrates our point.

An Illinois State bank had greatly outgrown its capital structure. It was an excellent bank with a long and enviable operating record. Much of its growth was the result of business that came to it from outside its trade territory; attracted to it by the character of its management. We had made several representations to the Board of Directors concerning their capital deficiency which were met with only vague and indefinite responses. We finally invited the Board to confer on the subject.

Said the spokesman:

> "We cannot argue that we don't need more capital for we know that we do. We've done a lot of worrying about our lack of capital but what our group can raise is only a drop in the bucket to what we need. It looks like our bank has just outgrown us and that we are going to have to step aside and let somebody with enough capital come in and take over."
>
> "We can now report," he continued, "that such an arrangement can be made. We have been approached several times by a group of men from .... who want to buy the controlling interest in our bank. These men are capitalists interested in a number of enterprises and they are ready to step in and buy all of our stock and add an equal amount of new capital. This will mean of course, that our group, including our executive officers, will pass completely out of the picture."

He identified the interested "capitalists" and we knew them well through the borrowing operations of their numerous corporate enterprises, which, at that very moment, were giving us no little concern. And we could well understand their interest in this fine bank with its exploitable possibilities. This understanding gave us no relish whatever in the prospect of their taking over one of our good banks.

This incident furnishes a perfect illustration of the relative meaning of management and capital to a bank. Here we had a sound, well managed bank with a relatively small capital investment and an opportunity to strengthen its capital position twofold. A completely new management would come in and take over, but this would, in our opinion, so completely alter the character of the capital as to nullify its protective value to the bank's creditors even though the amount of capital was doubled. Naturally we discouraged the suggestion and the change never took place. The bank is still in a weak capital position but it is still a good and a much safer bank, in our opinion, than it would have been under the proposed management and twice their present capital.

Exaggerated capital requirements can also detrimentally affect new bank organizations. The ideal human ingredients for a new bank—business and professional men, farmers, and other constructive and progressive community elements are necessarily limited as to means available for bank capital. If they are pressed beyond their limit, there is a strong possibility that in their anxiety to obtain banking facilities that they will make two very unfortunate moves. The first will be to resort to pressure tactics in selling their stock, and the second will be to seek capital from sources that should be left out of community bank organization. There is simply no room in a community bank organization for "exploitation" capital and we have seen indications of increasing availability of that kind of capital.

Nothing in the foregoing should be construed to mean that this Department has altered its stand, in the slightest degree, as to the need for steady growth in all State bank capital structures. We do want it known, however, that our position is not so extreme or ruthless as to exclude, defeat or even hamper a much more important factor in bank operation such as sound, conservative management.

INTER-BANK CERTIFICATES

A type of bank transaction has come to our attention from time to time that we feel should be discussed in this BULLETIN, that is the deposit of funds by one bank with another on a "time" certificate of deposit basis.

This is neither a novelty nor common practice in the banking business. Years ago banks of easy scruples would lend money to one another through the medium of a certificate of deposit in order that the issuing bank would not have to show bills payable on its statement.

This is a stupid and useless maneuver, for if a bank borrows money from another and issues a time certificate of deposit instead of its corporate note the nature of the transaction is not altered in the least, but when the bank publishes a statement showing the loan as a deposit, the responsible person or persons are liable to severe punishment for publishing a false statement of condition.

During very recent years a modern version of such transactions has appeared in a few scattered sections of Illinois. We have found among the assets of several banks, time certificates of deposit issued by other banks, almost invariably in $5,000.00 denominations. This, of course, means that the purchasing bank bought a fully insured investment that carried an interest rate of 1 or 1¼ per cent.

Sometimes, in order to conceal its identity the purchasing bank will give the funds to an individual who will purchase a time certificate of deposit in his own name, and endorse it over to the purchasing bank.

These are not normal bank transactions and are subject to criticism from several angles.

The most important question, however, is whether they qualify as "insured deposits" under Federal Deposit law and regulations.

There are circumstances present in many of these time certificate of deposit transactions that would, in our opinion, furnish the Federal Deposit Insurance Corporation with good cause to deny them an insured status.

Inter-bank transactions of this nature are very questionable and should be discontinued.

PERMITS ISSUED

			Capital	Surplus	Reserve	Date
Capron	Boone	Capron State Bank	$25,000	$5,000	$2,500	May 15, 1946
Hamilton	Hancock	Security State Bank of Hamilton	$25,000	$5,000	$7,500	May 15, 1946

CHARTER ISSUED

			Capital	Surplus	Reserve	Date
Wenona	Marshall	Wenona State Bank 102 Chestnut Street E. Clark Harter, President R. J. Schmillen, Cashier	$50,000	$20,000	$10,000	May 10, 1946

BANKS DISSOLVED

Chicago	Cook	Builders and Merchants Bank and Trust Company (In receivership May 1, 1931. Dissolved by order of the Superior Court of Cook County.)	May 23, 1946
Chicago	Cook	Central Republic Trust Company (In receivership November 21, 1934. Dissolved by order of the Circuit Court of Cook County.)	May 24, 1946

RECAPITULATION

State Banks in Chicago	21
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	449
Total	497

MONTHLY BULLETIN

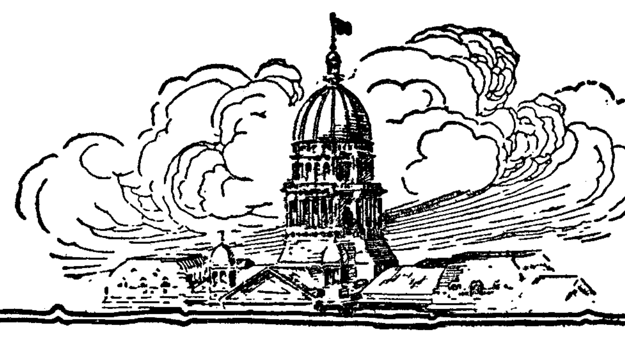
Issued by
ARTHUR C. LUEDER
AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

VOL. 22 SPRINGFIELD, ILL., JULY 1, 1946 NO. 4

CREDIT FILES FOR TOMORROW

We have been experiencing the days of easy money. The deposit accounts of old customers have been going along with balances from twice to many times more than were usually carried and many accounts having healthy balances have been opened by new customers. Funds on deposit have been available to meet almost any of their personal demands or the demands of their businesses. Credit advances have now been replaced by government bonds as the banks' principal asset and as the greatest single source of earnings. Many borrowers who were never considered prime credit risks and whose loans had been carried along from year to year and renewed periodically at the same amount or with little reduction, and in some cases with interest added to the principal, have now, in most instances, retired their indebtedness or at least made substantial reductions. Very seldom do our examiners now find the stagnant lines of credit which frequently appeared prior to 1941. With these favorable local conditions and the infrequent demands for credit advances, a laxness is occasionally observed with regard to credit files.

True, loans have dollarwise maintained their same level throughout the war years, but these advances are not all of the former type and purposes. Many are loans of a type and purpose peculiar to the war and to the conditions prevalent at present.



Very likely in the future, as heretofore, loans will again become the principal asset of banks. To protect these important assets, not only from the risk element but from an earning standpoint as well, an adequate credit file should be available.

It would seem that the normal demands for credit which are certain to come might be met in advance with actual knowledge and complete information as to prospective borrowers' affairs.

The intimate personal knowledge had by the many fine and capable bankers in this State, as to the affairs of their particular community and its people, is a quality for which no substitute has been found or is desired. With or without this quality, however, a complete and current credit file is an important source of information not only to the loaning officer but to the balance of the management as well, which includes the Board of Directors.

It is infrequent but not unusual for our examiners to find new and sizable advances supported only by a reference of the banker to the balance carried by this particular borrower in his deposit account. In some cases, the banker has appeared complacent in his reference to the customer's deposit balance, to the number of carloads of commodities shipped by him each day or week, or to the seemingly advantageous contracts into which he may have become a party.

While this is not a general condition, yet we feel that there have been too many cases where the banker has appeared mesmerized by the size of the borrower's deposit balance or by the volume of his business transactions. In enough cases to cause alarm, our examiners have found that those bankers have omitted some vital points of consideration, mainly the possibly accrued tax liabilities of the customer and actual knowledge of the terms and commitments of the contracts.

Credit files which in the past had reached a state of near completeness now cover only a small part of the bank's prospective, and, very likely, future borrowers. Many files have not been kept current, apparently due to improved financial conditions in the locality, while some have been discontinued entirely due to the drought of local loans and because of other factors such as lack of personnel.

