MONTHLY BULLETIN

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

VOL. 22 SPRINGFIELD, ILL., JANUARY 1, 1947 No. 10

HAPPY NEW YEAR

Every New Year is another milestone on our journey through life. Perhaps some of us had misfortunes or other difficulties to overcome on the way, before we reached the new marker. To them we offer our consolation and express our hope for a brighter future.

I am sure, however, that there are many who can look back, as we do, to a year that was not without its happiness and accomplishments.

We are grateful for the progress that has been made in many directions, and it is our prayer that Divine Providence may guide those who occupy positions of public trust.

It has been a great year for us, because of the fine spirit with which we have been met from all sides, and we invite the continued friendly and helpful cooperation of all the readers of our Monthly Bulletin.

May the spirit of "Peace On Earth, Good Will to Men" rule the hearts of all mankind, as I bring to you my own sincere good wishes as well as those of my staff for the year that lies ahead.

Arthur C. Lueder

PREVENTIVE MEASURES

A letter has recently been received from one of the well known surety companies in which they state that daylight holdups are on the increase and that for some time they have been apprehensive about bank holdups feeling that unless certain preventive measures are taken by the banks, a wave of daylight robberies might be the result.

The letter included the following suggestions for preventive measures:

1. The banks should retain on the counter only such cash as is necessary to the conduct of routine business. All excess cash, and all securities, should be kept under regular deferred time-lock during business hours.

2. The bank robber realizes that he has but a few minutes to work, therefore the time element is of first importance. Take steps beforehand that will cause delay, which will not only minimize the loss but often foil the attempted robbery. Where counter-cash is held to a reasonable minimum it should not be concentrated where the robber can easily pick it up.

3. Where there is a time-locked safe within a vault it is desirable that the bank set the safe to open at least a half hour after the bank opens for business. Cash necessary to start the day's business can be kept outside the safe and within the vault. The robber usually knows the time that the bank opens and he figures that the time-lock safe will open at about the same time. Therefore the change in the time will confuse him.

4. Banks having only two or three employees should be extremely cautious during the luncheon period because the habits of those in the bank as a rule are well-known to the bandit and he will take advantage of his knowledge.

5. A record should be kept of the serial numbers on so-called "dead money." It will aid the apprehension of the bandit.

They expressed the opinion that "If every bank will become alert to the hazard and use intelligent safeguards we are confident they can discourage this type of loss."

DIRECTORS' OATH OF FEALTY

Two copies of form No. 6—Directors' Oath of Fealty—were forwarded to every Illinois State bank on December 27, 1946. These forms were sent both as a convenience and as a reminder inasmuch as most banks hold their annual election of directors at this time of the year and as Section 4 of the Illinois Banking Law requires each director to take and subscribe to an Oath of Fealty that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such bank or association and will not knowingly violate or willingly permit to be violated any of the provisions of this Act; and that he is the owner in good faith and in his own right of the number of shares of stock required by this Act; and that the same is not hypothecated or in any way pledged as security for any loan or debt.

The Act also provides that the form be such as the Auditor shall prescribe and that such Oath of Fealty subscribed by the director making it and certified by a proper officer authorized to administer oaths shall be immediately transmitted to the Auditor and shall be filed and preserved by him in his office.

If it is not possible to obtain the Oath of Fealty of all directors immediately, the Oath of those directors who are available and who have qualified should be obtained, certified to and forwarded to this Department promptly together with an explanation of the reason why the Oath of the legal number of directors is not furnished and with a request for any necessary additional blanks to be used in obtaining and forwarding the Oaths of the other directors as soon as possible.

Immediately following the annual election of directors by the shareholders, the newly elected Board usually holds an organization meeting for the purpose of the election of one of their number as President and appointing such other officers as may be required. In order that the records of this Department may be kept in a current condition, advice of any change in administrative and executive officers should be forwarded promptly to this office.

If for any reason the full legal number of directors was not elected at the annual meeting of shareholders, this Department should also be notified with an explanation of the circumstances causing this condition and with advice as to any plans concerning the correction of such situation.

In the event that the legal number of directors was increased or decreased by at least two-thirds vote of the entire shares, or if any of the other corporate changes provided for in Section 12 were so approved at the shareholders' meeting, this Department should be notified immediately in order that the Auditor may give consideration to the matter of issuing the necessary approval. This approval in writing is required before such changes can be declared accomplished.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Hennepin	**Putnam**	**Putnam County Bank**	$27,500	$5,500	$2,750	Dec. 7, 1946

CHARTER ISSUED

			Capital	Surplus	Reserve	
Hennepin	Putnam	Putnam County Bank Lot Seven, Block Four Geo. H. Brenneman, President O. C. Cofoid, Cashier	$27,500	$5,500	$2,750	Dec. 9, 1946

CAPITAL STOCK INCREASED

Opdyke	Jefferson	Security State Bank of Opdyke from $10,000 to $25,000	Dec. 11, 1946
Chicago	Cook	Sears-Community State Bank from $600,000 to $1,200,000	Dec. 31, 1946

CONVERTED INTO NATIONAL BANK

Forest Park	Cook	First State Bank of Forest Park to Forest Park National Bank	Dec. 2, 1946

RECAPITULATION

State Banks in Chicago	22
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	452
Total	500

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TRENDS IN 1946

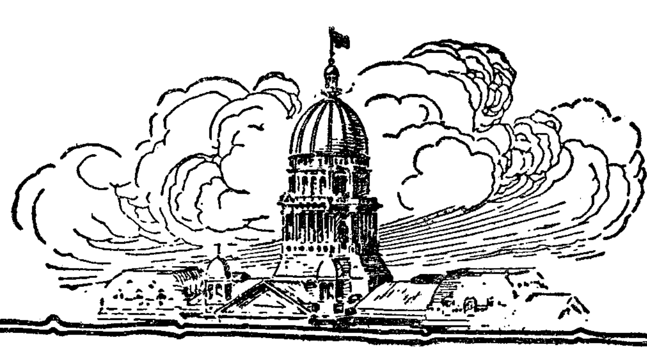
While Cash and Due from Banks started and ended the year at the same figure, $722 million, a net of nearly $460 million in funds provided from other sources was applied during the twelve months.

Withdrawals of Secured Deposits, principally War Loan Accounts of the U. S. Government, required $366 million and additional funds of nearly $92 million were utilized in the expansion of Loans and Discounts from $391 million to $483 million.

These funds, nearly $460 million, were provided largely by the $282 million gained in private and commercial deposits; investments in U. S. Government obligations declined nearly $116 million and Other Bonds, Stocks, and Securities decreased $33 millions to furnish additional funds of $149 million; the conversion of $13 million in Outside Checks and Other Cash Items plus the nearly $12 million accumulation added capital structures accounted for the greater portion of the balance.

Except that Secured Deposits and Other Bonds, Stocks and Securities declined in each of the quarterly periods and Time Deposits continued to increase, the movements of funds in the first three months of 1946 were almost completely reversed in the closing quarter of the year. This trend was indicated at least to a partial extent by each of the intervening quarterly figures.

There was a decline of $70 million, however, in both Total Resources and Total Liabilities for the year. This decline in itself appears of small significance after consideration is given to the sharp retirement of government financing, which resulted in a total decline of $377 million in deposits of the U. S. Government, as withdrawal of these funds was expected to have a parallel effect on resource accounts especially in cash means and in Government securities.



REVIEW OF CALL REPORTS

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

NUMBER OF BANKS	490	Increase or Decrease	492	Increase or Decrease	496	Increase or Decrease	499	Increase or Decrease	500
DATE OF CALL	Dec. 31, 1945		March 23, 1946		June 29, 1946		Sept. 30, 1946		Dec. 31, 1946
RESOURCES:									
Cash and Due from Banks	$ 722,280,212.05	$—88,139,473.03	$ 634,140,739.02	$ —4,101,686.87	$ 630,039,052.15	$ —418,910.73	$ 629,620,141.42	$+92,383,066.84	$ 722,003,208.26
Outside Checks and Other Cash Items	16,832,806.90	—2,057,074.47	14,775,732.43	+3,017,616.90	17,793,349.33	—14,190,176.43	3,603,172.90	—25,437.86	3,577,735.04
U.S. Governments—Direct & Guaranteed	1,826,627,005.96	+34,510,185.60	1,861,137,191.56	—73,859,795.06	1,787,277,396.50	—5,630,038.11	1,781,647,358.39	—70,802,910.91	1,710,844,447.48
Other Bonds, Stocks & Securities	264,093,937.73	—4,902,503.91	259,191,433.82	—8,559,788.45	250,631,645.37	—12,032,819.94	238,598,825.43	—7,472,634.21	231,126,191.22
Loans and Discounts	391,628,822.15	—5,499,644.33	386,129,177.82	+32,213,579.16	418,342,756.98	+29,324,167.05	447,666,924.03	+35,573,887.19	483,240,811.22
Overdrafts	123,948.02	+79,658.32	203,606.34	—54,006.92	149,599.42	+67,139.27	216,738.69	—64,119.76	152,618.93
Banking House, Furniture & Fixtures	9,321,808.25	—61,907.54	9,259,900.71	+75,845.62	9,335,746.33	—157,497.23	9,178,249.10	—206,330.96	8,971,918.14
Other Real Estate	150,703.66	—37,514.28	113,189.38	—47,390.76	65,798.62	—17,120.26	48,678.36	—9,205.21	39,473.15
Customers' Liability—Letters of Credit	1,620,348.28	—480,960.02	1,139,388.26	+1,277,666.23	2,417,054.49	+388,716.24	2,805,770.73	—30,665.92	2,775,104.81
Customers' Liability—Acceptances	308,406.26	+48,892.35	357,298.61	+216.34	357,514.95	—21,954.06	335,560.89	+549,316.49	884,877.38
Other Resources	7,338,243.89	—1,446,851.88	5,891,392.01	+1,034,266.70	6,925,658.71	—524,857.48	6,400,801.23	—96,973.35	6,303,827.88
GRAND TOTAL RESOURCES	$3,240,326,243.15	$—67,987,193.19	$3,172,339,049.96	$—49,003,477.11	$3,123,335,572.85	$—3,213,351.68	$3,120,122,221.17	$+49,797,992.34	$3,169,920,213.51
LIABILITIES:									
Capital Stock	$43,898,050.00	$ +505,000.00	$44,403,050.00	$ +445,000.00	$44,848,050.00	$ —190,000.00	$44,658,050.00	$ +567,500.00	$45,225,550.00
Income Debentures	587,650.00	—4,000.00	583,650.00	—1,000.00	582,650.00	—7,500.00	575,150.00	—25,958.33	549,191.67
Surplus	49,612,900.00	+132,000.00	49,744,900.00	+976,200.00	50,721,100.00	—13,000.00	50,708,100.00	+1,625,000.00	52,333,100.00
Undivided Profits (net)	25,935,969.91	+1,338,107.58	27,274,077.49	+2,890,030.89	30,164,108.38	+2,625,572.47	32,789,680.85	—1,568,868.95	31,220,811.90
Reserve Accounts	32,947,452.71	+1,229,765.90	34,177,218.61	—1,462,963.15	32,714,255.46	+1,929,151.78	34,643,407.24	—806,659.17	33,836,748.07
TOTAL CAPITAL STRUCTURE	$152,982,022.62	$+3,200,873.48	$156,182,896.10	$+2,847,267.74	$159,030,163.84	$+4,344,224.25	$163,374,388.09	$—208,986.45	$163,165,401.64
Demand Deposits	$2,093,223,838.47	$—79,238,625.53	$2,013,985,[illegible] 94	$—80,42[illegible]41.88	$1,933,564,271.06	$—11,205,058.59	$1,922,359,212.47	$ +2,786,928.63	$1,925,146,141.10
Time Deposits	801,029,286.65	+24,399,093.74	825,428,[illegible]9	+34,[illegible]7.47	860,003,837.86	+6,472,979.20	866,476,817.06	+31,349,823.88	897,826,640.94
Due to Banks	187,070,881.54	—16,925,949.70	170,144,[illegible]4	—3,7[illegible]66.68	163,351,965.16	—3,914,643.65	159,437,321.51	+15,219,507.73	174,656,829.24
TOTAL DEPOSITS	$3,081,324,006.66	$—71,765,481.49	$3,009,558,525.17	$—52,638,451.09	$2,956,920,074.08	$—8,646,723.04	$2,948,273,351.04	$+49,356,260.24	$2,997,629,611.28
Bills Payable	------------	$+700,000.00	$ 700,000.00	$ —700,000.00	------------	$+150,000.00	$ 150,000.00	$—150,000.00	------------
Rediscounts	------------	------------	------------	------------	------------	------------	------------	------------	------------
Dividends Unpaid	$ 362,962.80	—139,826.10	223,136.70	+47,360.58	$ 270,497.28	—82,547.28	187,950.00	+269,271.68	$ 457,221.68
Letters of Credit	1,620,698.28	—480,960.02	1,139,738.26	+1,283,666.23	2,423,404.49	+382,716.24	2,806,120.73	—4,366.20	2,801,754.53
Bank Acceptances	308,406.26	+48,892.35	357,298.61	+74,487.70	431,786.31	+3,444.52	435,230.83	+477,058.55	912,289.38
Other Liabilities	3,728,146.53	+449,308.59	4,177,455.12	+82,191.73	4,259,646.85	+635,533.63	4,895,180.48	+58,754.52	4,953,935.00
TOTAL OTHER LIABILITIES	$6,020,213.87	$+577,414.82	$6,597,628.69	$+787,706.24	$7,385,334.93	$+1,089,147.11	$8,474,482.04	$+650,718.55	$9,125,200.59
GRAND TOTAL LIABILITIES	$3,240,326,243.15	$—67,987,193.19	$3,172,339,049.96	$—49,003,477.11	$3,123,335,572.85	$—3,213,351.68	$3,120,122,221.17	$+49,797,992.34	$3,169,920,213.51
ANALYSIS:									
Deposits Secured by Pledge	$ 489,632,232.68	$—46,578,298.32	$ 443,053,934.36	$—148,084,568.65	$ 294,969,365.71	$—59,298,459.52	$ 235,670,906.19	$—112,218,239.33	$ 123,452,666.86
Deposits Not Secured by Pledge	2,591,691,773.98	—25,187,183.17	2,566,504,590.81	+95,446,117.56	2,661,950,708.37	+50,651,736.48	2,712,602,444.85	+161,574,499.57	2,874,176,944.42
TOTAL—DEPOSITS	$3,081,324,006.66	$—71,765,481.49	$3,009,558,525.17	$—52,638,451.09	$2,956,920,074.08	$—8,646,723.04	$2,948,273,351.04	$+49,356,260.24	$2,997,629,611.28
Banking House	$8,435,031.89	$—114,233.34	$8,320,798.55	$ —81,144.90	$8,239,653.65	$—252,460.15	$7,987,193.50	$—184,617.60	$7,802,575.90
Furniture & Fixtures	886,776.36	+52,325.80	939,102.16	+156,990.52	1,096,092.68	+94,962.92	1,191,055.60	—21,713.36	1,169,342.24
TOTAL—BANKING HOUSE, FURNITURE & FIXTURES	$9,321,808.25	$—61,907.54	$9,259,900.71	$+75,845.62	$9,335,746.33	$—157,497.23	$9,178,249.10	$—206,330.96	$8,971,918.14
Commercial Paper	$ 16,474,316.28	$ +420,681.19	$ 16,894,997.47	$ —5,860,797.67	$ 11,034,199.80	$ —1,244,704.19	$ 9,789,495.61	$ +7,229,602.59	$ 17,019,098.20
Collateral Loans	178,465,854.84	—16,971,709.65	161,494,145.19	—85,269.55	161,408,875.64	—8,349,703.39	153,059,172.25	—2,233,715.31	150,825,456.94
Other Loans	118,830,537.04	+6,916,300.67	125,746,837.71	+30,058,678.06	155,805,515.77	+29,868,422.76	185,673,938.53	+23,463,670.17	209,137,608.70
Farm Loans	10,485,892.71	+1,139,184.18	11,625,076.89	+1,147,552.93	12,772,629.82	—128,744.11	12,643,885.71	+2,080,635.70	14,724,521.41
Other Real Estate Loans	67,372,221.28	+2,995,899.28	70,368,120.56	+6,953,415.39	77,321,535.95	+9,178,895.98	86,500,431.93	+5,033,694.04	91,534,125.97
TOTAL—LOANS AND DISCOUNTS	$391,628,822.15	$—5,499,644.33	$386,129,177.82	$+32,213,579.16	$418,342,756.98	$+29,324,167.05	$447,666,924.03	$+35,573,887.19	$483,240,811.22