It has come to our attention that a number of our bankers, and very likely there are others, have kept their credit information as current as possible since the lapse in the demands for credit advances. Consequently they have an up-to-date file on the financial condition and affairs of their customers. Not only do these files cover present borrowers, but financial statements and operating statements of former borrowers have been obtained regularly, likewise those of prospective borrowers have been solicited.

Credit information has been selected recently by the current year's Bank Management Committee of the Illinois Bankers' Association as one of the most urgent subjects for research.

In our bulletin of November 1, 1944, we spoke of bankers as credit merchants and injected the thought that as merchants they might equip themselves to extend credit or reject applications upon knowledge obtained in advance. We believe that the suggestion is again timely.

This might well be a practice and policy that should be established and pursued by most banks; at least, it is felt that the program is applicable and would be very worthwhile to many. Its consideration is recommended to all.

The loaning officer, through his knowledge of local affairs or through a discussion with his Board of Directors, could select a list of customers both old and new, who are likely to apply for credit. From there on it is a matter of education. Some who are approached will refuse to comply, but if the reasons are presented properly, many will co-operate and the files will become a valuable storehouse of credit information. How many successful business men would be so short sighted as to refuse if they were advised that the information supplied in advance might expedite a future application for needed credit?

Credit files to be of the maximum value must contain not only statements of a current date but past statements as well, in order that each borrower's progress may be observed. We believe that a banker, who has ceased to obtain successive statements from his borrowers through a feeling of futility or that the present conditions do not warrant assembling such information, is seriously neglecting a very important tool of his profession.

A file of credit information in order to be complete should contain supplementary information in addition to property statements. Annual profit and loss statements should be obtained from individual businessmen, corporations and partnerships. A comparative sheet might be used to record each borrower's progressive financial condition. Confidential memoranda, agency credit reports, directors' comments, and correspondence could well form a part of the file. Inventories and appraisals are important sources of information, and supervising authorities have stressed their need, especially, in connection with chattel mortgage loans.

Use one of the standard forms of financial and property statements which applies to the type and business of the customer. For example, supply houses, associations and groups of banks have prepared standard forms for individuals or partnerships doing business as merchants or manufacturers, for corporations, for individuals, for those engaged in farming, for stockmen, for applicants for personal loans, and for comakers, to mention those most generally used.

Most of the recognized standard forms have been designed from experience. The proper form is important for it is an aid and guide in obtaining complete and accurate information as to all assets and liabilities, direct and contingent.

Space is usually provided in order that real estate may be scheduled in detail including a brief legal description of each parcel and an indication as to how title is held; that is, in fee simple, jointly or as a life interest. Encumbrances, if any, are shown and notations are made as to whether or not the property is improved.

The space for contingent liabilities should not be *overlooked.*

Each statement should be dated and properly signed. Examine each statement for frequently they are found to be incomplete, not totaled or the addition is incorrect.

When it is ready to be placed in the files analyze the credit information that it contains and compare it with statements of previous years or record the data on a comparative sheet.

Impress upon your customers that credit information is confidential and by all means bear in mind that the credit files are not primarily for the benefit of bank examiners and supervising authorities.

PERMITS ISSUED

			Capital	Surplus	Reserve	
Ashkum	Iroquois	Ashkum State Bank	$30,000	$6,000	$9,000	June 22, 1946
Mt. Vernon	Jefferson	Mt. Vernon Bank and Trust Company	$100,000	$50,000	$50,000	June 27, 1946

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Hamilton	Hancock	Security State Bank of Hamilton 990 Broadway Street Donald R. Gordon, President G. P. Smith, Cashier	$25,000	$5,000	$7,500	June 13, 1946
Urbana	Champaign	Champaign County Bank and Trust Co. 102 East Main Street Clyde A. Webber, President E. E. Latowsky, Cashier	$100,000	$20,000	$40,000	June 27, 1946

BANKS PLACED IN LIQUIDATION

New Holland	Logan	New Holland State Bank	June 11, 1946
Table Grove	Fulton	Farmers State Bank of Table Grove	June 20, 1946

CONVERTED

Skokie	Cook	Niles Center State Bank to First National Bank of Skokie	June 1, 1946

CONSOLIDATED

Peoria	Peoria	First Trust and Savings Bank of Peoria (In liquidation November 3, 1930) and The First National Bank of Peoria, under the title "The First National Bank of Peoria"	June 15, 1946

TRUST CERTIFICATE ISSUED

			Deposit	
River Forest	Cook	River Forest State Bank	$50,000	June 25, 1946

BANK DISSOLVED

Chicago	Cook	South Side Savings Bank & Trust Co. (In receivership July 24, 1931. Dissolved by order of the Circuit Court of Cook County)	June 19, 1946

RECAPITULATION

State Banks in Chicago	21
State Banks in Cook County outside Chicago	26
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Total	496

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VOL. 22 SPRINGFIELD, ILL., AUGUST 1, 1946 No. 5

TWELVE MONTHS REVIEWED

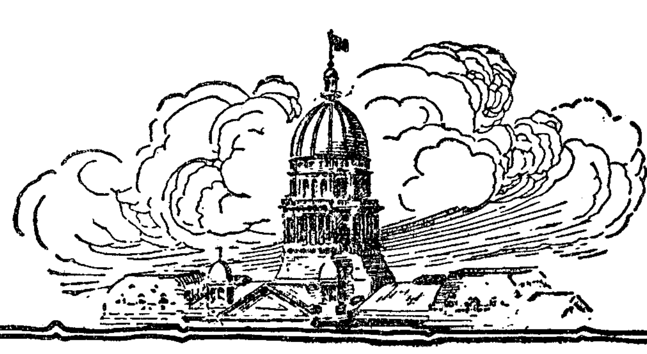
The inner two pages of this bulletin are devoted to projections and comparisons of the consolidated figures taken from each of the quarterly Call Reports since and including the Call of June 30, 1945 and ending with the Call of June 29, 1946.

From a review of the tabulations, it is observed that the peak figures for total resources and also for total deposits appear in the tabulation of the December 31, 1945 report.

Time deposits and total capital structure show constant gains throughout the year, although decreases were the general trend in resource accounts and in deposit totals for three periods, the first, third and fourth. Gains were general in all accounts for September to December of 1945, more than offsetting the downward trends of the other three periods.

During the final quarter, March to June of 1946, total deposits dropped a net of 52½ million dollars. Deposits of the United States Government decreased 153 million dollars, however, demand deposits of others than the United States Government increased 73 million and time deposits gained 34½ million while due to bank accounts shrank somewhat less than 7 million. The 153 million dollar drop in deposits of the United States Government more than accounted for the 148 million decrease in secured deposits.

For the entire year, total resources increased 89 million dollars, the principal changes being increases of over 14 million in U. S. Government bonds and nearly 80 million in loans and discounts. Total deposits increased a net of 76½ million dollars despite a drop of 222 million in government deposits. Capital accounts and other liabilities increased 10½ million and 2 million, respectively.



REVIEW OF CALL REPORTS

COVERING AI ILLINO' STATE BANKS

NUMBER OF BANKS	487	Increase or Decrease	490	Increase or Decrease	490	Increase or Decrease	492	Increase or Decrease	496
DATE OF CALL	June 30, 1945		Sept. 21, 1945		Dec. 31, 1945		March 23, 1946		June 29, 1946
RESOURCES:									
Cash and Due from Banks	$630,816,671.22	$—8,269,414.50	$ 622,547,256.72	$ +99,732,955.33	$ 722,280,212.05	$—88,139,473.03	$ 634,140,739.02	$ —4,101,686.87	$ 630,039,052.15
Outside Checks and Other Cash Items	19,296,919.15	—4,463,053.71	14,833,865.44	+1,998,941.46	16,832,806.90	—2,057,074.47	14,775,732.43	+3,017,616.90	17,793,349.33
U.S. Governments—Direct & Guaranteed	1,772,911,719.81	—48,252,086.15	1,724,659,633.66	+101,967,372.30	1,826,627,005.96	+34,510,185.60	1,861,137,191.56	—73,859,795.06	1,787,277,396.50
Other Bonds, Stocks & Securities	253,494,527.87	—2,633,946.75	250,860,581.12	+13,233,356.61	264,093,937.73	—4,902,503.91	259,191,433.82	—8,559,788.45	250,631,645.37
Loans and Discounts	338,385,866.67	—5,636,736.86	332,749,129.81	+58,879,692.34	391,628,822.15	—5,499,644.33	386,129,177.82	+32,213,579.16	418,342,756.98
Overdrafts	94,340.93	+48,225.51	142,566.44	—18,618.42	123,948.02	+79,658.32	203,606.34	—54,006.92	149,599.42
Banking House, Furniture & Fixtures	9,979,611.24	—389,660.19	9,589,951.05	—268,142.80	9,321,808.25	—61,907.54	9,259,900.71	+75,845.62	9,335,746.33
Other Real Estate	175,223.45	+2,677.48	177,900.93	—27,197.27	150,703.66	—37,514.28	113,189.38	—47,390.76	65,798.62
Customers' Liability—Letters of Credit	1,202,404.51	+1,458,842.67	2,661,247.18	—1,040,898.90	1,620,348.28	—480,960.02	1,139,388.26	+1,277,666.23	2,417,054.49
Customers' Liability—Acceptances	35,777.20	+101,544.46	137,321.66	+171,084.60	308,406.26	+48,892.35	357,298.61	+216.34	357,514.95
Other Resources	7,656,078.40	—2,036,092.22	5,619,986.18	+1,718,257.71	7,338,243.89	—1,446,851.88	5,891,392.01	+1,034,266.70	6,925,658.71
GRAND TOTAL RESOURCES	$3,034,049,140.45	$—70,069,700.26	$2,963,979,440.19	$+276,346,802.96	$3,240,326,243.15	$—67,987,193.19	$3,172,339,049.96	$—49,003,477.11	$3,123,335,572.85
LIABILITIES:									
Capital Stock	$44,093,050.00	$ —145,000.00	$43,948,050.00	$ —50,000.00	$43,898,050.00	$ +505,000.00	$44,403,050.00	$ +445,000.00	$44,848,050.00
Income Debentures	598,650.00	----------	598,650.00	—11,000.00	587,650.00	—4,000.00	583,650.00	—1,000.00	582,650.00
Surplus	47,752,400 00	+170,000.00	47,922,400.00	+1,690,500.00	49,612,900.00	+132,000.00	49,744,900.00	+976,200.00	50,721,100.00
Undivided Profits (net)	24,390,540.30	+2,649,580.45	27,040,120.75	—1,104,150.84	25,935,969.91	+1,338,107.58	27,274,077.49	+2,890,030.89	30,164,108.38
Reserve Accounts	31,582,562.28	+810,699.39	32,393,261.67	+554,191.04	32,947,452.71	+1,229,765.90	34,177,218.61	—1,462,963.15	32,714,255.46
TOTAL CAPITAL STRUCTURE	$148,417,202.58	$+3,485,279.84	$151,902,482.42	$+1,079,540.20	$152,982,022.62	$+3,200,873.48	$156,182,896.10	$+2,847,267.74	$159,030,163.84
Demand Deposits	$1,996,790,835.54	$—114,261,440.75	$1,882,529,3[illegible]	$+210,6[illegible]3.68	$2,093,223,838.47	$—79,238,625.53	$2,013,985,212.94	$—80,420,941.88	$1,933,564,271.06
Time Deposits	712,045,572.26	+44,678,296.24	756,723,[illegible]	+44,[illegible]8.15	801,029,286.65	+24,399,093.74	825,428,380.39	+34,575,457.47	860,003,837.86
Due to Banks	171,352,842.18	—5,053,812.59	166,299,0[illegible]	+20,7[illegible]1.95	187,070,881.54	—16,925,949.70	170,144,931.84	—6,792,966.68	163,351,965.16
TOTAL DEPOSITS	$2,880,189,249.98	$—74,636,957.10	$2,805,552,292.88	$+275,771,713.78	$3,081,324,006.66	$—71,765,481.49	$3,009,558,525.17	$—52,638,451.09	$2,956,920,074.08
Bills Payable	----------	$ +100,000.00	$ 100,000.00	$ —100,000.00	----------	$+700,000.00	$ 700,000.00	$ —700,000.00	----------
Rediscounts	----------	----------	----------	----------	----------	----------	----------	----------	----------
Dividends Unpaid	$ 549,018.15	—356,224.70	192,793.45	+170,169.35	$ 362,962.80	—139,826.10	223,136.70	+47,360.58	$ 270,497.28
Letters of Credit	1,210,217.01	+1,451,050.92	2,661,267.93	—1,040,569.65	1,620,698.28	—480,960.02	1,139,738.26	+1,283,666.23	2,423,404.49
Bank Acceptances	35,777.20	+101,544.46	137,321.66	+171,084.60	308,406.26	+48,892.35	357,298.61	+74,487.70	431,786.31
Other Liabilities	3,647,675.53	—214,393.68	3,433,281.85	+294,864.68	3,728,146.53	+449,308.59	4,177,455.12	+82,191.73	4,259,646.85
TOTAL OTHER LIABILITIES	$5,442,687.89	$+1,081,977.00	$6,524,664.89	$—504,451.02	$6,020,213.87	$+577,414.82	$6,597,628.69	$+787,706.24	$7,385,334.93
GRAND TOTAL LIABILITIES	$3,034,049,140.45	$—70,069,700.26	$2,963,979,440.19	$+276,346,802.96	$3,240,326,243.15	$—67,987,193.19	$3,172,339,049.96	$—49,003,477.11	$3,123,335,572.85
ANALYSIS:									
Deposits Secured by Pledge	$ 508,534,678.59	$—194,084,273.74	$ 314,450,404.85	$+175,181,827.83	$ 489,632,232.68	$—46,578,298.32	$ 443,053,934.36	$—148,084,568.65	$ 294,969,365.71
Deposits Not Secured by Pledge	2,371,654,571.39	+119,447,316.64	2,491,101,888.03	+100,589,885.95	2,591,691,773.98	—25,187,183.17	2,566,504,590.81	+95,446,117.56	$2,661,950,708.37
TOTAL—DEPOSITS	$2,880,189,249.98	$—74,636,957.10	$2,805,552,292.88	$+275,771,713.78	$3,081,324,006.66	$—71,765,481.49	$3,009,558,525.17	$—52,638,451.09	$2,956,920,074.08
Banking House	$8,898,299.57	$—255,775.39	$8,642,524.18	$—207,492.29	$8,435,031.89	$—114,233.34	$8,320,798.55	$ —81,144.90	$8,239,653.65
Furniture & Fixtures	1,081,311.67	—133,884.80	947,426.87	—60,650.51	886,776.36	+52,325.80	939,102.16	+156,990.52	1,096,092.68
TOTAL—BANKING HOUSE, FURNITURE & FIXTURES	$9,979,611.24	$—389,660.19	$9,589,951.05	$—268,142.80	$9,321,808.25	$—61,907.54	$9,259,900.71	$+75,845.62	$9,335,746.33
Commercial Paper	$ 7,160,487 23	$ +80,302.36	$ 7,240,789.59	$ +9,233,526.69	$ 16,474,316.28	$ +420,681.19	$ 16,894,997.47	$ —5,860,797.67	$ 11,034,199.80
Collateral Loans	106,365,866.72	+49,990,249.58	156,356,116.30	+22,109,738.54	178,465,854.84	—16,971,709.65	161,494,145.19	—85,269.55	161,408,875.64
Other Loans	152,477,029.12	—55,955,047.32	96,521,981.80	+22,308,555.24	118,830,537.04	+6,916,300.67	125,746,837.71	+30,058,678.06	155,805,515.77
Farm Loans	10,841,053.08	+338,377.52	11,179,430.60	—693,537.89	10,485,892.71	+1,139,184.18	11,625,076.89	+1,147,552.93	12,772,629.82
Other Real Estate Loans	61,541,430.52	—90,619.00	61,450,811.52	+5,921,409.76	67,372,221.28	+2,995,899.28	70,368,120.56	+6,953,415.39	77,321,535.95
TOTAL—LOANS AND DISCOUNTS	$338,385,866.67	$—5,636,736.86	$332,749,1[illegible] 81	$+58,87[illegible]92.34	$391,628,822.15	$—5,499,644.33	$386,129,177.82	$+32,213,579.16	$418,342,756.98

PERMIT ISSUED

			Capital	Surplus	Reserve	
Tampico	Whiteside	Peoples State Bank	$33,500	$8,000	$5,400	July 30, 1946

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Poplar Grove	Boone	The Poplar Grove State Bank Lot 21, Woodward's Addition Omar B. Wright, President Donnell R. Stott, Cashier	$35,000	$10,000	$5,000	July 9, 1946
Homewood	Cook	Bank of Homewood 2034 Ridge Road George M. May, President W. S. Mason, Cashier	$50,000	$10,000	$15,000	July 12, 1946