PERMITS ISSUED

			Capital	Surplus	Reserve	
Chicago	Cook	Standard State Bank	$200,000	$50,000	$75,000	Jan. 16, 1947
Apple River	JoDaviess	Apple River State Bank	$25,000	$5,000	$7,500	Jan. 24, 1947

CAPITAL STOCK INCREASED

Downers Grove	DuPage	Citizens State Bank of Downers Grove from $50,000 to $100,000	Jan. 9, 1947
Kinderhook	Pike	Kinderhook State Bank from $17,000 to $25,500	Jan. 10, 1947

DURATION OF CHARTER EXTENDED

Addison	DuPage	Addison State Bank. Charter extended 99 years from November 7, 1947.	Jan. 21, 1947

TRUST CERTIFICATE ISSUED

			Deposit	
Glen Ellyn	DuPage	DuPage Trust Company	$50,000	Jan. 22, 1947

DISSOLVED

Forest Park	Cook	Roosevelt Trust & Savings Bank (In liquidation January 3, 1933.)	Oct. 23, 1946

RECAPITULATION

State Banks in Chicago	22
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	452
Total	500

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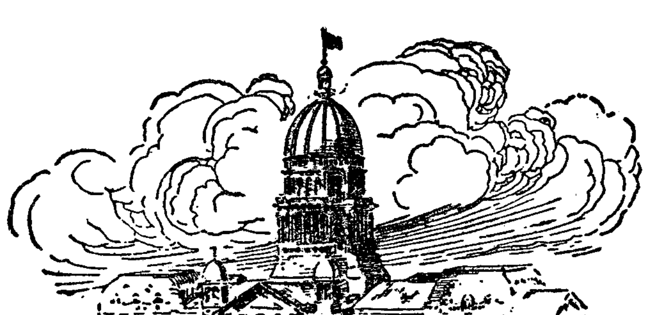
OPERATING RESULTS—1946

A comparison of the accumulated operating results of 483 State banks in Illinois that operated in both 1945 and 1946 indicates a net increase of $12,383,880 in capital structure. Net profits for 1946 in the 483 banks amounted to $17,162,460 of which the major portion, $11,532,828 or 67%, was retained in capital accounts; $3,460,455 having been paid out as dividends to stockholders and $2,169,177 was applied against outstanding balances on deferred certificates.

In addition to the strengthening of capital structures and the establishment of reserve provisions, fixed assets were written down somewhat in excess of the normal allowance for depreciation and substantial write-offs were applied against the carrying values of securities mainly to absorb premiums more rapidly than the established rate of amortization.

The average gross earnings per $1,000 of deposits in the 483 banks under comparison amounted to $19.74 for 1946 and net earnings averaged $6.42 after deducting $13.32 for expenses; while net profits after recoveries and charge-offs amounted to a $5.76 average.

In 1945, averages computed on the same basis showed $16.82 for gross earnings, expenses of $11.08 and $5.74 net earnings. Net profits for 1945 averaged $5.97 per $1,000 of deposits.



OPERATING RESULTS OF ILLINOIS STATE BANKS
FOR THE YEARS 1945-1946

	Group 1 Under $500,001		Group 2 $500,001 to $1,000,000		Group 3 $1,000,001 to $5,000,000		Group 4 $5,000,001 to $10,000,000		Group 5 $10,000,001 and over		General Comparison	
	1945	1946	1945	1946	1945	1946	1945	1946	1945	1946	1945	1946
Number of Banks	26	24	113	95	278	309	35	36	36	34	483	483
GROSS EARNINGS:												
Interest and discount on loans	39,855	32,074	459,359	443,157	2,881,835	3,903,922	1,024,171	1,459,371	6,367,806	7,978,286	10,579,533	13,761,323
Interest and dividends on securities	65,631	86,415	820,831	733,480	5,550,202	6,925,204	2,276,073	2,703,604	22,388,988	23,942,090	30,494,701	34,343,322
Exchange, collection charges, etc.	7,542	6,540	70,628	55,087	396,821	450,554	132,848	155,001	998,483	950,919	1,565,066	1,604,113
Service charges on deposit accounts	11,950	10,664	128,310	110,007	809,596	928,268	314,567	370,277	1,356,556	1,469,655	2,571,204	2,867,155
Trust department					24,236	21,473	83,201	80,727	3,792,026	4,331,437	3,933,974	4,482,155
Miscellaneous	4,948	6,614	52,351	52,832	361,942	407,094	305,150	317,128	1,063,897	1,004,929	1,707,431	1,775,347
Total	129,926	142,307	1,531,479	1,394,563	10,024,632	12,636,515	4,136,010	5,086,108	35,967,756	39,677,316	50,851,909	58,833,415
Unit Average	4,997	5,929	13,553	14,679	36,059	40,895	118,170	141,281	999,104	1,166,980	105,283	121,808
Average per $1,000 of Deposits	14.22	16.73	17.83	18.73	17.29	18.64	17.52	20.13	16.57	19.99	16.82	19.74
EXPENSES:												
Salaries	54,780	56,052	496,580	437,793	2,954,584	3,713,252	1,241,338	1,546,822	9,812,725	11,687,370	14,336,630	17,342,787
Interest on deposits	11,366	18,025	108,856	87,465	1,018,832	1,284,649	380,531	492,486	4,405,919	4,863,507	5,711,370	6,734,206
Taxes	12,761	14,858	150,140	128,028	977,843	1,272,510	322,046	475,224	2,851,127	3,519,577	4,275,240	5,412,588
Miscellaneous	36,591	41,561	295,875	250,682	1,693,509	2,152,289	789,639	918,494	6,523,152	6,933,964	9,189,054	10,203,008
Total	115,498	130,496	1,051,451	903,968	6,644,768	8,422,700	2,733,554	3,433,026	23,592,923	27,004,418	33,512,294	39,692,589
Unit Average	4,442	5,437	9,305	9,515	23,902	27,258	78,101	95,362	655,358	794,248	69,384	82,179
Average per $1,000 of Deposits	12.64	15.34	12.24	12.14	11.46	12.43	11.58	13.59	10.87	13.61	11.08	13.32
NET EARNINGS	14,428	11,811	480,028	490,595	3,379,864	4,213,815	1,402,456	1,653,082	12,374,833	12,672,898	17,339,615	19,140,826
Unit Average	555	492	4,248	5,164	12,157	13,637	40,069	45,919	343,746	372,732	35,899	39,629
Average per $1,000 of Deposits	1.58	1.39	5.59	6.59	5.83	6.21	5.94	6.54	5.70	6.38	5.74	6.42
RECOVERIES AND PROFITS:												
Recoveries on loans	2,472	4,407	71,693	32,285	328,632	306,827	163,086	207,485	668,668	682,505	1,214,610	1,237,995
Recoveries on securities	2,830	16,267	31,688	12,081	298,981	181,480	105,484	133,438	573,875	169,037	993,229	512,303
Profits on securities	2,149	33,378	80,498	24,325	443,227	379,958	302,496	158,524	1,375,840	1,615,133	2,107,391	2,211,389
Miscellaneous	8,018	684	17,210	16,653	148,556	198,588	207,918	95,274	783,439	481,430	963,054	793,621
Net earnings plus recoveries and profits	29,897	66,547	681,117	575,939	4,599,260	5,280,668	2,181,440	2,247,803	15,776,655	15,621,003	22,617,899	23,896,134
LOSSES, DEPRECIATION AND WRITE-OFFS:												
On loans	347	1,108	11,269	10,647	100,142	128,377	39,413	53,892	330,492	230,302	480,019	423,512
On securities	4,790	5,659	56,638	53,724	478,030	710,739	219,276	280,587	2,285,031	3,961,422	2,999,106	5,008,695
Banking house, furniture and fixtures	3,694	5,472	48,428	37,100	275,122	291,151	118,389	95,659	252,587	481,726	694,513	909,856
Miscellaneous	3,519	2,526	14,787	12,804	118,106	130,040	44,990	62,265	215,897	180,304	388,661	391,611
Total	12,350	14,765	131,122	114,275	971,400	1,260,307	422,068	492,403	3,084,007	4,853,754	4,562,299	6,733,674
NET PROFITS	17,547	51,782	549,995	461,664	3,627,860	4,020,361	1,759,372	1,755,400	12,692,648	10,767,249	18,055,600	17,162,460
Unit Average	675	2,158	4,867	4,860	13,050	13,011	50,266	48,762	352,566	316,640	37,382	35,532
Average per $1,000 of Deposits	1.92	6.09	6.41	6.20	6.26	5.93	7.45	6.95	5.85	5.43	5.97	5.76
Cash dividends paid to shareholders	6,300	4,850	92,300	87,400	717,388	763,205	114,750	188,000	2,285,833	2,412,000	3,164,571	3,460,455
Percentage of Net Profits	35.93%	9.36%	16.78%	18.93%	19.77%	18.98%	6.52%	10.75%	18.01%	22.40%	17.53%	20.16%
Capital, Surplus, Undivided Profits and Reserves	1,030,367	926,479	5,771,918	4,755,396	30,757,821	35,650,527	12,022,468	13,242,602	102,520,173	108,287,017	149,185,332	161,569,212
Time Deposits	1,620,206	1,923,280	15,817,386	12,643,036	144,544,951	176,708,222	72,348,326	82,505,502	566,698,415	624,046,600	772,814,478	892,938,704
Total Deposits	9,138,493	8,507,519	85,875,747	74,465,869	579,750,467	[illegible]772,896	236,098,707	252,601,235	2,170,460,591	1,984,282,092	3,023,685,504	2,979,362,789

Groups 1 to 5 show operating results of banks according to size as measured by total deposits of each.
General Comparison is the aggregate of operating results as reported by the 483 Illinois State banks that operated in both 1945 and 1946.

CHANGE OF LOCATION

Greenfield......Greene..........Farmers State Bank of Greenfield..........................Feb. 24, 1947
from 517 Main Street, Greenfield, Illinois,
to 520 Chestnut Street, Greenfield, Illinois

BANK PLACED IN LIQUIDATION

Hennepin......Putnam........Putnam County State Bank.............................Feb. 4, 1947

CONVERTED INTO NATIONAL BANK

East St. Louis..St. Clair.......Union Trust Company of East St. Louis
to Union National Bank of East St. Louis.............Feb. 17, 1947

TRUST CERTIFICATE ISSUED

			Deposit	
East St. Louis	St. Clair	Union National Bank of East St. Louis	$50,000	Feb. 17, 1947

TRUST CERTIFICATE CANCELLED

East St. Louis..St. Clair.......Union Trust Company of East St. Louis.................Feb. 17, 1947

RECAPITULATION

State Banks in Chicago	22
State Banks in Cook County outside Chicago	26
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. 23 SPRINGFIELD, ILL., APRIL 1, 1947 No. 1

EXCESS LOANS

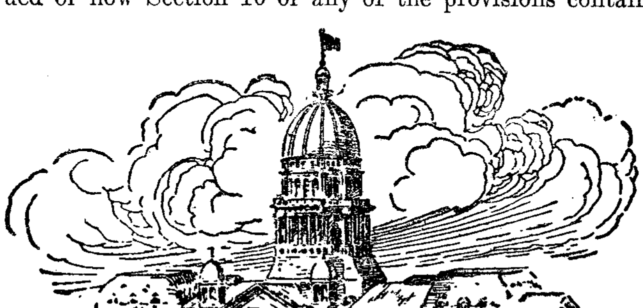
Quite frequently banks direct requests to this office for permission to extend credit beyond the particular bank's legal loaning limit and in a number of instances, either in connection with their request for permission to cause a loan to be made in excess of the statutory limit or as a defense to criticism because of such violation, boards of directors have indicated a willingness to assume the liability imposed by Section 10 of the Illinois Banking Law.