CAPITAL STOCK INCREASED

Pecatonica ---- Winnebago ---- Bank of Pecatonica from $25,000 to $50,000 ---- July 18, 1946

BANK PLACED IN LIQUIDATION

Wenona ---- Marshall ---- The First State Bank of Wenona ---- July 10, 1946

TRUST CERTIFICATE ISSUED

			Deposit	
Urbana	Champaign	Champaign County Bank and Trust Co.	$50,000	July 5, 1946

BANKS DISSOLVED

Evanston	Cook	Illinois State Bank of Evanston (In liquidation July 29, 1931)	June 28, 1946
Chicago	Cook	Unity Trust & Savings Bank (In receivership December16, 1932. Dissolved by order of the Circuit Court of Cook County)	July 2, 1946
DesPlaines	Cook	DesPlaines State Bank (In receivership August 3, 1931. Dissolved by order of the Circuit Court of Cook County)	July 22, 1946

RECAPITULATION

State Banks in Chicago	21
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	449
Total	497

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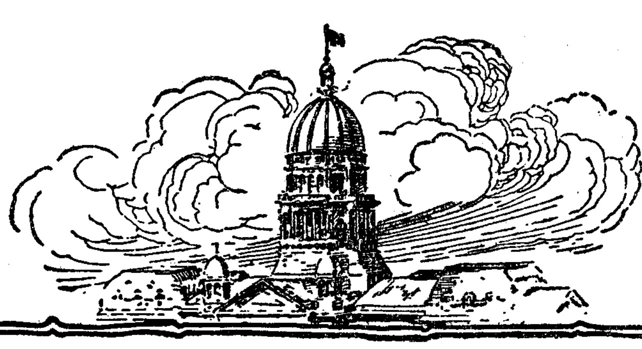
VOL. 22 SPRINGFIELD, ILL., SEPTEMBER 1, 1946 NO. 6

THE FUTURE?

In our last BULLETIN, that of August 1, 1946, comparative figures of the last five call reports were published. The tabulations covered the activity in accounts for the past twelve months. Many interesting trends were presented by the figures and suppositions could be gained from them in attempts to foresee the future of banking. Shifts in the asset accounts indicated that loans were being favored over government bonds as investments; activity in liabilities showed a change in the ownership of deposits, funds of the U. S. Treasury being withdrawn while private deposits increased; and that capital structures were being strengthened.

The tabulations presented only a cold comparison of net increases or net decreases that occurred during the final stages of an unusual financial condition peculiar to the war and whose ebb was certain, expected and is now in evidence. Banking is once more changing its course but the direction as yet cannot be ascertained from the comparisons, as the projection does not extend far enough into postwar problems and trends.

What decline is to be expected in deposits? To what extent will banks participate in consumer financing? Does the increase in loans and discounts, while savings deposits as well as the demand balances of individuals are on the



increase, indicate that "borrow rather than pay cash," as advocated by some financial agencies, may have caught the public's fancy? Will subsidies in the form of guarantees become the opening wedge for the centralization of banking in the Government as some critics believe? In the event that our banks are vulnerable and especially in case of a recession, from what source is trouble likely to arise? These are some of the many questions in the minds of bankers. As yet they cannot be answered, in fact, the trends at this time serve only to strengthen the theories of some and to discount those of others.

While the course as yet cannot be determined with accuracy by the limited projection of figures, further analysis of the statements of Illinois State banks indicate that they are in an even more favorable condition and reflect many unusual accomplishments when supplemented by additional figures which were not detailed in the published comparison. Some escaped the casual observer and others were not evident because of the omission of this supplemental detail.

The statement in our BULLETIN of June 1, 1946, "We are convinced that most bank managements are inwardly aware of their capital needs and are striving to meet them with every means at their command," is further strengthened by a recent analysis.

The 496 Illinois State banks reported on June 29, 1946, a combined capital structure of 159 millions of dollars. Of the 496 banks, 447 were chartered prior to, and reopened following the moratorium of 1933. Their combined capital structure upon reopening aggregated \$84½ million. Since the moratorium, 49 new banks have been chartered. The combined capital dedication of these banks amounts to \$3½ million, so that the 496 present day Illinois State banks resumed or started business since 1933 with an aggregate capital structure of \$88 million. In the intervening thirteen years the combined capital structure of the present 496 banks has been strengthened by \$71 million. Other than the capital dedications for new banks, cash subscriptions to capital structure in their aggregate are not such that they greatly influence these figures. It, therefore, can be said that approximately \$71 million, or an 80 per cent increase in capital structure since 1933 has resulted from undistributed income, a conservative attitude having been the general policy in Illinois State banks towards the payments of cash dividends to stockholders.

Prior to or immediately following the moratorium, 334 Illinois State banks issued deferred certificates to waiving depositors and to other contributors, thereby accumulating a liability of over \$36 million against future net operating profits.

Deferred certificates were issued to two types of creditors; (1) waiving depositors, and (2) other contributors. Every Illinois State bank which issued deferred certificates to waiving depositors has made at least a partial payment on such liability and only one bank has not as yet retired or reduced its liability to other contributors. There is, however, a difference in the moral obligation of the two types of deferred liabilities, deferred certificates to waiving depositors carrying the greater since they are obligations due to the public while those to contributors usually represented some modified form of a stock assessment and because of the nature of the latter they were usually subordinated to the deferred liabilities of the public.

Of the 496 Illinois State banks operating on June 29, 1946, 256 participated in the issuance of deferred certificates, totaling \$30,900,644.26, the unretired portion of which on June 29, 1946, had been reduced to \$4,132,922.68; 201 having retired obligations in full of \$21,072,368.75 and the remaining 55 having repaid \$5,695,352.83 on their aggregate total of \$9,828,275.51.

Illinois State bankers apparently are aware of the small salvage value of single purpose bank buildings as well as the rapid rate of depreciation and obsolescence on equipment. They have with few exceptions generously used earnings for the depreciation of these items. Practically all have a program of applying reoccurring depreciation charges against fixed assets and many have accelerated their rate of depreciation or have applied additional sums as write-downs against the book values of these items.

As of June 29, 1946, seventy-four Illinois State banks reported their banking houses at the carrying figure of one dollar each, two reported fifty cents each and one carried its building at one cent while a number of others also owning their banking quarters were among the seventy-five that had no carrying value for this item. One hundred and twenty-six have reduced furniture and fixtures to the carrying figure of one dollar each and three are reported at fifty cents. Very few lease their furniture and fixtures and it is doubtful if any fail to own some item of equipment, yet eighty report nothing for the carrying value of such property.

Other real estate, which for obvious reasons has been an unsatisfactory bank asset, was reported on June 29, 1946, by the 496 Illinois State banks at an aggregate carrying value of \$65,798.62. Not since the Banking Act of 1888 placed the supervision of State chartered banks in the office of the Auditor of Public Accounts has the carrying value of this item been as small. The Act became effective December 6, 1888, and twenty-six banks answered the first call for report of condition, that of February 15, 1889. They showed combined resources of \$34¼ million of which \$502,987.83 was the aggregate of real estate other than banking houses in the seventeen reporting this asset. As a general rule each succeeding call report indicated that in the aggregate, acquisitions of other real estate exceeded disposals and write-downs. This account grew progressively from slightly under \$4 million in the early 1920's to nearly \$14 million in March of 1929. At the close of 1932, just preceding the moratorium in 1933, this asset aggregated \$15½ million. The highest figure, \$16,813,308.43, was reached in the call report of September 29, 1934. It then settled around \$12 million until in 1936 a steady decline began which ran very close to \$2 million in each of the five succeeding years and 1941 ended with the combined book value under \$4 million. Since then reductions to the present \$65 thousand have been steady although obviously at a smaller annual rate.

The strengthening of capital structures, the reductions in the carrying values of fixed assets and the elimination of other real estate are all favorable factors for meeting the challenges of the future. These and the retirement of deferred certificates are some of the accomplishments for which Illinois State bankers deserve to be commended. Although conditions and situations arising from war activities made much of them possible, they did not result without individual efforts by officers, directors and employees.