In these cases and possibly to some extent including officers and directors of other banks, Section 10 seemingly is misunderstood. Apparently it is because of the insertion of the clause assessing penalty upon directors and officers.

It is our thought that the legislative intent of Section 10 in fixing the amount which might be loaned to any one person, corporation or partnership, is for the purpose of protecting the interests of depositors and stockholders by causing a diversification of loans through a restriction upon the advances to any one borrower.

We do not believe that the object of the penalty clause was to allow violations to become permissive upon the willingness to assume or the acknowledgment of the possible liability which might be imposed.

Regardless of how the legislative intent might be construed or how Section 10 or any of the provisions contained



therein might be interpreted, the wordage of the law should be reviewed and so we quote from the opening paragraph of Section 10; "The total liabilities to any association, of any person, or of any corporation or partnership for money borrowed . . . shall at no time exceed fifteen per cent of the amount of the capital stock of such association actually paid in and unimpaired and fifteen per cent of its unimpaired surplus fund".

The Section continues in the same paragraph to define "money borrowed" and later, in the paragraph containing the penalty clause, the Section states, "But every director, or officer, of any such association, who shall violate, or participate in, or assent to such violation, or who shall permit any of the officers, agents or servants of the association to violate the provisions hereof, shall be held liable in his personal or individual capacity for all damages which the association, its shareholders or any other person shall have sustained in consequence of such violation."

In the quotations the law states (1) that certain loans shall at no time exceed fifteen per cent of capital and surplus and (2) provides in consequence of a violation that a penalty may be imposed. We believe that applications of the law for an offense do not stop there but that they apply also as a violation of the directors' oath of fealty. Section 4 requires "each director shall take and subscribe to an oath such as the Auditor shall prescribe of fealty to the bank or association of which he is director and that he . . . will not knowingly violate or willingly permit to be violated any of the provisions of the Act".

A director or an officer may be aware of and be willing to assume the civil penalty for damages resulting from excess loans; however, it is not a question of acceptance. The law clearly fixes a penalty for violations, whether the responsible parties are willing to assume it or not, and in permitting such loans, they are violating the law and their oath of fealty as well. In connection with such circumstances the Auditor may have a duty under Section 11 as well as in their application to other Sections especially when such violations are considered or admitted to have been willful.

In view of the fact that this Department understands and considers an excess loan to be a violation of the Illinois Banking Law we can do no less than to insist (1) that the loan be liquidated according to its terms or on prior tender of payment and (2) that such illegal practices be terminated.

* * * * *

For the purpose of further discussion and to consider the implications of the penalty clause, let us assume a theoretical example. The circumstances possibly are extreme to the point of being somewhat unusual but yet serving the point of being illustratory.

The Bank has capital stock of $35,000 and surplus of $25,000, giving it a loaning limit of $9,000. A piece of real estate is about to be sold for $32,000 and the purchaser lacking the necessary funds applies for a loan of $21,000 from the bank to be secured by a mortgage on the property.

The Directors consider the application and being well satisfied with the borrower's ability and the value of the security, they approve the loan.

When the transaction is completed, the bank then holds a $21,000 real estate loan drawing 4½% interest and maturing in ten years. The maker has the privilege, however, of paying all or any part of the principal at any interest paying date.

Regardless of their faith in the honesty, capacity and ability of the maker; what caused these five men to place the liability for a possible claim upon themselves?

One view upon this matter might be that the bank was organized as a community enterprise to meet the needs and conveniences of customers living in that community, depositors and borrowers as well; and that the Directors consider this loan as a deserving need of a local customer and one of their duties in fulfilling the purposes for which the bank was established. Another view might be that the loan was made upon a desire of the Directors for an increase in the earnings of the bank in order to thereby satisfy their personal desire of more substantial dividends on their stock; they contemplating that the entire annual interest of $945.00 will be distributed as a dividend to stockholders. Of course the $945.00 will be diminished by income taxes but let us disregard that probability.

The Board consists of five members and they collectively hold 50 of the 350 shares or one-seventh of the entire stock. Consequently, they will receive a total of $135.00 from the annual interest. Individually, this amounts to $27.00 on the ten shares that each Director owns.

For the maximum possible return during the year of $27.00, each Director risks becoming personally and individually liable not only for one year but for nine succeeding years of conditions, events and circumstances of which he has no certainty and it may continue an additional period of time if the loan should be extended or otherwise unpaid at maturity.

During this time he may cease to be a Director and the administration of this loan may then fall into other hands but he continues to be responsible for the loss or damage. One or more of the other Directors also responsible for the violation may cease to be Directors or they may become financially unresponsible; however, the penalty for violation as contained in the law is so phrased as to make the liability joint and several, which means in effect that the entire burden falls on each individual in the responsible group and, if one or more cannot meet their share, the entire penalty must be borne by those who can.

Had the bank only been required to advance $9,000.00 or less in order to satisfy the needs of the customer, the loan would then have been within the statutory limit. The annual interest on $9,000.00 would amount to $405.00 or if proportioned among the shareholders to about $11.60 on each ten share holdings. Under this possibility each Director therefore undertook the risk for not $27.00 as stated in the above illustration but for the difference between the two interest figures.

By advancing the borrower $12,000 more than the loaning limit, each Director for the maximum possible advantage of $15.40 a year guarantees that the entire loan of $21,000 will not result in a loss or damage to the bank. He not only accepts his share of the responsibility but places himself in a position where he has underwritten the financial responsibility of his co-directors for their share.

This case admittedly is extreme, yet every excess loan and its consequences may be projected into the pattern. It does not seem that any Director or Officer, acting on the impulse that he is obliged to advance funds to local deserving borrowers, or even in anticipation of a personal gain, would extend himself so far as to assume such liability especially if the full implications of the law are thoroughly understood and considered.

While this Department does not advocate split loans, yet we suggest in similar cases where the Directors feel obliged to assist in the financing of a deserving customer that they undertake to arrange to share such financing through external aid such as one of their correspondent banks, obtaining for their own bank only such portion as they may safely handle within their statutory loaning limit.

A great majority of the State banks in Illinois for years have successfully filled the credit needs of their customers yet never violated the provisions of Section 10 or become involved in a set of circumstances which might be interpreted as a violation. Most of the violations that do occur are accidental either through oversight or misinterpretation; however, the law makes no exception for such and Directors are cautioned to proceed with extreme care when considering the application for a loan which approaches the legal loaning limit or which might be construed as being in excess.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Westfield	Clark	Westfield State Bank	$35,000	$10,000	$7,500	Mar. 31, 1947

CAPITAL STOCK INCREASED

Capron .... Boone .... Capron State Bank from $25,000 to $37,500 .... Mar. 7, 1947

DURATION OF CHARTER EXTENDED

Seaton .... Mercer .... State Bank of Seaton .... Feb. 4, 1947
Charter extended 99 years from August 20, 1947

BANKS PLACED IN LIQUIDATION

Alhambra .... Madison .... Hitz State Bank .... Mar. 13, 1947

Plainville .... Adams .... The State Bank of Plainville .... Mar. 26, 1947

TRUST CERTIFICATE ISSUED

			Deposit	
Clinton	DeWitt	The John Warner Bank	$50,000	Mar. 7, 1947

BANK DISSOLVED

Alhambra .... Madison .... Hitz State Bank .... Mar. 29, 1947
(In liquidation March 13, 1947)

RECAPITULATION

State Banks in Chicago	22
State Banks in Cook County outside Chicago	26
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. 23 | SPRINGFIELD, ILL., MAY 1, 1947 | NO. 2

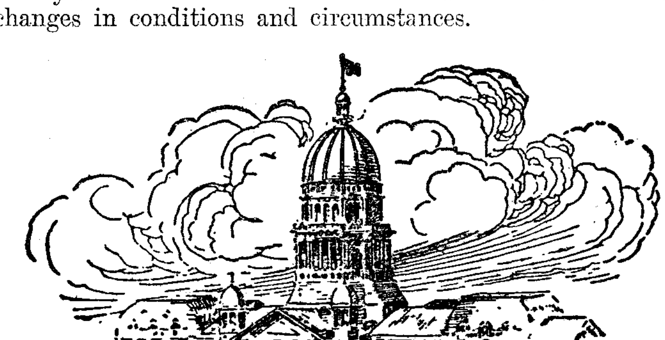
CREDIT POLICIES

While it may be true that the readjustments following the war have been accomplished and that the future course of business can be determined as approaching a period of stability, yet there seems to be considerable confusion both as to what is happening now and as to what is likely to happen in the future.

A poll of the optimists and pessimists in the management of banks appears to be about equal today, however, the majority seem to be carrying some degree of uncertainty and as yet are undecided. Most of them are willing and anxious to meet the credit demands of their trade areas wherever and whenever an applicant for credit establishes to the bank's satisfaction that his particular need is sound and bankable.

Many banks seemingly have considered their established credit policies inoperative and have either overhauled them or proceeded to advance credit solely upon an analysis of each individual application.

No one will take issue with the principle that each application for a loan must be considered on its own merits, that the credit worthiness of the borrower must be evaluated and that the terms of the loan must be sound and also fit the ability of the borrower with reasonable allowance for ordinary changes in conditions and circumstances.



But today there are some situations which seem to confront the application of that principle, one being that the borrower whose ability was established in normal times either is not in the need of credit today or requires the loan of at least double in amount of that which he formerly borrowed. Possibly the size of today's loan to an established borrower is not so important if we avoid being mislead by the liquidation of former indebtedness. The normal ability of many borrowers should not be confused with their ability plus artificial stimulation for the number of marginal borrowers who were enabled to liquidate their obligations by such stimulation cannot be disregarded.

The unproven ability of new credit customers and the ability of others that can only be gauged by their degree of stimulated prosperity; the new schemes and devices which are being offered as facilities towards providing credit; the amount of capital which is being sought for new and untried ventures all tend to confuse this principle.

Our observations as to the results of policies in actual operation come from examiners' reports and because of the nature of the purposes of such reports the unfavorable side has the greater prominence. Analysis of other categories of operations cannot be made as readily for they are displayed in lesser detail.

We are inclined to believe that there is a growing tendency today towards large loans, particularly on real estate. Although an exception is provided in Section 10, whereby certain types of loans can qualify for exclusion from the basic limitation of 15% of capital and surplus, it is rarely sound reasoning to take advantage of these exceptions in order to loan in excess of the basic legal limit.

The reports of our Examiners indicate in some cases that there is, especially in the last six months, a growing trend toward loans of a poorer quality and a lowering of standards in credit policies. At present this involves only a slight number of banks and is being corrected by individual treatment. Although an increase might be expected by the trend, yet it is not serious enough at this time to cause belief that it might become widespread. We do believe, however, that benefits can be gained from our observations.

While the cause for concern may arise from advances to new borrowers and to new ventures or may be the result of unfavorable factors in established policies, a sound credit policy seems to work surprisingly well in both good times and bad with but slight adjustments for changing times and conditions; consequently, a credit policy that has been established and has been proven sound over a sufficient length of operation apparently would require little or no overhauling at this time. Certainly such overhauling would not require hasty action.

Most bankers can recall the condition of their note cases under what has been considered to have been normal times. They can recall the faulty factors in credit policies which in times of stress caused a revaluation of assets through foreclosures and forced liquidations. They can also recall the faulty factors which were overcome by extraordinary activities and circumstances.

How well a credit policy performed during those times and what corrections or adjustments might have been found necessary can best be analyzed by the individual banker. We have no wish to enter into the individual management of banks but we offer the benefits of our observations so that they may be considered and we suggest a careful and comprehensive analysis of any credit policy which has not been tested for soundness over a reasonable period of operation.

RECAPITULATION

Aggregate Resources and Liabilities of the 496 Illinois State Banks at the close of business March 29, 1947, as compared with the next preceding statement issued by the Department.