CHARTER ISSUED

			Capital	Surplus	Reserve	
Capron	Boone	Capron State Bank S.E. Corner Fourth and Main Streets Einar V. Petersen, President Nels H. Gutteboe, Cashier	$25,000	$5,000	$2,500	Aug. 12, 1946

TRUST CERTIFICATE ISSUED

			Deposit	
Shelbyville	Shelby	Shelby County State Bank	$50,000	Aug. 2, 1946

BANKS DISSOLVED

New Holland	Logan	New Holland State Bank (In liquioation June 11, 1946)	July 25, 1946
Wenona	Marshall	The First State Bank of Wenona (In liquidation July 10, 1946)	Aug. 1, 1946
Barrington	Cook	First State Bank of Barrington (In receivership February 25, 1932. Dissolved by order of the Circuit Court of Cook County)	Aug. 13, 1946

RECAPITULATION

State Banks in Chicago	21
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	450
Total	498

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

VOL. 22 SPRINGFIELD, ILL., OCTOBER 1, 1946 NO. 7

"EXERCISE THRIFT NOW TO TEMPER EFFECTS OF NEXT DEPRESSION"

WARNS STATE AUDITOR ARTHUR C. LUEDER

"Unless immediate steps are taken to encourage and help American workers conserve the assets which they now possess, the next depression will strike our peacetime economic structure a devastating blow that may have a paralyzing effect as great if not greater than war itself," was the warning issued in a speech prepared by State Auditor Arthur C. Lueder of Illinois for delivery before delegates to the National Association of Supervisors of State Banks convention at Cleveland on September 19th.

Discussing the general nationwide unrest due to an unsteady economy, Lueder said: "Man-made legislation and Federal regulations are not the complete answer to the chaotic conditions which we face in this nation today. Federal regulations may be deterrents to a stabilized economy as well as incentives. The law of God and Nature, which is the law of supply and demand, must not be ignored if we are to put our economic house in order." Then the Illinois State Auditor told the delegates: "The span of life of our present synthetic prosperity is any man's guess. While it is a creature of war, the onslaught of its sequel—depression—can be as devastating as the war itself. We paid a staggering price in lives and money to win the war. One of its many compensations was its lesson in thrift as a guide for the future. We must not overlook the fact that it was thrift as practiced in the 80's and the 90's that made us the most potent force in all the world. If we are to continue to be the leading world power, we must again strengthen the fibres of our great nation by exercising thrift and spending our assets judiciously, whether they are expended by a housewife or a government official."

Lueder further emphasized his point, saying: "The pendulum of prosperity will swing backward as surely as it swung forward. Dependent upon our vigilance, it can strike a resounding blow that would cripple the economic structure of our country for years to come. Its force can be greatly lessened and its impact cushioned, if we take precaution and action now to avert it. American working men and women for the first time in our history hold the key to warding off the paralyzing effects of another depression. This key is the judicious preservation of the assets which are now theirs."

The full text of State Auditor Arthur C. Lueder's speech will be found on the succeeding pages of this bulletin.

BANK SUPERVISION—AS I SEE IT

Mr. President—Distinguished Guests:

It is indeed a great pleasure to join with you—my fellow State Bank Supervisors—in this convention; and an added privilege to respond to your kind invitation to address this gathering.

It has been regrettable to me that I have not been able to join you personally before this, due to the demands of my office which are numerous, varied and frequently relentless, but as you know, I have always been well represented at these meetings.

State bank supervision in Illinois, while one of the most important, is only one of a lengthy list of duties assigned by law to the Auditor of Public Accounts. It is an elective office and I am now in the second year of my second term.

When Illinois was young, the office of Auditor of Public Accounts was just what the title implies. Through the ensuing years, however, as our Legislature found it necessary to establish legal jurisdiction over quasi-public financial institutions, it seems to have become a habit to delegate jurisdiction to my office.

Today it has expanded to a point where its jurisdiction embraces State banks, trust companies, trust departments of both State and National banks, building and loan associations, credit unions, currency exchanges, title guarantee companies, dealers in foreign exchange and pawners' societies. My office also directs all receivership liquidation involving practically all of the foregoing, audits State institutions, keeps books for the State, audits and issues on an average of 275 thousand State warrants every month, in addition to which I am Land Commissioner and there are a number of boards and commissions on which I am required by law to serve.

At the outset, I should like to disavow any claim to expert or professional knowledge of the banking business. I have never engaged in, nor been identified with commercial banking in any capacity.

My entire business career has been devoted to real estate development and financing; with the exception of 12 years during which I served as Postmaster of the City of Chicago and as Central Accounting Postmaster for Illinois. For over forty years I have dealt continuously with banks and from that experience I have developed a typical business man's knowledge and concept of banking. I should like to remark in passing that I have discovered a marked difference between the business man's concept of bank operations and that of the supervisor. The business man's interest in bank operations centers on its effect on the community, while the supervisor's interest centers, almost entirely, on its effect on the bank.

I also shared the ordinary business man's misconception of the duties and powers of the Auditor of Public Accounts with respect to State bank supervision.

In the view of the general public, the Auditor of Public Accounts is clothed with autocratic powers over State banks. His word is supposed to be law. His office is visualized as a mysterious power working behind the scenes; knowing all, seeing all and holding the solution to all bank problems. With all of these imagined powers and facilities he is supposed to insure the proper operation and solvency of all banks operating under his jurisdiction.

Certainly such illusions should have been thoroughly dispelled during the early thirties, but I know that not only the general public but professional people and even some bankers cling to them today. The proof of this is in my mail.

A private citizen will write me requesting my order against a bank to stop charging him a rate of interest that he thinks is usurious. Another will ask me to adjust a disputed bank balance in his favor.

A lawyer will outline a client bank's problem, state his carefully considered conclusion and ask my approval such as he would seek a final adjudication from the Supreme Court.

A banker will write citing a special set of circumstances that require a loan secured by a second mortgage, requesting my consent to the transaction.

Another will ask what proportion of his resources I will permit him to invest in real estate loans, or cattle paper, or loans secured by accounts receivable.

Still another will describe in detail the cramped condition of the bank's quarters and seek my permission to make the necessary enlarging alterations.

To those of you who are not encountering the same experiences, what I have just said doubtless sounds ridiculous. Let me assure you that it is only a small sample of the appeals that come to me to exercise official authority that I do not possess under the law.

As I said a moment ago, I shared these popular illusions, to some extent, and as a result I approached the office with some apprehension over the banking phase of the work I was about to undertake.

Then I read and analyzed the Illinois Banking Act—and here is what I found:

The Auditor of Public Accounts is charged by law with the following principal duties and responsibilities:

No. 1 To inspect all organization proceedings and see to it that every requirement of the law has been met before issuing a charter.

No. 2 To keep fully informed on the condition of every State bank through actual examination at least once a year and through quarterly condition reports.

No. 3 To take certain steps when a bank's capital becomes impaired, or when cash means become insufficient to meet current demands, or when a bank is found to be conducted in an illegal, fraudulent or unsafe manner.

I also found that management powers are vested exclusively in the board of directors; with no other limitation than the charter powers of the bank.

But I still clung to my illusions. Thinking that perhaps there were rules and regulations from which the Auditor could draw the additional powers necessary to enlarge his official stature to meet popular fancy, I looked for them and found no authority in the law for any such rules or regulations.

By this time I was thoroughly disillusioned and quite puzzled; so I made an objective study of the Illinois Banking Act to learn precisely what jurisdiction the Illinois Legislature wanted the Auditor of Public Accounts to exercise over our State Banks. And when I say the Legislature, I must include the voting citizens of Illinois, because no Act of our Legislature governing State Banks is valid without the ratification by a referendum held at a general election.

From this study I reached the following conclusion:

First—That the citizens of Illinois want their State Banks established as community enterprises, with minimum capital requirements fixed according to population.

Second—That they want all managerial authority and responsibility to rest with the board of directors.

Third—That they want the Auditor of Public Accounts to keep fully informed upon the condition of every State bank and stop the operation of any that become unsound or operate illegally or fraudulently.

Those are my essential duties under the banking law of Illinois and there is not the slightest hint in that law of so-called supervisory duties or authority as far as operating State banks are concerned. I have searched for implications in that direction and if any are to be found they are in rather the opposite direction.

The State Auditor does have supervisory duties in connection with the organization of a State bank and those duties are clearly specified. He also has complete supervision over State banks in receivership and those duties are likewise plainly enumerated.

I can see no other legislative intentions expressed in the law than these:

That the State Auditor shall carefully supervise State bank organization.

That when he issues a bank charter complete control of and responsibility for the bank's operation passes to the board of directors elected by the stockholders.

That the State Auditor should hold himself completely aloof from and remain uninvolved in the operation of the bank until he finds it to be in an unsafe condition or operating fraudulently or illegally.

And there is sound logic in that. How can the State Auditor act against a bank that has been operating under his own guidance? How can the State Auditor infience operational policies of banks operating under his jurisdiction without assuming responsibility for the results?

There are persons, including some bankers, who feel that my office should take a paternal interest in the State banks under its jurisdiction and guide them along righteous paths with counsel and advice—admonishing, chiding, and forbidding this, that or the other where necessary; studying their problems and generally keeping a firm guiding hand on their operations.

If advisory service were needed and unavailable, it should be developed, of course; but in Illinois it is already available through the Illinois Bankers Association.

That excellent organization has a full-time staff of able and experienced people who devote all of their time to study and research in the field of banking; in addition to which they have a fine legal department.

That organization is capable of rendering legal, statistical and advisory services to its members far superior to anything that my department could or should attempt.

I cannot escape the thought that there may be bankers who like to operate behind official skirts. The theory behind this paternal interest is

that it will prevent weak bank managements from getting into trouble and thus avoid closed banks and receiverships.

This theory, however, is unacceptable in that it won't work. I know from my own experience and that of my predecessors that bank failures will occur from time to time in spite of anything that I or any other governmental agency can do to prevent them.

In the second place, should my office engage in the kind of activities that the theory calls for, would it not share with bank managements responsibility for the results? And I am certain that Illinois law does not contemplate my assuming any such responsibility. And then, too, such activities are, to my mind, an unfair reflection upon the ability and integrity of the banking business as a whole.

Permit me to dwell for a moment on that last conclusion. Banks and bankers have won for themselves a position of much dignity in our social and economic scheme. And I say this despite the fact that a dozen years ago they were officially cast out of the temple, saddled with almost sole responsibility for the world-wide depression.

We Americans are an impatient and impulsive people. When something goes wrong with the machinery, whether in our automobiles or in our economy, we are quick to indict. Our saving grace is that we try slowly and fairly.

We have seen most of our banks come through the depression successfully and when the great war emergency came upon us, we found them as ready, alert and efficient as any other factor in our war potential.

And may I add just a word about our bank failures of the early thirties? We had a lot of them in Illinois and my office supervised their liquidation through receivership. That job is just about complete and within the past thirty days the receivership office handed me some figures that show that when the final creditors' distribution check goes out, our average failure will have paid to its creditors nearly 70% of their claims.

I retain considerable respect for a business when its failures can go through three or four years of depression, then through receivership and still pay the creditors 70 cents on the dollar.

During the depression years, when we were all chafing and fretting under our load of troubles, I, more than once, heard it suggested that we place our banking industry under the strict governmental regulation employed by a number of other nations—where presumably bank failures simply could not happen. Well—when one compares means employed, one should also compare results obtained.

One hundred years ago—and a century is a relatively brief period of history—the Mississippi Valley was largely in the pioneering stage and banks and bankers were among the pioneers who stayed and grew up with the country. Today that same Mississippi Valley is an agricultural and industrial empire and I challenge anyone to show me a nation, where banking is almost a purely governmental function, that can compare with its growth, development and all-around accomplishments.

I have lived all of my life—seventy years—in Illinois and have been an eye-witness to much of the astounding progress whereof I speak.

In my view, Illinois banking law is designed to develop and encourage the genius of good, sound, constructive banking and stop bad banking.

Now, in concluding the first phase of my discourse, I don't want any of you to think that I have hauled down our State flag as far as our State banks are concerned. My purpose is to hoist that flag where it properly belongs; and that is in the field of bank examination.

I said a moment ago that I could find no implications in the law granting supervisory powers to my office over bank operations. On the other hand, the Illinois Banking Act is very definite and emphatic in the matter of bank examination.

Permit me to quote here that portion of the Act pertaining to State bank examination:

"The Auditor of Public Accounts, as often as he shall deem necessary or proper, and at least once in each year, shall appoint a suitable person or persons to make an examination of the affairs of every bank established under the provisions of this Act, which person shall not be a stockholder or officer or employee of any bank which he may be directed to examine, and who shall have power to make a *thorough* examination into all the affairs of the bank, and in so doing to examine any of the officers or agents or employees thereof on oath, and shall make a full and detailed report of the condition of the bank to the Auditor."

There is a lot of emphasis in that word "thorough", and there is added emphasis in that grant of authority to the Auditor or any of his examiners to place agents, officers and employees under oath for the purposes of the examination.

Certainly here is a Legislative directive that needs no interpretation. The command and the authority to execute that command are as clear and complete as language can make them.

And right here, gentlemen, is where I, not as a bank supervisor, but as an administrator of banking law, can do the most constructive work for the State banks of Illinois.

For nearly 25 years the State Auditor's office has made a practice of sending to our State banks copies of their examination reports for the information of directors and officers; and we take special pains to see that each director sees and studies that report.

Now, I am confident that if our examination reports are accurate, thorough and properly presented to our State bank managements, that such corrective action as each examination shows to be necessary will be taken.

My job is to establish and justify confidence in the findings of these examinations. Obviously my first step is to select examiners who know how to properly conduct a bank examination. If I would send an examiner in to examine a bank and he were officious, ill-tempered, hypercritical, biased in his approach and cursory in his work, neither the bank nor my office could accept his report of conditions with any degree of confidence whatever.

On the other hand, if the examiner is fair, unbiased and entirely objective in his approach, logical, reasonable and tactful in his contacts with the management of a bank under examination, if he will withhold opinions and search for facts and build his report upon facts instead of opinions and notions, his report will be accepted with confidence both by the board of directors and my office.

If the disclosures of such an examination call for major corrections and they are ignored by a board of directors, a foundation is being laid for statutory action on my part that will put an unsafe bank out of operation.

Statutory action based on opinion is always risky and usually unjust—based upon facts it is just and will be sustained. And facts are generally obtainable.

In the examination of State banks in Illinois, I can be uncompromising and persistent in my search for facts that will establish bank conditions and the law will sustain me in any action I may feel required to take to obtain them.

Every bank transaction, every bank asset, every phase and feature of a bank's condition has its underlying facts. When these facts are brought out and assembled, they are beyond the field of argument.

I am convinced that as I increase the thoroughness and efficiency of my bank examinations, and improve the technique of exhibiting the findings thereof to State bank directors, I will at the same time steadily diminish the field of controversy and dispute. As this field diminishes, the need for so-called supervisory activities on my part will diminish with it.

It is only in that field of controversy and dispute where there is a difference, that a so-called supervisor has to seek power and authority to enforce his will against those who oppose or differ with him.

I am persuaded that the State bankers of Illinois want sound banks, that they are watching the condition of their banks closely and that my examination reports are being carefully studied and constructively used.

I am also mindful of the fact that the genius of banking is not working in my office but out in our five hundred State banks, with more than three billion dollars in resources, where it properly belongs; and that I will serve my State well in allowing that genius to develop and improve the usefulness of the banking industry to its citizens.

And if, perchance, there are danger spots in our Illinois State banking system, it is my job to find and correct and remove them.

In closing, may I say that we face one of the most unusual and perhaps most critical situations in our national life. Although we are today enjoying one of the most prosperous eras in our history, we must not overlook the fact that this condition is more or less synthetic, because it is a by-product of the war which brought our workers unprecedented wages at a time when even some of the necessities of life were not available. They found that they could wear clothing much longer than they ever had before, and that automobiles could be operated with efficiency much longer than the generally accepted one or two years. People who had not previously saved any money bought war bonds, others purchased homes, while the great majority took savings to the banks, with the result that deposits hit an all-time high. This with subsequent wage adjustments has made it possible for workers to enjoy greater financial security than ever before.

But, lest the shadows of another depression appear on the horizon, we must voice a warning signal and certainly the recent slump on the stock market has served a notice that we cannot brush aside.

American working men and women for the first time in our history hold the key to warding off the paralyzing effects of another depression. This key is the judicious preservation of the assets which are now theirs.

We all recognize the fact that there is a great potential market today. Employment is holding up, with a bright outlook for the future. But we must plan now to protect the American men and women, because the pendulum of prosperity will swing backward as surely as it swung forward. Dependent upon our vigilance, it can strike a resounding blow that would cripple the economic structure of our country for years to come. Its force can be greatly lessened and its impact cushioned, if we take precaution and action now to avert it.

Man-made legislation and Federal regulations are not the complete answer to the chaotic conditions which we face in this nation today. Federal regulations may be deterrents to a stabilized economy as well as incentives. The law of God and nature, which is the law of supply and demand, must not be ignored if we are to put our economic house in order.