NUMBER OF BANKS	500	Increase or Decrease	496
DATE OF CALL	Dec. 31, 1946		March 29, 1947
RESOURCES:			
Cash and Due from Banks	$ 722,003,208.26	$—141,000,246.57	$ 581,002,961.69
Outside Checks and Other Cash Items	3,577,735.04	+435,184.06	4,012,919.10
U. S. Governments—Direct & Guaranteed	1,710,844,447.48	—72,359,025.55	1,638,485,421.93
Other Bonds, Stocks & Securities	231,126,191.22	+17,557,626.44	248,683,817.66
Loans and Discounts	483,240,811.22	+25,478,836.37	508,719,647.59
Overdrafts	152,618.93	+574,340.13	726,959.06
Banking House, Furniture & Fixtures	8,971,918.14	—76,451.96	8,895,466.18
Other Real Estate	39,473.15	+3,577.78	43,050.93
Customers' Liability—Letters of Credit	2,775,104.81	+256,320.72	3,031,425.53
Customers' Liability—Acceptances	884,877.38	—155,712.81	729,164.57
Other Resources	6,303,827.88	—457,140.44	5,846,687.44
Grand Total Resources	$3,169,920,213.51	$—169,742,691.83	$3,000,177,521.68
LIABILITIES:			
Capital Stock	$45,225,550.00	$ —344,000.00	$44,881,550.00
Income Debentures	549,191.67	—100,000.00	449,191.67
Surplus	52,333,100.00	+450,741.95	52,783,841.95
Undivided Profits (net)	31,220,811.90	+1,998,791.69	33,219,603.59
Reserve Accounts	33,836,748.07	+862,825.53	34,699,573.60
Total Capital Structure	$163,165,401.64	$+2,868,359.17	$166,033,760.81
Demand Deposits	$1,925,146,141.10	$—221,428,838.42	$1,703,717,302.68
Time Deposits	897,826,640.94	+16,229,399.53	914,056,040.47
Due to Banks	174,656,829.24	+12,013,899.66	186,670,728.90
Total Deposits	$2,997,629,611.28	$—193,185,539.23	$2,804,444,072.05
Bills Payable	----------------	$+20,099,983.56	$20,099,983.56
Rediscounts	----------------	----------------	----------------
Dividends Unpaid	$ 457,221.68	—218,438.34	238,783.34
Letters of Credit	2,801,754.53	+238,781.00	3,040,535.53
Bank Acceptances	912,289.38	—175,544.81	736,744.57
Other Liabilities	4,953,935.00	+629,706.82	5,583,641.82
Total Other Liabilities	$9,125,200.59	$+20,574,488.23	$29,699,688.82
Grand Total Liabilities	$3,169,920,213.51	$—169,742,691.83	$3,000,177,521.68
ANALYSIS:			
Deposits Secured by Pledge	$ 123,452,666.86	$ +26,214,301.37	$ 149,666,968.23
Deposits Not Secured by Pledge	2,874,176,944.42	—219,399,840.60	2,654,777,103.82
Total—Deposits	$2,997,629,611.28	$—193,185,539.23	$2,804,444,072.05
Banking House	$7,802,575.90	$—140,166.53	$7,662,409.37
Furniture & Fixtures	1,169,342.24	+63,714.57	1,233,056.81
Total—Banking House, Furniture and Fixtures	$8,971,918.14	$—76,451.96	$8,895,466.18
Commercial Paper	$ 17,019,098.20	$ +3,213,643.77	$ 20,232,741.97
Collateral Loans	150,825,456.94	—4,407,651.96	146,417,804.98
Other Loans	209,137,608.70	+22,033,259.08	231,170,867.78
Farm Loans	14,724,521.41	—1,169,466.19	13,555,055.22
Other Real Estate Loans	91,534,125.97	+5,809,051.67	97,343,177.64
Total—Loans and Discounts	$483,240,811.22	$+25,478,836.37	$508,719,647.59

PERMITS ISSUED

			Capital	Surplus	Reserve	
Ridgway	Gallatin	Gallatin County State Bank	$50,000	$25,000	$25,000	Apr. 3, 1947
McLeansboro	Hamilton	The Hamilton County Bank	$75,000	$22,500	$22,500	Apr. 10, 1947
Vermont	Fulton	Vermont State Bank	$25,000	$5,000	$10,000	Apr. 23, 1947
Rankin	Vermilion	Rankin State Bank	$30,000	$10,000	$10,100	Apr. 25, 1947

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Sheridan	LaSalle	Sheridan State Bank Main Street (Part of Lot 3, Block 5) E. S. Erickson, President J. L. Akin, Cashier	$50,000	$10,000	$5,000	Mar. 20, 1947
Chicago	Cook	Bank of Chicago 1050 Wilson Avenue Marshall Corns, President Frank H. Tinsley, Vice President and Cashier	$200,000	$50,000	$50,000	Apr. 16, 1947

CAPITAL STOCK INCREASED

Wheaton	DuPage	Wheaton Trust and Savings Bank from $50,000 to $100,000	Apr. 21, 1947
Chicago	Cook	Pullman Trust & Savings Bank from $300,000 to $600,000	Apr. 28, 1947

CHANGE OF PAR VALUE OF CAPITAL STOCK

Chicago	Cook	Pullman Trust & Savings Bank from $100.00 to $20.00	Apr. 28, 1947

TITLE GUARANTEE CERTIFICATE ISSUED

			Deposit	
Woodstock	McHenry	McHenry County Title Company	$25,000	Apr. 3, 1947

BANK DISSOLVED

Cherry Valley	Winnebago	Cherry Valley State Bank (In liquidation June 29, 1940)	Mar. 12, 1947

RECAPITULATION

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

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

VOL. 23 SPRINGFIELD, ILL., JUNE 1, 1947 No. 3

LOANING LIMITS

In a preceding BULLETIN, that of April 1, 1947, excess loans were discussed on the grounds that a loan which is permitted to exceed the statutory limit constitutes a violation of law.

A fundamental requisite of a sound successful bank is that its operation not only must be within the legal requirements and restrictions, but within the generally accepted principles and policies of banking as well.

So general is the attitude of those charged with the supervision of banks of deposit that laws have been enacted or regulations have been imposed by which loans to any one borrower by the bank may not amount to a relatively considerable portion of the bank's assets.

The limits and conditions set by such laws or regulations vary to some extent among the supervisory agencies, but all endeavor to provide protection to depositors by prohibiting the loaning of a bank's funds to a single individual, corporation or partnership in such a large amount as would have the effect of jeopardizing the interest of the bank's depositors.

It is not sufficient to consider only that the losses which might occur on account of the failure of any one borrower to meet the payment of his obligation might also be dangerously large. It is equally well important to consider that large lines of credit are more likely to become unwieldy in

times of stress. While times of economic stress affect all, both large and small, yet it is more likely that the large will not liquidate as readily when the occasion demands and too, credit advances concentrated in one borrower frequently are seriously affected by but slight adverse changes in conditions or circumstances that at times relate only to the borrower and do not necessarily parallel the general situation or trend. Forced liquidation under such or similar circumstances more often than not results in loss, however, jeopardy to depositors not only results from a sustained loss on loans, but from the effects of a frozen note case as well.

There is little use to assume that a rule of the thumb may be applied to banks in general as concerns a loaning limitation which is within an amount that may be loaned safely; thereby, insuring the continuous and safe operation of all banks. The statutory limitation on the amount which may be loaned to any one borrower is not a "cure-all" or intended as such, it merely establishes a ceiling beyond which the directors and officers of a bank are forbidden to advance funds of depositors.

In addition to statutory limitations and any penalties that might be invoked for violations, directors and officers are also charged with the responsibility of exercising ordinary care and prudence in their administration of the bank's affairs. We believe that ordinary care and prudence demands a sound credit policy within the range of statutory restrictions but otherwise based upon many local factors.

It consequently appears that the credit policy of a bank should have as one of its fundamental principles not only loaning limitations as set by statutory restrictions, but an inner-selected scale of carefully determined limits on advances to the various individual borrowers. Except for certain provisions contained in the law, the statutory limit as we have pointed out, is absolute and, therefore, should be considered and upheld as inviolable.

Let us not be misunderstood on this matter. We do not wish to say or imply that the present loaning limit of every bank is the extreme amount which should be lent by them to any one borrower and yet is sufficient to properly meet and service the needs of the community's borrowers; its industries, merchants and farmers. While we feel that a few banks although operating within their legal restrictions have overstepped their natural loaning limits, and there are indications that others might be closely approaching the extent of their borrowers' abilities, yet on the other hand, there are a few banks located in strong productive areas whose statutory loaning limits seemingly are below the requirements and abilities of their respective communities.

In unusual cases such as these facilities may be had by enlarging the statutory limitation through increases to capital or to surplus. Increases to either accomplish the same result as with the amendment of Section 10 in 1943, additions to either are equally effective.

It should not be construed, however, that this Department is advocating general increases to capital and surplus primarily for the purpose of creating facilities for larger extensions of credit.

Loaning limitations are definitely individual problems and if a bank finds itself in a position where the legal restrictions are handicapping its efforts to serve the credit needs of its community, usually there will be found other and more sound reasons for additions to capital and surplus, than those originating from the need for a greater loaning ability. Generally, if the amount of capital and surplus has been established as reasonably adequate for conducting and safeguarding the business volume of any particular bank, the loaning limit established thereby ordinarily will likewise be found adequate.

As we have previously stated, the law fixes the limit to which funds may be advanced to any one borrower, but in fixing such limitations, it was also contemplated at the same time that the officers and directors of banks would exercise discretion and sound judgment in appraising the extent within statutory restrictions to which each borrower might be entitled to credit.

Actually the working credit policy should operate under self-imposed limitations based both upon the natural limitations of the community and upon the individual limitations of each borrower. We might say, therefore, that the statutory restriction has no part in the actual working credit policy, except to establish limits beyond which operations become illegal.

Loaning limits too frequently have been spoken of as those set by statute rather than those based upon a careful analysis of loaning conditions, individual borrowers and characteristics of predominating types of borrowers. There is ample evidence that in the past, too much emphasis was placed upon the statutory provisions rather than upon such analysis. Loaning limits were calculated by the prescribed ratio to capital and surplus instead of by the amount of risk found in the individual borrower or in his particular type of loan. The statutory limit often was spoken of or emphasized in such a way while dealing with customers that it acted to serve as an invitation to borrow the legal maximum.

The ordinary applications today, are for loans in much larger amounts than were formerly considered normal and with but a slight acceleration in the present rate of granting credits many banks might easily find themselves loaned to their capacity or possibly overloaned especially if funds on deposit are diverted into business channels with an equal acceleration.

The present healthy condition of Illinois State Banks can be retained and preserved as long as the managements recognize the contingencies in granting credits too hastily and the hazards that are likely to arise especially from (1) over-limit real estate loans although qualified as exceptions to the excess limitation, (2) large capital advances and (3) seasonal or short-term financing for the purpose of creating or increasing inventories.

The over-limit real estate loan predicated upon an appraised valuation of twice the amount of the loan carries considerable risk when considering that a 50% loan today is approximately equivalent in amount to a 100% loan on the same property at the 1941 valuation.

Fortunately principal amortization of a real estate mortgage has been so universally accepted and practiced that risks have been reduced; whether the rate of amortization in the early years of the mortgage terms will be rapid enough to keep such loans in a favorable position, however, is questionable.

Large capital loans which to collect necessitate putting the borrowers out of business are particularly hazardous even when granted to proven management, but particularly so if extended to untried ventures and unproven operators.

Seasonal or short-term financing for inventory purposes can easily revert to long-term financing and a frozen condition if vulnerable to an increase in consumer resistance.

The attitude of this Department is not intended as a restraint upon sound extensions of credit, rather it is a caution to the managements of banks to conserve the supply of credit means by avoiding unsound or unnecessary risks.

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Ridgway	Gallatin	Gallatin County State Bank N.W. Corner Edwards and Division Streets J. W. Karber, President E. A. Hon, Cashier	$50,000	$25,000	$25,000	May 8, 1947
Westfield	Clark	Westfield State Bank S.E. Corner State and Washington Streets J. W. Davis, President Harold Young, Cashier	$35,000	$10,000	$ 7,500	May 15, 1947

TRUST CERTIFICATE CANCELLED

Pittsburgh....Pennsylvania..Union Trust Company of Pittsburgh, Pa.........May 5, 1947

BANK DISSOLVED

Chicago.......Cook.........Old Dearborn State Bank........................May 22, 1947
(In receivership June 28, 1932. Dissolved by order of the Circuit Court of Cook County.)

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	26
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

VOL. 23 SPRINGFIELD, ILL., JULY 1, 1947 No 4

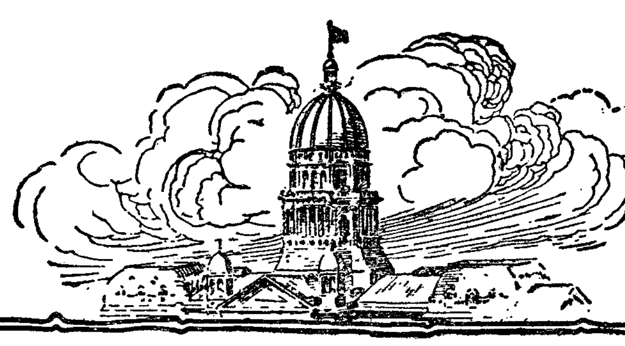
BANK CHARTERING

A review of the charters granted to new State banks in Illinois and the liquidations of established banks is interesting in that from January 1, 1941 to date, fifty-four new charters have been issued and thirty-four voluntary liquidations have occurred.

This fluid chartering and liquidating of banks is believed to be important as it affords banking services to communities deserving such facilities and eliminates those in submarginal banking areas unable to support a profitable bank. Undoubtedly, trade areas are constantly changing due to natural, physical and economic conditions and banking facilities should be adjusted accordingly.

Other than where operations in submarginal areas were found no longer profitable or at least not sufficient to maintain a healthy institution, voluntary liquidations resulted principally either from death, or other incapacitating consequences affecting management, or from the personal desire of controlling ownership.

Five of the fifty-four new banks were organized to replace recently liquidated institutions; in four instances the actions were simultaneous and provided a means of continuing uninterrupted banking facilities in those communities. It is in cases such as these where local resources possess the abilities to provide or to attract the required capital for a



new institution, that fluid chartering and liquidating is particularly of a public benefit.