The span of life of synthetic prosperity is any man's guess. While it is a creature of war, the onslaught of its sequel—depression—can be as devastating as the war itself. We paid a staggering price in lives and money to win the war. One of its many compensations was its lesson in thrift as a guide for the future.

We must not overlook the fact that it was thrift as practiced in the 80's and 90's that made us the most potent force in all the world. If we are to continue to be the leading world power, we must again strengthen the fibres of our great nation by exercising thrift, and spending our assets judiciously, whether they are expended by a housewife or a government official.

There is a great contribution we can all make and that is—encourage bankers, civic spirited citizens and employers throughout the land to urge people to save their money; advise them against unwarranted loans which will place them in debt; encourage them to stay away from black market participation, and to draw their purse strings tight until the costs of necessary commodities are free from the exorbitant price tags of inflation.

If the resources now possessed by the American worker are used judiciously, we can practically nullify the effects of another depression. This is our duty not only to ourselves and our fellow-Americans, but our patriotic duty toward further building the greatest nation that ever graced the earth, so that it may continue unhampered on its path upward and onward, as the benefactor of humanity everywhere.

I am keenly aware that Illinois, in common with her forty-seven sister States, is standing on the threshold of great social and economic possibilities, which can only become actualities through the efforts of a united people. I believe that the Auditor's office can do much toward that end by protecting the interests of the depositors and at the same time in maintaining friendly and helpful relations with State banks and other institutions over which it has jurisdiction.

That, gentlemen, is bank supervision as I see it in Illinois.

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MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

VOL. 22 SPRINGFIELD, ILL., NOVEMBER 1, 1946 NO. 8

DISTRIBUTING THE PROFITS

As the year end approaches, action will be taken by many Boards of Directors towards preparations for completing the year's business and the closing of the bank's books for that period. One of the Board's most important functions between now and the year end will be the distribution of earnings.

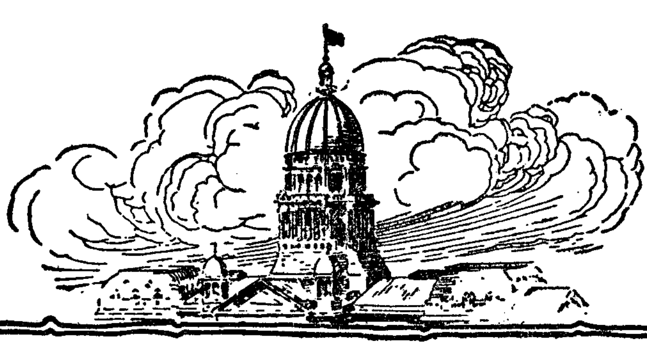
The distribution of earnings is commonly and often erroneously thought to mean a physical distribution of the operating profits through the declaration of a dividend to stockholders.

However, the part played by the declaration of a dividend to the act of distributing earnings is a result and not the motive. It is a result determined after careful analysis and consideration have been given to the institution's probable future as well as immediate requirements, needs and contingencies.

Stockholders are entitled to expect a fair return on their investment and when funds accummulated from earnings and profits are available, an equitable distribution of a reasonable portion of such accummulation may be made.

The bank stockholder ordinarily invests in bank stock, the same as in any other enterprise, with the anticipation of a yield on the investment as his incentive.

Section 11½ of the Illinois Banking Act recognizes this



fundamental, provides for such distribution of earnings and places the responsibility upon the judgment of the directors for such dividends as they may declare.

Under Section 11½ of the Act the following provisions are found:

1. No bank or banking association organized under this Act shall during the time it shall continue its banking operations withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital.
2. If losses have at any time been sustained by any such bank or banking association equal to or exceeding its undivided profits then on hand, no dividends shall be made; and
3. No dividends shall ever be made by any such bank or banking association while it continues its banking operations to an amount greater than its net profits then on hand, deducting first therefrom its losses and bad debts.

As will be noted from the above, no dividends may be paid without first deducting from net profits on hand all losses and bad debts as defined in this section of the law.

In addition, it is necessary, before the declaration of a dividend, to carry one-tenth of the net profits since the date of declaration of the last preceding dividend to surplus until the same amounts to at least twenty per cent of capital stock.

The Act then provides that the directors "***may from time to time declare a dividend of so much of the net profits of such bank or banking association as they shall judge expedient,***".

While Section 11½ sanctions the right of directors to declare dividends, it also places the accountability and the responsibility for such action squarely upon them by imposing the restraint that they must judge such distribution of profits to be expedient.

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

As stated in our BULLETIN of September 1, 1946, Illinois State bankers have made many very commendable accomplishments. The strengthening of capital structures and the reduction in fixed assets were accomplished almost entirely by a generous and liberal attitude on the part of bank directors towards meeting their institutions' needs and requirements through the distribution and allocation of earnings and profits.

From this record and from our observations it would seem that directors of Illinois State banks, in the aggregate, have been aware of the advantages gained by plowing back earnings and that in addition there is little likelihood that they may be expected to follow other than a prudent attitude towards cash dividends.

There are trends developing, however, where occurrences are being observed with accelerating frequency. These trends, we believe, should be called to the attention of bank directors so that consideration may be included when deliberating the matter of distributing the year's earnings.

First, it is the recommendation of this office that not only should sustained losses and bad debts be deducted from undivided profits, as required by statutory provision, but that a thorough analysis of the assets should be made with the intention of writing off anything that may appear as a probable loss. A note, for instance, apparently hopeless but with some element of being eventually collected, may be written off more opportunely today than at a future date. At least a possible loss will have been removed and the recovery if obtained, can always be credited. If an actual write-off seems too extreme at this time or a reserve is preferred, then carry to the reserve account a sufficient amount to provide for the anticipated or potential loss.

Ample provision should also be made to care for fluctuations in the market price of the securities carried in the bond account, particularly if the amortization of premiums has not kept pace with the shrinkage in current market values. While at this time, we are not viewing with alarm the depreciation that is in instances appearing in the accounts of governments and in other issues, yet the establishment of a reserve provision especially to the extent of the remaining premium balances may be desirable.

The advisability of such provision is emphasized when considering the extent to which bond holdings may need to be liquidated before call or maturity. The resumption of normal business conditions may possibly necessitate sizeable liquidations in order to obtain the cash means required for local credit expansion as well as for depositor disbursements.

Fixed assets, especially the single-purpose bank building and worn or out-moded equipment, should be liberally dealt with if carrying values require such action or if generous charge-offs seem advisable. In the not too distant future, adjustments will be made to increase operating efficiency and to provide more adequate customer accommodations. Many banks will remodel or modernize their quarters. Replacements or the installation of additional equipment are contemplated in a great many cases. Consider your plans in this respect. Will the additional outlay added to your present book values be reasonably supported by resulting actual values in the physical properties? If not, include in your deliberations, a provision for eliminating such difference.

At this point, we inject the thought that a reserve might be established, the funds to be used when the anticipated expenditures are made for fixed assets. Experience has shown that expenditures for fixed assets seldom can be justified unless acquired from profits and that too great a dedication of future earnings for such purposes is a burden to be avoided. The purpose of this reserve, therefore, could be considered in a logical sense as in the nature of a down payment, the funds having been so set aside with the intention of providing a substantial initial charge-off, serving thereby to lessen commitments on the income of future years.

If the ratio of capital structure to deposits is low the retention of earnings may be much more expedient and advisable than the payment of cash dividends to stockholders. There may be, also, cases requiring increases to the surplus account by transferring funds from undivided profits or increases to capital stock through the declaration of stock dividends. These, too, should be considered.

All unpaid bills and expenses for the year must be provided for and the income tax liability, especially, should receive appropriate consideration since all such items bear relation to the year's operations and, therefore, should rightly be applied against the earnings of that year in which they occur or accrue.