An amendment to the Banking Act in 1929 established a minimum capital stock requirement of $50,000.00. Following the adjustments in the early 1930's and the banking moratorium in 1933, many communities found themselves without banking facilities. Although new banks were organized in some of these communities others found it difficult, if not impossible, to attract the capital requirement and continued bankless until the law was again amended in 1939. The 1939 amendment was ratified by a vote of the People and came in force November 20, 1940. This permitted bankless communities of 2,500 inhabitants or less to organize a bank with a minimum of $25,000.00 in Capital Stock, $2,500.00 in Surplus and $1,250.00 as Operating Reserve. Since that time thirty-four charters have been issued to banks at less than the $50,000.00 formerly required for capital stock, although six others were organized in localities that could have capitalized at the $25,000.00 minimum.

The Illinois Banking law specifies that when any association of persons desires to avail themselves of the provisions of the Act, they shall apply to the Auditor of Public Accounts for permission to organize, stating their place of business, the amount of capital and surplus and other pertinent facts regarding the proposed organization. Accompanying this application must be a statement giving the net financial worth of each of the members of the association and at least three references as to the personal character of each individual. The Auditor is required to examine the application and the accompanying statements and if it appears that the statements are true and that the applicants are entitled to a permit to organize, the Auditor is authorized to issue them such a permit to organize. Books of subscription to the capital stock may then be opened and when the organization has been completed, as provided in the law, the Auditor must by himself or some competent person of his appointment, make a thorough examination into the affairs of the association. If the Auditor is satisfied that the authorized capital has been paid in and that the association has the full amount dedicated to the business, including the necessary surplus and reserve for operating expenses, the Auditor may then issue his certificate under his seal authorizing the new bank to commence the business designated in the Act. The Auditor may, in his discretion, withhold the issuing of the certificate to commence business for the reasons as enumerated in the Act.

The examination of the application and the investigation of the applicants' statements provide opportunities for the Auditor of Public Accounts to discuss with the applicants the factors necessary for the success of the proposed institution. The potential volume of business to be transacted in the trade area is analyzed from information that is carefully assembled and forms a basis for determining the advisable amount of capital and supplemental capital accounts. The applicants are requested to furnish evidence of ability to secure suitable banking quarters, the cost of which in turn establishes the burden which will be placed upon the institution from that source.

The analysis also provides a fair estimate of deposit volume in order to permit the organization to maintain a reasonable capital ratio. The volume and nature of available loans as well as the estimated maximum amount which may be loaned to any one borrower are also controlling as to the capital and surplus requirements.

The possibilities of a fair profit from the operations of the proposed institution are estimated by projecting the average results of comparable operating banks against the volume of deposits and loans which are anticipated by the new enterprise. Absence of an opportunity for profit, commensurate with the risk involved, is usually accepted by the applicants as sufficient reason to terminate the proposal. Responsible applicants and the Auditor of Public Accounts unite as one in the desire for a safe, profitable and successful community enterprise.

The advisability of proceeding with the organization determined, the examination of the application and the investigation of the statements completed, the permit to organize issued, the shares subscribed to, the directors elected, the board organized and the capital fully paid in and record submitted, the Auditor then makes a thorough examination of the association.

As the examination and investigation procedure leading to the issuance of the permit to organize is in regard to the applicants and as the applicants are not required to be officers, directors or subscribers, a subsequent examination is made which investigates the character and standing of each officer and of each director for to a major extent it is upon these that the success of the new bank will be measured. The Auditor may, in his discretion, withhold the issuance of the certificate to commence business when he is not satisfied as to personal character or standing of an officer or of any director. The Auditor has recognized the extreme importance of sound management and has indicated this in part in his Bulletin of June 1, 1946, stating "There is simply no room in a community bank organization for exploitation capital."

In addition to the legal requirement for capital stock, the law requires surplus contributions at least equal to 10% of the amount dedicated to capital stock and an operating reserve of at least 5%. Applicants and the directors elected in the fifty-four new banks must be commended for providing substantially more than the minimum capital structure as none of the fifty-four newly organized State banks have taken advantage of the statutory minimum for the sub-structure.

The legal requirement in the fifty-four State banks organized since January 1, 1941 would have been $2,750,000.00 Capital Stock, $275,000.00 Surplus and $137,500.00 Operating Reserves; a total of $3,162,500.00 for capital and sub-structure. Actually, the stockholders of these State banks provided a total of $4,260,875.00 for capital and sub-structure, dedicating $3,022,500.00 to Capital Stock, $714,000.00 to Surplus and $524,375.00 to Operating Reserves.

The forty State banks that were organized in communities having populations of 2,500 or less established a total capital structure of $1,740,875.00 which was divided into Capital Stock, Surplus and Operating Reserves in the amounts of $1,252,500.00, $314,000.00 and $174,375.00 in that order. The minimum legal requirements total $1,150,000.00 on the basis of forty banks each having $25,000.00 in Capital Stock.

The fifty-four new State banks in addition to providing extra capitalization of $1,098,375.00 or slightly better than one-third more than the statutory requirements have also continued to enhance capital structures by the retention of substantial portions of earnings.

The experience of this Department in connection with the organization of State banks has indicated that a new bank usually operates one and a half years before earnings have offset the organization and operating expenses, after which, earnings generally then permit an augmentation to capital structure of about 15% annually.

During the course of the organization of a State bank this Department strenuously urges the adoption of an immediate program of liberal depreciation charges against fixed assets and an adequate provision for absorbing the premiums on investments purchased.

While the organizers and managements have been very generous in following these recommendations, yet at the same time the banks organized in 1945, after operating on the average of one and a half years, had augmented the original capitalization by 1¼%; those organized in 1944 by 16%, 1943 by 32%, 1942 by 46% and 1941 by 61½%.

According to press reports, Illinois has led all States in the number of banks chartered, seventeen new State banks having been organized in 1946; however, this Department is extremely aware of the dangers of over-chartering. Realizing these dangers, a most thorough examination of each proposed organization has been made which has involved considerable time and effort for counsel, conferences and repeated investigations.

A bank charter whether it be State or National is not a monopoly on the banking business of that community or locality; yet the effect of a new organization upon an existing bank, or banks, in the normal business area must be considered. Depositors must not be jeopordized and successful operations should not be reduced to the extent that competitive practices become unwise or unfair.

We have had no indication that the fifty-four new State banks have contributed to these evils; seemingly, they are successfully serving the needs of their communities and the purposes for which they were organized without apparent damage to competing banks.

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Vermont	Fulton	Vermont State Bank North Main Street Carl R. Welch, President C. O. Moore, Cashier	$25,000	$5,000	$10,000	June 5, 1947

CAPITAL STOCK INCREASED

West Chicago	DuPage	State Trust and Savings Bank from $50,000 to $75,000	June 26, 1947

TRUST CERTIFICATE CANCELLED

Effingham	Effingham	First National Bank of Effingham	June 20, 1947

BANKS DISSOLVED

Murphysboro	Jackson	Murphysboro Savings Bank (In liquidation January 14, 1936)	June 2, 1947
Maywood	Cook	Maywood State Bank (In receivership January 12, 1932. Dissolved by order of the Circuit Court of Cook County)	June 16, 1947
Forest Park	Cook	Forest Park Trust & Savings Bank (In receivership January 4, 1932. Dissolved by order of the Circuit Court of Cook County)	June 20, 1947

RECAPITULATION

State Banks in Chicago	23
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	452
Total	501

(39545)

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

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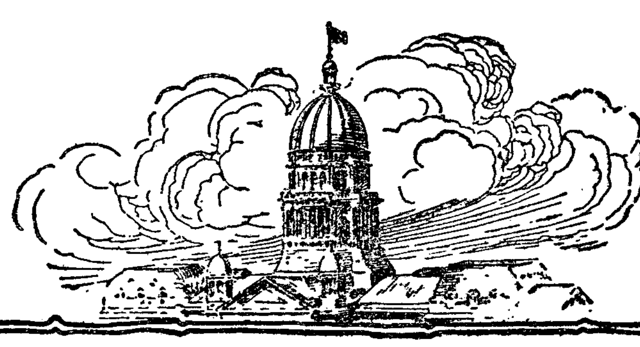
THREE MONTHS REVIEWED

The combined statement of the 501 Illinois State banks, showing aggregate resources and liabilities, as of the close of business June 30, 1947, appears on the inner page of this BULLETIN and is compared with a similar statement which was prepared from the March 29, 1947 Call Reports of the 496 Illinois State banks actively operating at that time.

A net increase of nearly $143,000,000 during the second quarter is reflected by comparing the footings of the two statements. Although increases appear general throughout the accounts, yet substantial decreases are observed in instances and principally are: a reduction of over $60,000,000 in secured deposits; a decline of nearly $22,000,000 in deposit balances due to banks and the retirement of slightly more than $20,000,000 in bills payable.

The reduction of $60,072,000 in secured deposits occurs through banks reporting $65,279,000 less in secured U. S. Government deposits on June 30, 1947 than on March 29, 1947, while all other secured deposits are reported at slight increases.

Unsecured deposits, both time and demand balances, show a net increase of $221,011,000 and, after allowances for the $21,739,000 decline in balances due to banks, an increase of $242,750,000 is indicated in the accounts of commercial and private depositors.



The funds provided by this increase in commercial and private deposits and by the gross increase of $2,250,000 in capital structure, total in excess of $245,000,000. After retaining $91,686,000 in cash means, the principal applications of funds consisted of the investment of $22,335,000 in U. S. Government obligations and $15,442,000 in other bonds, stocks and securities, while $13,052,000 was used for extensions of credit in the form of loans and discounts.

The decreases in secured deposits, balances due to banks and bills payable which were previously mentioned, largely account for the remaining application of funds.

The net increase of $2,192,000 in capital structure reflects, after considering income debenture retirements of $61,000; an increase of over $2,250,000 in stockholders' funds, of which $557,550 is represented by capital contributions to the five new Illinois State banks organized during the period.

Unpaid balances on deferred certificates outstanding although not reflected in the recapitulation were reported by 43 banks at $3,217,375.34; payments and retirements of $204,400.22 were recorded during the quarter. Four of such instances represented final payments and the progress in this respect can be judged by comparing the present figures against those of June 29, 1946 when 55 banks reported unpaid balances of $5,695,352.38. Originally 343 Illinois State banks created a total of over $36,000,000 in liabilities of this nature.

The 7 Illinois State banks reporting a total of $388,191.67 in income debentures on June 30, 1947 compared with 12 reporting $582,650.00 a year ago and with the total original issue of $7,576,000.00 by 93 banks.

A segregation of the call report figures reveals that the footings of Illinois State banks in the City of Chicago increased from $1,627,581,000 to $1,726,026,000 during the quarter, while the Illinois State banks other than those in the City increased from $1,372,596,000 to $1,416,995,000. At the close of business June 30, 1947 the 23 Illinois State banks in the City of Chicago reported $1,624,034,000 in total deposits and the 478 other Illinois State banks reported $1,341,349,000. The 15 Illinois State banks that do not operate under the provisions of the Federal Deposit Insurance Corporation showed total resources of $36,000,000 against total deposits of $33,000,000 on that date.

A further breakdown of the recapitulation indicates that the increase of $15,442,000 in bonds, stocks and securities other than obligations of the U. S. Government is accounted for by the additional investment of $15,376,000 in municipal obligations. The reported holdings of municipal obligations by Illinois State banks now total $143,741,000.

Installment payment loans made for the purpose of personal cash and for consumer purchases now reported at $30,704,000 against a total of $24,061,000 on March 29, 1947. The total of real estate loans on farm property remained practically static as did the total of real estate loans made under the provisions of F.H.A., however, real estate loans other than these increased from $79,971,000 to $85,690,000 during the three months.

An analysis of the changes reflected in the comparative statements as well as the amount of accumulated resources and the volume of deposits are evidence of the continued importance of Illinois State banks.

RECAPITULATION

Aggregate Resources and Liabilities of the 501 Illinois State Banks at the close of business June 30, 1947, as compared with the next preceding statement issued by the Department.

Number of Banks	496	Increase or Decrease	501
Date of Call	March 29,1947		June 30, 1947
RESOURCES:			
Cash and Due from Banks	$ 581,002,961.69	$ +91,686,329.65	$ 672,689,291.34
Outside Checks and Other Cash Items	4,012,919.10	—209,327.18	3,803,591.92
U. S. Governments-Direct & Guaranteed	1,638,485,421.93	+22,335,371.12	1,660,820,793.05
Other Bonds, Stocks & Securities	248,683,817.66	+15,442,567.73	264,126,385.39
Loans and Discounts	508,719,647.59	+13,052,610.26	521,772,257.85
Overdrafts	726,959.06	—520,329.99	206,629.07
Banking House, Furniture & Fixtures	8,895,466.18	+134,058.08	9,029,524.26
Other Real Estate	43,050.93	—6,513.60	36,537.33
Customers' Liability-Letters of Credit	3,031,425.53	—193,682.86	2,837,742.67
Customers' Liability-Acceptances	729,164.57	—125,877.58	603,286.99
Other Resources	5,846,687.44	+1,248,916.73	7,095,604.17
GRAND TOTAL RESOURCES	$ 3,000,177,521.68	$ +142,844,122.36	$ 3,143,021,644.04
LIABILITIES:			
Capital Stock	$ 44,881,550.00	$ + 735,000.00	$ 45,616,550.00
Income Debentures	449,191.67	—61,000.00	388,191.67
Surplus	52,783,841.95	+619,758.05	53,403,600.00
Undivided Profits (net)	33,219,603.59	+ 66,605.09	33,286,208.68
Reserve Accounts	34,699,573.60	+ 832,403.25	35,531,976.85
TOTAL CAPITAL STRUCTURE	$ 166,033,760.81	$ + 2,192,766.39	$ 168,226,527.20
Demand Deposits	$ 1,703,717,302.68	$ +152,555,768.66	$ 1,856,273,071.34
Time Deposits	914,056,040.47	+30,122,417.09	944,178,457.56
Due to Banks	186,670,728.90	—21,739,275.83	164,931,453.07
TOTAL DEPOSITS	$ 2,804,444,072.05	$ +160,938,909.92	$ 2,965,382,981.97
Bills Payable	$ 20,099,983.56	$ —20,099,983.56	$..............
Rediscounts	....	....	....
Dividends Unpaid	238,783.34	+36,605.00	275,388.34
Letters of Credit	3,040,535.53	—196,942.86	2,843,592.67
Bank Acceptances	736,744.57	—112,857.58	623,886.99
Other Liabilities	5,583,641.82	+85,625.05	5,669,266.87
TOTAL OTHER LIABILITIES	$ 29,699,688.82	$ —20,287,553.95	$ 9,412,134.87
GRAND TOTAL LIABILITIES	$ 3,000,177,521.68	$ +142,844,122.36	$ 3,143,021,644.04
ANALYSIS:			
Deposits Secured by Pledge	$ 149,666,968.23	$ —60,072,275.49	$ 89,594,692.74
Deposits Not Secured by Pledge	2,654,777,103.82	+ 221,011,185.41	2,875,788,289.23
TOTAL-DEPOSITS	$ 2,804,444,072.05	$ +160,938,909.92	$ 2,965,382,981.97
Banking House	$ 7,662,409.37	$ +15,692.00	$ 7,678,101.37
Furniture & Fixtures	1,233,056.81	+118,366.08	1,351,422.89
TOTAL—Banking House, Furniture and Fixtures	$ 8,895,466.18	$ +134,058.08	$ 9,029,524.26
Commercial Paper	$ 20,232,741.97	$ +2,785,717.95	$ 23,018,459.92
Collateral Loans	146,417,804.98	—6,884,257.79	139,533,547.19
Other Loans	231,170,867.78	+11,454,075.79	242,624,943.57
Farm Loans	13,555,055.22	+137,179.98	13,692,235.20
Other Real Estate Loans	97,343,177.64	+5,559,894.33	102,903,071.97
TOTAL—LOANS AND DISCOUNTS	$ 508,719,647.59	$ +13,052,610.26	$ 521,772,257.85

CHARTER ISSUED

			Capital	Surplus	Reserve	
Chicago	Cook	Standard State Bank 7917 South Ashland Avenue Bartholomew O'Toole, President John E. Sullivan, Cashier	$200,000	$50,000	$75,000	July 7, 1947

CAPITAL STOCK INCREASED

Chicago	Cook	Standard State Bank from $200,000 to $270,000	July 23, 1947

CHANGE OF PAR VALUE OF CAPITAL STOCK

Newton	Jasper	The Peoples State Bank of Newton, Illinois from $100.00 to $25.00	July 23, 1947

BANKS DISSOLVED

Melrose Park	Cook	Citizens State Bank of Melrose Park (In receivership November 25, 1930. Dissolved by order of the Circuit Court of Cook County.)	June 30, 1947
Melrose Park	Cook	Melrose Park State Bank (In receivership January 9, 1932. Dissolved by order of the Circuit Court of Cook County.)	June 30, 1947
Chicago	Cook	Phillip State Bank & Trust Company (In receivership June 28, 1932. Dissolved by order of the Superior Court of Cook County.)	July 15, 1947
Chicago	Cook	Union State Bank of South Chicago (In receivership October 21, 1931. Dissolved by order of the Circuit Court of Cook County.)	July 15, 1947
Table Grove	Fulton	Farmers State Bank of Table Grove (In liquidation June 20, 1946.)	July 24, 1947

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	452
Total	502

(41089)

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State *of* Illinois

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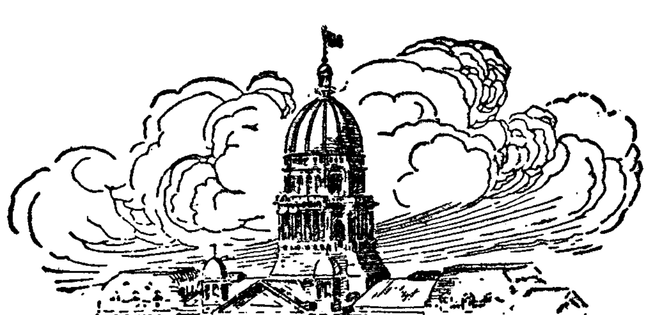
REAL ESTATE LOANS

A great amount of thought and discussion has been given as to what contribution banks have made towards supporting the inflationary trend of real estate values. Not long ago a national conference sponsored by federal authorities gathered testimony from various sources concerning the amount of responsibility that could be charged to banks for the rise in farm real estate values. This office as a member of the National Association of Supervisors of State Banks received a telegraphic inquiry as follows: "As President of Supervisors Association I have been asked for statement at conference, Department of Agriculture, Washington, next Monday on Control of Farm Land Prices. Am anxious to know if your examiners have revealed any tendency on part of banks to make farm mortgage loans on basis which would encourage inflationary farm land prices. Important you wire me information on your state today if possible. (Signed) T. W. Leggett, President National Association of Supervisors of State Banks."; to which we replied: "Our examiners have not revealed any tendency on part of Illinois State banks to make farm mortgage loans on basis which would encourage inflationary farm land prices except in a few isolated cases which are not considered of sufficient importance to indicate a general trend or cause undue concern."



Following these communications an opportunity was had to discuss this matter with the Supervisors of many of our neighboring states. Their replies to the inquiry were indicated to have been very similar to ours and the general belief was that the tendency, if any, was not chargeable to private lending institutions; especially, if measured by the extent that might be charged to this group of lenders through the participation of State banks.

Starting at the close of business December 30, 1939, the total amount invested in real estate loans on farm lands has varied very little. On that date 525 Illinois State Banks reported $13,528,678.31 of such loans in a total of $1,399,715,315.22 of resources. Since that time, real estate loans on farm lands declined progressively to a low of $10,049,249.88 on December 30, 1944 when 483 Illinois State banks reported that amount in $2,857,562,226.31 of total resources and then advanced to $14,724,521.41 on December 31, 1946 as reported by 500 Illinois State banks having total resources of $3,169,920,213.51. The total on June 30th, 1947 was $13,692,235.20 in 501 Illinois State banks having total resources of $3,143,021,644.04.

The June 30th, 1947 total of real estate loans on farm lands is practically the same as the total on December 30, 1939 and does not reveal an alarming increase over the lowest total for the intervening period, that of December 30, 1944. As the 23 Illinois State banks in the City of Chicago having total resources of $1,726,026,541.57 report but $7,500.00 in loans on farm real estate; the 478 other Illinois State banks hold practically the entire total reported for this type of loan. The average real estate loan account on farm property for each of the 478 Illinois State banks outside of the City of Chicago would be less than $28,650.00 against average total resources of $2,965,000.00; or approximately 1% of total assets.

This application of comparative figures reveals banks of one million dollars in resources having somewhat under ten thousand dollars in real estate loans on farm lands, two million dollar banks with less than twenty thousand dollars in such loans and larger banks holding total farm land mortgages in the same proportion; if of course the average pattern may be applied to all.

The Federal Reserve Bank of Chicago has recently released figures concerning farm land activity and showing, among other factors, that in the entire Seventh Federal Reserve District the average down-payment, where farm land purchases were financed, amounted to 50% of the purchase price. In that part of Illinois, roughly the northern one-half of the State, falling in the Seventh District, this average was 55% while the financing was on the basis of 45% of the purchase price.

From another reliable source we are informed that the average value of improved farm land in the entire State of Illinois for 1946-1947 was $167.50 per acre and is compared with their 1940-1941 average of $95.00 per acre.

If we may be permitted to apply these figures, although from different sources, to one another and to assume that they are in direct relation to the combined reports of the 478 Illinois State banks outside the City of Chicago, average results may be derived. The average Illinois State bank with resources of $2,965,000.00 of which $28,650.00 was invested in loans on farm real estate would be holding under such application a lien on about 380 acres of farm land in an amount equivalent to 45% of the $167.50 per acre 1946-1947 valuation.

On the same basis the average Illinois State bank outside the City of Chicago holds a lien on somewhat less than 130 acres of farm lands in each one-million dollars of total assets.

Anyone familiar with Illinois is thoroughly aware that the $167.50 per acre 1946-1947 average valuation for the entire State will be at considerable variance both with local values and with sectional averages. This Department also realizes that average results have limited implications and do not reveal the actual participations of individual banks.

As previously indicated we are aware of a few isolated cases holding loans on farm lands where unfavorable factors are apparent. These cases in comparison to the total Illinois State banks are very few and principally involve pyramid purchases resulting in the over-extension of credit to the individual borrower. Market values are frequently considered highly inflated; however, appraisals generally indicate an awareness of this possibility and are usually made on what appears to be a more reasonable basis. Although many loans on farm lands are being made at a greater percentage of such appraisals than is indicated by the 45% average on purchase price, there are many indications to believe that the representative Illinois State banker is aware of the conditions and risks involved in financing farm land purchases and wishes a closer approach to reality than an appraisal dictated by inflationary values.

While a 45% loan on today's land values usually is considered equivalent to at least an 80% loan on the 1940-1941 values, yet amortization provisions are so general in usage that some degree of hedging is in effect against a levelling off of values; provided, of course, that due consideration has been given to the ability of both the land and the borrower. More substantial principal payments during the early life of the loan are being recognized and practiced more frequently as a means of creating safer equities.

It is infrequently found that appraisals are being tailored to accommodate the borrower or make the loan appear more favorable and we feel that the refusal of bankers to extend credit on the basis of such appraisals may be one of the stronger factors against a reoccurrence of the serious situations which formerly originated from unsound investments in farm mortgages.

Probably the most favorable factor as concerns farm mortgages is the absence of additional obligations on open lines of credit to the same borrower. A large mortgage on the land plus heavy indebtedness for operating means usually places a top-heavy obligation upon the borrower which easily becomes frozen and seldom liquidates without damage to both the borrower and the lender.

Although real estate loans on other than farm lands were reported at forty-five million dollars on December 30, 1939 and fluctuated closely around a total of sixty millions during the war years, they have increased steadily in the past eighteen months. The total reported on June 30, 1947 was almost one hundred and three million dollars for the entire 501 Illinois State banks.

Of the $102,903,071.97 in real estate loans on other than farm properties, $17,213,402.78 were made under the provisions of the F.H.A. The total participation in F.H.A. insured mortgages has decreased from $23,000,574.00 on December 31, 1945, although recently the total has become static and reinvestments appear to be made at about the same rate as retirement payments are received.

It has been estimated that 50% or more of the total are seasoned loans on properties mortgaged when construction costs were lower and on which the owner has acquired an equity substantial enough to forestall the possibility of abandonment.

The greatest increase in real estate loans occurs in other than those on farm lands and other than those insured by the F.H.A. The total on these other real estate loans was $85,689,669.19 as reported by 501 Illinois State banks on June 30, 1947 and compares with the total of $44,371,647.88 for the 490 Illinois State banks on December 31, 1945.

While tabulations are not available, a test analysis seems to indicate that many loans in this classification are on residential properties held at a low or at least very reasonable percentage of the property's value. Most of these properties were acquired and mortgaged at a time of lower construction costs and values. More important probably is the fact that the purchaser invested a larger cash payment percentage-wise and in addition his purchase was not entirely advanced by an hysterical desire to obtain dwelling facilities.

Real estate loans on commercial properties are divided into those for remodeling and expansion and into those for new construction. Commercial properties that can be adapted to a change in occupancy are much more desirable as mortgage form collateral than single or special purpose structures such as theaters, dairy processing plants, food lockers, tourist camps, swimming pools, and the like. Especially, if these are new ventures, a thorough investigation is advisable before a commitment to finance. Usually, a correspondent bank or a neighboring banker has information that is not always available or apparent concerning any hazards which might be inherent, and, consequently, the risk may be better evaluated through the benefit of their experience.

Nearly every community presents opportunities from time to time for making loans on a sound and reasonable basis; however, there is no place in the banking system for volume accomplishments at the sacrifice of proven credit standards.

PERMIT ISSUED

			Capital	Surplus	Reserve	
Pontiac	Livingston	Bank of Pontiac	$60,000	$30,000	$30,000	Aug. 29, 1947

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Rankin	Vermilion	Rankin State Bank 110 Main Street George Petri, President Albert R. Anderson, Executive Vice President and Cashier	$30,000	$10,000	$10,100	Aug. 1, 1947
Apple River	Jo Daviess	Apple River State Bank S. W. Corner Main and Baldwin Streets Leo D. Charlton, President	$25,000	$ 5,000	$ 7,500	Aug. 21, 1947

CAPITAL STOCK INCREASED

Itasca	Du Page	Itasca State Bank from $25,000 to $100,000	Aug. 7, 1947
Roselle	Du Page	Roselle State Bank from $50,000 to $100,000	Aug. 15, 1947

DURATION OF CHARTER EXTENDED

New Berlin	Sangamon	Warren-Boynton State Bank Charter extended 25 years from September 29, 1947.	Aug. 1, 1947

BANKS DISSOLVED

Cicero	Cook	Pinkert State Bank (In receivership July 6, 1932. Dissolved by order of the Circuit Court of Cook County.)	Aug. 2, 1947
Chicago	Cook	Cottage Grove State Bank (In receivership July 12, 1932. Dissolved by order of the Circuit Court of Cook County.)	Aug. 7, 1947
Cicero	Cook	Cicero Trust and Savings Bank (In receivership April 27, 1931. Dissolved by order of the Circuit Court of Cook County.)	Aug. 12, 1947

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	454
Total	504

(43046)

MONTHLY BULLETIN

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

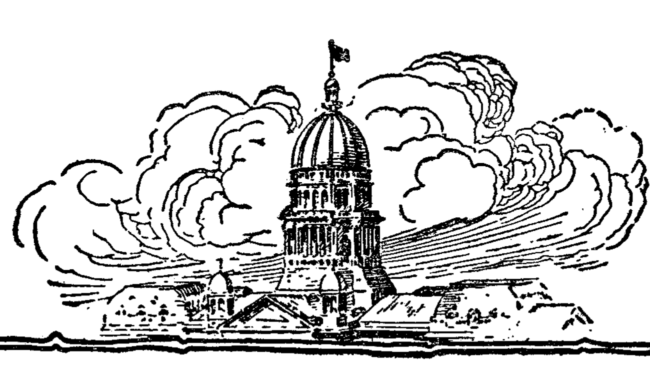
VOL. 23 SPRINGFIELD, ILL., OCTOBER 1, 1947 No. 7

SUCCESSION

A very serious condition that today confronts banking in general is the matter of provisions for maintaining continuous direction, management and operation. This situation is not a new problem although it is becoming increasingly severe and while its existence not only has been recognized, the majority of banking institutions have actually felt its effects.