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

PERMITS ISSUED

			Capital	Surplus	Reserve	
Chicago	Cook	Harding State Bank	$200,000	$20,000	$80,000	Sept. 6, 1946
New Holland	Logan	New Holland Farmers Bank	$25,000	$5,000	$7,500	Sept. 6, 1946
Chicago	Cook	Bank of Chicago	$200,000	$50,000	$50,000	Oct. 4, 1946

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Nebo	Pike	State Bank of Nebo Eight North Main Street F. W. Caldwell, President R. H. Daily, Cashier	$25,000	$5,000	$5,000	Sept. 14, 1946
Chicago	Cook	Bank of Rogers Park 7001-03 North Clark Street George J. Fitzgerald, President Fred Roth, Vice President and Cashier	$200,000	$80,000	$20,000	Sept. 18, 1946
New Holland	Logan	New Holland Farmers Bank Lincoln Street C. C. Hawes, President Floyd T. Rayburn, Cashier	$25,000	$5,000	$7,500	Oct. 4, 1946

CONVERTED INTO NATIONAL BANK

Moline	Rock Island	Moline State Trust and Savings Bank to First National Bank of Moline	Sept. 3, 1946

TRUST CERTIFICATES ISSUED

			Deposit	
Moline	Rock Island	First National Bank of Moline	$50,000	Sept. 26, 1946
Peoria	Peoria	South Side Trust & Savings Bank of Peoria	$200,000	Oct. 23, 1946

TRUST CERTIFICATES CANCELLED

Moline	Rock Island	Moline State Trust and Savings Bank	Sept. 26, 1946
Philadelphia	Pennsylvania	Girard Trust Company	Oct. 31, 1946

BANKS DISSOLVED

Arlington Heights	Cook	Arlington Heights State Bank (In receivership September 22, 1931. Dissolved by order of the Circuit Court of Cook County.)	Oct. 10, 1946
Berwyn	Cook	Berwyn State Bank (In receivership July 28, 1931. Dissolved by order of the Circuit Court of Cook County.)	Oct. 21, 1946

RECAPITULATION

State Banks in Chicago	22
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	451
Total	500

MONTHLY BULLETIN

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

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THE ANNUAL MEETING OF STOCKHOLDERS

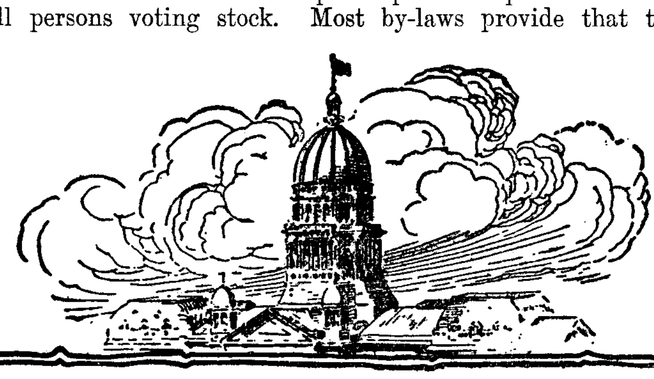
Section 4 of the Illinois Banking Act contains the requirement: "And there shall be an annual meeting of the stockholders for the election of directors each year on the first Monday in January unless some other date shall be fixed by the by-laws of the association."

The vital importance of the stockholders' meeting should be realized by the Officers and Directors and adequate provisions made to conduct it properly and as these meetings generally occur on the date appointed in the statute or are set for sometime in the early part of January, the November and December meetings of the Board of Directors may be unusually important while sometimes it may be necessary or advantageous to call a special meeting of the Board.

Directors have the responsibility to see that the annual meeting of stockholders is held on the appointed date, and that all provisions and requirements of the statute and of the by-laws, concerning such meetings, are fulfilled.

Proper notice must be given to each stockholder, giving the time and place of such meeting. The notice preferably should state the purpose of the meeting, particularly, if any unusual business is contemplated.

One step of great importance is the appointment of a committee to examine and pass upon the qualifications of all persons voting stock. Most by-laws provide that this



committee shall be appointed by the directors previous to the date of the annual meeting. Prior appointment is of distinct advantage in order that the examination of proxies, qualification of proxy holders and qualification of stockholders present may be made a matter of record as soon as the meeting has been convened and before any voting takes place.

While the primary purpose of the annual meeting of shareholders is for the election of directors, nevertheless many other important items of business may come before the meeting. In addition to the matters requiring stockholders' action, the meeting should also furnish other benefits to the shareholder in the way of official reports concerning the affairs of the institution and as an opportunity for the shareholder to be heard.

The Cashier, or a designated officer, should submit a report showing the resources and liabilities of the bank on the day of the closing of the bank's fiscal year and a detailed statement of its business for the year ending on the said date. Sufficient supplemental information should be included with the usual statement form in order that the report is more comprehensive and that the shareholders may be better informed.

In addition, reports might be presented by each of the committees; especially by those committees which are created by provisions in the by-laws or by stockholders' action.

A vacancy in the membership of the Board, a proposition to increase or decrease the number of directors, as well as any corporate change provided for in Section 12 should be considered by the Board in advance of the stockholders' meeting; for although the election of directors and changes affecting the corporate organization may be accomplished only by vote of the shareholders, however, since the Directors serve the stockholders as the managers of the organization, they in the course of their duty should consider the problems, requirements and alternatives requiring stockholders' action and have definite recommendations and suggestive provisions concerning such matters. Nevertheless, in these matters stockholders should be allowed to retain the opportunity of freely expressing their preference rather than being confined to sanctioning the personal desires of directors.

No annual meeting of shareholders should be concluded without electing the full legal number of directors. The number of directors to be elected at annual stockholders' meetings is always fixed and definite, that is, the number decided upon either at organization or subsequently by the stockholders pursuant to the requirements of Section 12. If for any reason it is found impossible to elect the full membership, steps should be taken before final adjournment of the annual meeting to reduce the legal number of directors.

Of the actions coming under Section 12 this occurs most frequently and as provided in the Act, at least two-thirds of the total shares of capital stock must vote in favor of the proposal in order that the reduction may be effected.

However, this office feels that the problem presented by the lack of director material seldom is solved by reducing the membership of the Board, rather we feel that directors fail to direct when not far-sighted enough to develop potential director material from within their community especially if the list of stockholders does not already contain others who are qualified and available. Many serious situations have occurred through this failing and the lack of new material has in cases resulted in voluntary liquidations.

Proposals to change the name or the place of business, to increase or decrease the capital stock, or the par value of its shares, to extend the duration of its charter, to increase or decrease the number of directors, or to consolidate with some other banking institution are all matters of business which require stockholders' action.

Section 12 of the Illinois Banking Act provides that these changes may be acted upon at special meetings of the shareholders upon calling such meetings in the prescribed form and manner; however, they may be acted upon at regular meetings with greater convenience, ease and dispatch.

If any of such changes are contemplated, it is recommended that the advisability of presenting them to the stockholders at their annual meeting be carefully considered at either the November or December meeting of the Board of Directors and that the matter be taken up with this Department well in advance of the date for the stockholders' meeting, in order to ascertain whether such changes, if voted by the stockholders, will be approved by the Auditor as required by law and to obtain the proper forms to be used in accomplishing the changes.

Frequently there are other matters which should be brought before the stockholders for ratification or approval and occasionally these are overlooked or neglected. The Board of Directors when arranging for all necessary business to be placed on the agenda should also consider and decide what other items are advisable and desirable to be presented.

It is possible that during the passing year some unusual action may have been taken by the Directors which they wish to have approved by the stockholders or they may wish to be granted special authority for some future action. If some special authority has been granted to the Board at a previous meeting of shareholders, a report relating to the matter undoubtedly is necessary or advisable, and it may likewise be nesessary or advisable to seek the stockholders' ratification of the Board's action.

The great majority of our Illinois State banks are local enterprises organized for the mutual benefit of their respective communities and consequently this common interest of shareholders tends toward creating a much fuller participation in the affairs of the organization. In some instances, however, comparison of the number of shares recorded at the meeting as in person against those represented by proxy and those not voting reveal what seemingly appears to be at least a casual if not a disinterested attitude on the part of certain stockholders.

The duty of each stockholder to personally act at corporate meetings while not specifically expressed, nevertheless is implied in the statutes; and although provision is contained therein for participation by proxy, yet it is doubtful that the intention of such provision is to provide a means for satisfying the implied obligation of a stockholder except in those cases where his personal attendance would be impossible or unreasonable to expect.

This duty of stockholders should be recognized and their personal participation therefore should be emphasized; additionally, such participation is the must fundamental of all phases concerning public relations and in this respect personal attendance is advantageous.

Unquestionably Illinois State banks are managed by capable hands and the officers and directors have both the ability and the desire to properly conduct sound, serviceable and progressive institutions, yet we believe that for obvious reasons and purposes, directors should strive to create a greater interest among the stockholders. We suggest that this be accomplished by two means, (1) urging better attendance at the corporate meetings and (2) by offering shareholders the opportunity of gaining a better understanding of, and participation in, the bank's affairs and objectives—one automatically leading to the other.

TRUST CERTIFICATE ISSUED

			Deposit	
Skokie	Cook	First National Bank of Skokie	$50,000	Nov. 23, 1946

RECAPITULATION

State Banks in Chicago	22
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