Sound and experienced direction is indispensable to any bank that hopes to succeed. The active management of a successful bank likewise must be sound and experienced, and, in addition must also possess other valuable qualities, one of which is a thorough familiarity with various administrative details. Operating personnel must understand operational procedures, be capable of handling normal transactions and, possibly most important, they should possess the ability and training to recognize unusual or involved matters.

In enough instances as to cause concern in the general picture, banks have found themselves unable to obtain adequate membership on the board of directors and a number of cases have occurred where director material either was not available or, at least, not qualified by ownership of stock so as to replenish the board and provide the required minimum working membership. Some unfortunate situations



have resulted because of this failure, and, where the problem could not be solved locally, voluntary liquidations were resorted to or the ownership, and usually the management as well, were succeeded by interests from outside of the bank's own community.

It is surprising to find the number of instances where board memberships are held entirely by men of retirement age or past. While they are leaders and influences in their communities and their knowledge and counsel are valuable to the bank, yet their expectancy is such that it carries a constant and increasing threat to the maintenance of a working membership.

The ideal board of directors not only should be representative of the various local interests but should be also diversified as to age groups. The advisability for diversification as to business interests is also advisable as to age groups and is emphasized by situations such as the above.

An explanation for such situations is that in the later 1920's and the early 1930's numerous adjustments and reorganizations occurred throughout the banking system. These called for strong boards of directors and it was quite natural to look to the local leaders of the community, who at that time generally were middle-aged, successful businessmen. Nearly twenty years have elapsed and these middle-aged men continuing as directors are now at retirement age. Rarely do we find that any preparation or provision has been made for membership succession. In this we feel that directors have failed in their responsibility. While it is a right and obligation of the shareholders to choose the directors, yet there is a certain amount of guidance, at least, vested in the board.

Any board of directors regardless of its composition stands to suddenly find itself with a vacancy, but it is in those boards of directors entirely or predominately composed of aged members that provision for succession is most urgent.

The practical preparation before a vacancy occurs, appears to be the election of at least two new members, providing for the added membership by an increase in the board rather than by deliberately creating vacancies through the voluntary retirement of elder members. This method seems to be more advisable than merely having candidates available in the event of need.

By making room for new and additional directors through an increase in the membership of the board, the new members have an opportunity to become familiar with and observe the bank's functions without depriving the board of the guidance and experience of elder members. Under this plan, as vacancies occur in the ranks of the elder members, a working membership may be maintained if necessary by reducing the established number of directors. Although it might be necessary to reduce the board back to its original membership, without such preparation, or in the absence of some provision for succession, death or other removal of members would force a reduction in the membership; then there would be less than the original number and the maintenance of a working membership would be more seriously threatened, especially if the remaining members were aged or predominately so.

Whatever provision is decided upon it is always well to keep in mind that a prospective director will require qualifying shares of stock and if not already owned, they must be acquired before taking membership on the board. These are not always readily obtained and transfers are frequently delayed, particularly when the shares are involved as part of an estate.

Sound and experienced management is so thoroughly recognized and understood as being indispensable that it is difficult to understand why seemingly so little effort and preparation are directed towards perpetuating such management. Too frequently it is found that an otherwise sound institution has failed to give either thought or attention to what might take place if the present management should suddenly be removed or incapacitated. Even a temporary incapacitation of management frequently offers a serious problem.

Liberal reserves are diligently provided against possible losses in assets; in many institutions reserves are being built up against losses on an anticipated type of future business and there is the general desire to create ample reserves against every known or suspected contingency, yet, a reserve of management talent is pitifully absent in so many otherwise fine, solid institutions.

The principles and policies of successful operation are so thoroughly accepted and carefully practiced that it is difficult to comprehend why the need for a reserve of management talent, being so vital to the survival of the institution and one of the most important of sound banking principles, is as frequently overlooked or ignored.

For probably five years following the Banking moratorium, there were many capable bankers available. Every banker whose institution failed to survive was not always the fault causing the failure and many banks which did survive, released personnel through lack of business volume or because of the urge to economize; these men were all available and seeking reemployment in the banking business. Some were reemployed or relocated while others, through necessity, were forced to enter other forms of business or employment. In most cases these latter were for the first few years anxious to reenter banking but time and success dulled that desire. The man power required for the successful conduct of the war was a further drain on trained talent, for, in addition to those who did not return, many felt that they could be better satisfied in other endeavors. As these sources of experienced bank talent probably never can be reclaimed and might as well be written off, it seems advisable to banking as a whole, and seriously urgent in a number of cases, that a new source be created.

There has been much discussion, much has been written and much has been said about the inadequacy of the present supply of potential administrative personnel. The logical and practical answer seems to be that the program must start with each individual bank developing and training its own material for management succession.

One of the most unfortunate situations in this respect is found in those institutions where the "one-man" quarantines his under-employees from exposure to any matters other than routine transactions and detail operations. Where an employee demonstrates his ability or exhibits the qualifications, it is a serious mistake if the "one-man" is permitted to treat any initiative on the part of that employee as an encroachment into the exclusive realm of management.

The reserve of management talent must originate from added responsibilities and from exposures to administration problems. Until every bank takes full advantage of the possibilities possessed by talented employees, trains them to fill varied positions, permits them to advance in responsibilities and allows them to exercise some degree of decision and judgment, the reserve of management talent will remain inexperienced and totally inadequate for the future requirements of banking as a whole.

The size of the bank and the number of its employees have very little effect upon the advisability or the results of such program. In fact, with the exception of the large metropolitan banks which have recognized this problem and solved it at the very beginning by constantly engaging careers instead of just hiring help, the two and three employee institutions will generally be found in a better position as concerns provision for management succession than others of greater size in volume of business and in number of employees.

The second step in any program of this nature must be that bankers will need to find means of attracting employees for operating personnel, as it is from this source that the flow of talent for future management must come.

Urgent appeals for bank personnel are frequently heard by this Department and bank after bank has reported difficulty in maintaining its operating staff at a desired level.

The younger people who are seeking their first employment are displaying a resistance to offers of bank work although it has not been so many years ago that bank employment had the "pick of the crop." Since that time there have been adjustments toward better pay and shorter hours, yet the prospect of a career in banking seems becoming less and less attractive.

The resistance of the younger people may not be without significance. Very likely when the cause of this impotency is understood and effective measures are taken to correct it, many of the operating problems now found in banks will have been solved, personnel trained for management succession consequently should become more abundant and possibly it would be far reaching enough as to stimulate a greater interest among local businessmen to become shareholders and directors.

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Pontiac	Livingston	Bank of Pontiac 204 North Main Street H. G. Greenebaum, President Myron Heins, Cashier	$60,000	$30,000	$30,000	Sept. 5, 1947
McLeansboro	Hamilton	The Hamilton County Bank 102 South Washington Street E. W. Black, President T. W. English, Cashier	$75,000	$22,500	$22,500	Sept. 9, 1947

CHANGE OF LOCATION

Colfax ....McLean ....Peoples State Bank of Colfax..............Sept. 15, 1947
from 311 Main Street, Colfax, Illinois
to 219 Main Street, Colfax, Illinois

BANK PLACED IN LIQUIDATION

Ridgway ....Gallatin ....Gallatin County Bank......................Sept. 22, 1947

BANK DISSOLVED

Chicago ....Cook ....South West Trust and Savings Bank.......Sept. 5, 1947
(In receivership November 3, 1931.
Dissolved by order of the Circuit
Court of Cook County.)

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	455
Total	505

MONTHLY BULLETIN

Issued by

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

VOL. 23 SPRINGFIELD, ILL., NOVEMBER 1, 1947 No. 8

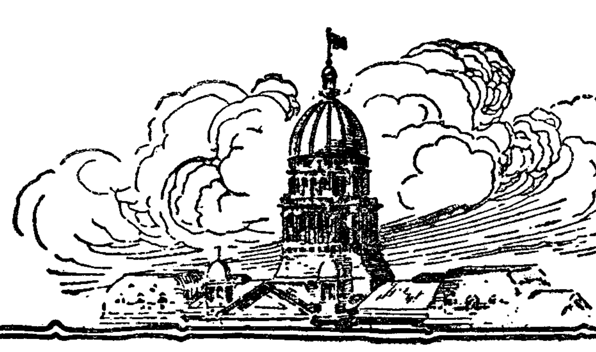
APPROACHING THE YEAR-END

With the approaching year-end, directors of Illinois State banks will be considering and acting upon the various matters that necessarily or customarily attach to the close of the year's business. All of these matters, however, do not concern the closing year only, but influence the conduct and results of future operations and, therefore, are extremely important.

The November 1, 1946 BULLETIN of this Department was devoted to thoughts and suggestions concerning the actions contemplated by directors towards distributing earnings and profits. The contents of that article which was entitled "Distributing the Profits" are as fundamental and applicable today as they were at the time of its publication.

Credit for originating the policies advocated by the article cannot be claimed by this Department because the pattern is a composite of the policies in practice as observed in our contacts with Illinois State banks.

The policies which were advocated coincide so generally with the attitude found in Illinois State banks that seemingly it is useless to present for consideration, a program that is already in general usage. However, knowing that sound reasoning is occasionally weakened by enthusiasm over exceptional or unusual accomplishments, a review of established principles often is an advantage in this respect; too, access to



RECAPITULATION

Aggregate Resources and Liabilities of the 505 Illinois State Banks at the close of business September 29, 1947, as compared with the next preceding statement issued by the Department.

Number of Banks	501	Increase	505
Date of Call	June 30, 1947	or Decrease (—)	Sept. 29, 1947
RESOURCES:			
Cash and Due from Banks	$ 672,689,291.34	$ 18,387,677.51	$ 691,076,968.85
Outside Checks and Other Cash Items	3,803,591.92	—229,749.17	3,573,842.75
U. S. Governments–Direct & Guaranteed	1,660,820,793.05	39,480,919.09	1,700,301,712.14
Other Bonds, Stocks & Securities	264,126,385.39	10,280,398.44	274,406,783.83
Loans and Discounts	521,772,257.85	48,457,497.02	570,229,754.87
Overdrafts	206,629.07	44,824.39	251,453.46
Banking House, Furniture & Fixtures	9,029,524.26	310,057.98	9,339,582.24
Other Real Estate	36,537.33	8,530.37	45,067.70
Customers' Liability–Letters of Credit	2,837,742.67	—1,008,517.49	1,829,225.18
Customers' Liability–Acceptances	603,286.99	—190,229.91	413,057.08
Other Resources	7,095,604.17	112,845.26	7,208,449.43
GRAND TOTAL RESOURCES	$ 3,143,021,644.04	$ 115,654,253.49	$ 3,258,675,897.53
LIABILITIES:			
Capital Stock	$ 45,616,550.00	$ 550,000.00	$ 46,166,550.00
Income Debentures	388,191.67	....	388,191.67
Surplus	53,403,600.00	301,000.00	53,704,600.00
Undivided Profits (net)	33,286,208.68	3,149,920.95	36,436,129.63
Reserve Accounts	35,531,976.85	1,425,039.91	36,957,016.76
TOTAL CAPITAL STRUCTURE	$ 168,226,527.20	$ 5,425,960.86	$ 173,652,488.06
Demand Deposits	$ 1,856,273,071.34	$ 99,219,535.93	$ 1,955,492,607.2[illegible]
Time Deposits	944,178,457.56	9,508,677.09	953,687,134.65
Due to Banks	164,931,453.07	1,343,214.40	166,274,667.47
TOTAL DEPOSITS	$ 2,965,382,981.97	$ 110,071,427.42	$ 3,075,454,409.39
Bills Payable	$...............	$ 99,986.30	$ 99,986.30
Rediscounts	....	....	....
Dividends Unpaid	275,388.34	159,811.66	435,200.00
Letters of Credit	2,843,592.67	—884,330.01	1,959,262.66
Bank Acceptances	623,886.99	—295,148.91	328,738.08
Other Liabilities	5,669,266.87	1,076,546.17	6,745,813.04
TOTAL OTHER LIABILITIES	$ 9,412,134.87	$ 156,865.21	$ 9,569,000.08
GRAND TOTAL LIABILITIES	$ 3,143,021,644.04	$ 115,654,253.49	$ 3,258,675,897.53
ANALYSIS:			
Deposits Secured by Pledge	$ 89,594,692.74	$ 24,680,267.96	$ 114,274,960.70
Deposits Not Secured by Pledge	2,875,788,289.23	85,391,159.46	2,961,179,448.69
TOTAL–DEPOSITS	$2,965,382,981.97	$ 110,071,427.42	$ 3,075,454,409.39
Banking House	$ 7,678,101.37	$ 93,849.64	$ 7,771,951.01
Furniture & Fixtures	1,351,422.89	216,208.34	1,567,631.23
TOTAL—BANKING HOUSE, FURNITURE AND FIXTURES	$ 9,029,524.26	$ 310,057.98	$ 9,339,582.24
Commercial Paper	$ 23,018,459.92	$ 5,775,870.95	$ 28,794,330.87
Collateral Loans	139,533,547.19	7,444,715.92	146,978,263.11
Other Loans	242,624,943.57	28,710,275.62	271,335,219.19
Farm Loans	13,692,235.20	1,056,713.08	14,748,948.28
Other Real Estate Loans	102,903,071.97	5,469,921.45	108,372,993.42
TOTAL—LOANS AND DISCOUNTS	$521,772,257.85	$ 48,457,497.02	$ 570,229,754.87

the information gives new members an opportunity for a better understanding of the principles established through the observations and practices of the experienced management in Illinois State banks.

Where copies of the BULLETIN, to which reference has been made, are available, it is suggested that the article be reread and, also, be made available to new members of the board.

In summary, the principles contained in the article advocated: (1) A thorough analysis of all assets with the intention of removing anything that might appear as a probable loss, accomplishing the removal by actual write-off except where the establishment of sufficient reserve provisions might be more advisable; (2) Ample provision against possible fluctuations in the investment market with additional consideration to an acceleration in the scheduled amortization of bond premiums; (3) An estimate of adjustments through capital accounts that might be occasioned by requirements arising from fixed assets, both present properties and contemplated remodeling or replacement needs; (4) The maintenance of a reasonable ratio of capital structure to deposits by the retention of available funds where such retention appears expedient and advisable; (5) All unpaid bills and expenses, including all other related items such as the liability accruing for income taxes, should be met by providing funds from the earnings of that year to which they apply.

An additional item although now practically non-existent in Illinois State banks is Other Real Estate. The laws of Illinois limit the carrying of such items as assets to a period of five years from the date of acquisition. If an item of real estate, other than banking house, has not been disposed of during the permissive five-year period, this Department requires that it be removed from the assets by writing the carrying value down to a notation value of one dollar. Where such write-offs have been requested, or are imminent, funds should be applied, or provided in a properly captioned reserve account, from current earnings.

When all known losses have been charged off, other assets depreciated where necessary, ample reserves set aside for possible losses and depreciation, provisions made for charges accruing to current operations and reserves have been established for any other contingency, the board of directors is then in a position to consider the advisability and expediency of declaring a dividend to shareholders. Reference, of course, should be made to the Illinois Banking Act, especially to Section 11½, in order to determine that all requirements concerning the payment of dividends have been complied with.

Consideration towards the expediency of a dividend to shareholders is not always the most important item of business but likely the most general item of extraordinary nature which will be decided by boards of directors at their year-end meetings.

Other extraordinary matters which appear for consideration, but with less frequency, are proposals for changes in the corporate organization.

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 usually are presented for stockholders' action after being considered and advanced by the board of directors.

The form and manner necessary to accomplish such corporate changes are specified in Section 12 of the Illinois Banking Act and while attention is being called to the requirement that they may only be accomplished by a vote equal at least to two-thirds of the whole stock of the corporation, attention is called, also, to the provision which requires the Auditor's written approval before such proposals may be declared accomplished. Consequently, proposals for corporate changes, as soon as contemplated, should be discussed with this Department in order to ascertain whether such changes, if voted by the stockholders, will have the required approval of the Auditor. In any event, the circumstances and the reasons concerning the proposed change in the corporate organization should be presented to the Auditor before favorable consideration can be given to the issuance of the required Auditor's written approval. While all changes in the corporate organization require such approval, proposals to decrease the number of directors especially, should be supported by sound reasoning. With the rapid expansion in both size and volume of business that has occurred in recent years and the problems arising therefrom, as well as the potential problems arising from an uncertain knowledge of the future trends and course of business, it would seem that an increase in the membership of the board, rather than a decrease, would be a consequential and logical action.

PERMITS ISSUED

			Capital	Surplus	Reserve	
Chicago	Cook	The Bank of Logan Square	$300,000	$60,000	$90,000	Oct. 6, 1947
Washington	Tazewell	Washington State Bank	$50,000	$15,000	$15,000	Oct. 27, 1947

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	455
Total	505

MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

State *of* Illinois

VOL. 23 SPRINGFIELD, ILL., DECEMBER 1, 1947 No. 9

THE TURNING POINT

The unusual conditions under which banks have operated in recent years due to the peculiarities of the war-stimulated economy and to the influences arising from the conversion to peacetime commerce and industry are now a part of the background, however, the hazards of the present inflationary trends must be faced first before the course of a normal peacetime economy can be determined.

The turning point has been reached but the road ahead appears uncertain, hazardous and complicated by many problems. The unsolved national and world problems are many, varied and subject to controversy. The courses which are to be taken and the resulting influences have not as yet been determined. It is certain that their effects will be felt by banking and will greatly determine the pattern of future operations.

While most of these problems indirectly concern banks, yet, there have been some recent occurrences and proposals which either will have a direct bearing upon banks, or at least, add to the uncertainties.

This dilemma, which has occurred at the turning point, apparently was not anticipated, judging from the eagerness to assess the blame as well as from the variated nostrums and panaceas that are being offered.

This Department, as the statutory supervising authority, concerns itself primarily with conditions as they are revealed on certain existing days and upon that tenet we are pretty well satisfied with the condition of Illinois State banks and their adherence to the established principles of sound banking practice.

The November 1, 1947 BULLETIN contained the combined statement of the 505 Illinois State banks showing their aggregate resources and liabilities as of the close of business on September 29, 1947 and was compared with a similar statement of the Illinois State banks as of June 30, 1947. The comparative figures indicated current increases in every account captioned in the statement except for decreases in Letters of Credit, Bank Acceptances, Customers' Liability both under Letters of Credit and for Acceptances, and Outside Checks and Other Cash Items. These decreases as well as increases in minor accounts and minor increases in certain other accounts may have significance, but, seemingly, need not be included in a discussion which concerns changes in Cash, Bonds, Loans, Capital and Deposits.

Capital structure increased five and one-half millions of dollars from $168,226,527.20 on June 30th to $173,652,488.06 on September 29th; over five millions of dollars of this increase were acquired through operations and represent an amount equal to about 11% of the par value of the total capital stock in the more than 500 Illinois State banks.

For a number of years Illinois State bankers seemingly have done very well in the matter of plowing back earnings. They seem to be well aware of the advisability of adequate capital reserves and recognize the merits of maintaining as favorable ratios of capital accounts to total deposits as are reasonably possible. Then, too, while doing this, substantial write-offs not reflected in these accomplishments have been made against the possible shrinkage or depreciation in certain assets that might occur under special conditions.

Most Illinois State bankers have felt that the yield on investments could not permanently support the premiums that they commanded. The possibility of more attractive interest rates and other likely factors were felt to threaten a widening spread between straight-line amortization and the possible market decline; consequently, it is and has been, a general practice in Illinois State banks to make substantial initial write-offs on premiums or to accelerate the rate of the straight-line method.

These premium bearing investments were, of course, purchased on a yield basis with the intent of applying a pro-rata portion of each periodic interest payment as a means of gradually and completely absorbing the premium by the time that the maturity or call date was reached. Consequently, if the investment was held until such time, intermediate market declines which might not support the unamortized portion of the premium, could have no adverse effect; however, much of the present deposit volume in banks was accumulated for homes, automobiles, and other items of comfort, convenience or luxury when such became available. A portion of this deposit volume represents the inventories of merchants and businessmen that were liquidated during the war years when the replenishment of stock could not be obtained.

Against a possible unprecedented withdrawal of these funds, which have been accumulated for personal and business purposes, bankers felt that it might be necessary to dispose of secondary reserves. Feeling that such disposals might cause them an immediate problem of absorbing premium balances, they anticipated that possibility by eliminating or minimizing premium values in secondary reserves and in addition provided substantial primary reserves.

There is nothing in the Illinois Banking Act which requires a specified percentage of cash reserve. The Illinois law places the responsibility upon the directors of each bank to determine and maintain an adequate portion of its assets in cash and readily convertible securities sufficient to meet the needs and demands of their institution.

A primary reserve of cash on hand and due from banks equal to 15% of total deposits generally has been accepted as adequate when bolstered by a satisfactory secondary reserve of marketable investment securities. The combined statement of Illinois State banks on September 29, 1947 showed cash and due from banks of $691 million against $3,075 million in total deposits, which represents a primary reserve equal to 22½%, without differentiation as to time and demand deposits.

In addition, secondary reserves consisting of marketable securities carried at $1,974 million were reported, of which $1,700 million were obligations of the United States Government.

The present liquidity of Illinois State banks provided by the large primary and secondary reserves very likely will be preserved at a high level by the managements of those banks so long as they are faced with a potential demand for the tremendous purchasing power, now dormant in deposit accounts but which ultimately may be withdrawn for the purchasing of goods and properties as yet not available, or, commanding a present price, too high to be attractive.

The Chairman of the Federal Reserve Board proposes a special reserve requirement of 25% on demand and 10% on time deposits, in addition to the usual primary cash reserve; such special reserve to be in the form of Treasury Bills, certificates and notes or cash, cash items, interbank balances or balances with Federal Reserve Banks. This requirement, he proposes, to be made applicable not only to member banks of the Federal Reserve System but to all commercial banks as a means of curtailing inflationary credit extensions.

From the amount of cash and government obligations held by them, Illinois State banks apparently can match or better the proposed requirements, although how much of the government obligations now held by these banks are such as to be eligible for Chairman Eccles' reserve plan is not known and, possibly, might require some to sell or convert a portion of their longer term governments. This possibility might be in the scheme of things, judging from current reports that the Treasury Department has been buying long term issues and selling short term certificates and bills. Nevertheless, as there is every indication that the managements of Illinois State banks intend to maintain a high rate of liquidity, it would seem that domination by the Federal Reserve Board of the cash and investment portfolios in both member and non-member banks, is somewhat untimely and unnecessary; especially, in view of the fact that the equivalent is, and very likely will be, maintained on a voluntary basis. Although these reserves have been established on a somewhat different viewpoint than that of Chairman Eccles, the effect, nevertheless, is the same, so far as placing a limit on the volume of possible credit extensions is concerned.

While it is true that loans are increasing, having advanced from $521,772,257.85 on June 30, 1947 to $570,229,754.87 at the close of September 29, 1947, nevertheless, the officers and directors of Illinois State banks, while recognizing the needs of local deserving borrowers, have been cautious in advancing credit and have been very responsive in the correction of criticized loans and of unsatisfactory credit policies.

In over 500 banks it is natural to expect some that are not free of criticism, however, these, having deliberately lowered their credit standards in order to achieve volume accomplishments, are few and of such a distinct minority as to be disregarded in the composite condition of Illinois State banks. It is, consequently, the sincere opinion of this Department that the conduct and attitude of Illinois State banks towards confining themselves to sound credit extensions, certainly does not warrant the implications interpreted by the public at the "joint statement" of Federal and State bank supervisory agencies, especially, from the announcement as initially presented in some news and radio reports.

The threat of regimentation as advanced in another of the Federal Reserve Board's requests—that of permanent authority to control consumer installment credit and for a specific provision for courts of equity to aid enforcement—seems somewhat drastic in comparison to the degree of self-imposed restraint found in Illinois State banks.

In his proposal to expand reserve requirements as a means of curtailing inflationary credits, Chairman Eccles of the Federal Reserve Board agrees that banks are not to blame for present conditions, and, in connection with the Federal Reserve Board's request for consumer credit controls, the Board likewise absolved the banks from being responsible for inflationary pressures.

With bankers already precluding the expansion of unwise credit expansion through a voluntary reserve of cash and liquid assets and by their adherence to the policy of making only those loans which meet sound credit standards, banks, seemingly, are clear of fostering inflationary instruments unless their participation in government-encouraged financing is chargeable to them. The merits of the purposes underlying the loans guaranteed, insured, participated in or sponsored by the Federal government, its corporations and its agencies, are not debatable. Many reasons for these financing programs were occasioned by either necessity or duty, nevertheless, these loans do have the elements of inflationary factors for, by the necessity of government protection, they admittedly are not of bank quality by themselves. If these loans contribute to inflation, who then is responsible: the one who lends the money or the one who provides the mattress for the skeptical lender to fall back on?

Comparing the enormous inflationary potentiality which now actually exists in deposit accounts, Savings Bonds and in the vast amount of money in circulation, as against a possible inflationary instrument created by future and unwise credit extensions, it would seem that a greater emphasis and incentive on thrift would have a better effect on inflationary tendencies as well as a beneficial effect on national morals.

PERMIT ISSUED

	Capital	Surplus	Reserve	
Evergreen Park....Cook.... Western Avenue State bank	$50,000	$5,000	$5,000	Nov. 6, 1947

CHANGE OF LOCATION

Mounds......Pulaski....The First State Bank of Mounds from 111 First Street, Mounds, Illinois, to 112 First Street, Mounds, Illinois..Nov. 24, 1947

BANKS DISSOLVED

Jacksonville....Morgan....Farrell State Bank....................Sept. 17, 1947
(In liquidation January 18, 1930. Dissolved by order of the Circuit Court of Morgan County.)

Plainville....Adams....The State Bank of Plainville................Oct. 30, 1947
(In liquidation March 26, 1947.)

Chicago....Cook....Humboldt State Bank..........................Nov. 13, 1947
(In receivership June 10, 1931. Dissolved by order of the Circuit Court of Cook County.)

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	26
State Banks in Illinois outside Cook County	455
Total	505

(48765)