MONTHLY BULLETIN

Issued by

ARTHUR C. LUEDER

AUDITOR *of* PUBLIC ACCOUNTS

BANKING DEPARTMENT

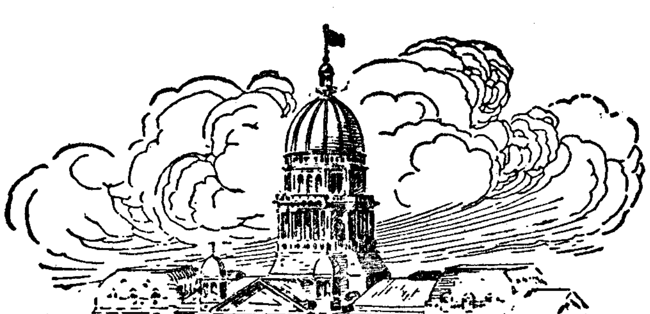
State *of* Illinois

VOL. 24 SPRINGFIELD, ILL., JANUARY 1, 1949 NO. 10

HIDDEN PROFITS

The practice employed by banks of providing for contingencies by ploughing a large share of earnings back into their institutions has been steadily advocated and encouraged by this Department. The extent of such voluntary accomplishments by Illinois State banks reflects gratifying evidence that their officers and directors desire to conduct sound enterprises and are endeavoring to safeguard the funds of their depositors, and the investment of their shareholders as well, against the severest possible hazards.

This Department is steadfast in its recognition of what has been already accomplished in Illinois State banks by the retention of earnings. It wishes neither to appear, nor even seem in the faintest extent, to be critical of any orthodox accomplishment that serves to enlarge the soundness of a banking institution; yet, the increasing practice of washing out profit accounts by the applications of "blanket write-downs" and "unallocated charge-offs" or, when preparing statements of condition, by the application of so-called "valuation" allowances or reserves, is becoming general enough while carrying objectionable features that it seems well to explore the subject.



Fundamentally, bank earnings are under the exclusive control of the board of directors, but can be used by them only to:

(1) Pay the expense of operation.
(2) Charge off losses or to reduce questionable assets to fair reasonable values.
(3) Pay dividends to stockholders.

Such earnings as are not used for these three purposes should remain in the capital structure as a part of the bank's net worth.

Directors have the authority to charge off all known losses and depreciation. It is recognized, also, that they may reduce questionable assets to fair, reasonable values, where probable loss or depreciation appears imminent. And experience has so often demonstrated the questionability of the realizable value of banking house and furniture and fixtures to creditors that their steady devaluation to a nominal figure on the statement is, in our opinion, justified.

Any other asset adjustment accomplished through the application of accumulated earnings, whether in the form of blanket write-downs, unallocated charge-offs, arbitrary allowances for losses or depreciation and similar implements of the same character, which are created in excess of recognized or established needs, can be viewed in no better light than that they represent, by reserve accounting, a segregation of undivided profits and should remain in capital accounts.

These amounts may be segregated from undivided profits and treated as reserves against either specified or general uncertainties, however, separation from undivided profits does not change the character of the balances. They are still accumulated earnings, they are still under the control of the board of directors and they remain under the same restrictions as to their usage. They should be shown on the bank's ledger and included as capital structure on statements. The use of accounting methods that keep capital accounts in any form off of a published report of condition, is a questionable practice and should be avoided.

In such instances where we have seen earnings withdrawn from the statement for the purpose of arbitrarily writing down current assets to a point below their known and actual value, we know that concealment or mis-representation was entirely unthought of by the perpetrators. They simply wanted to publish an ultra-conservative statement without realizing the full import of their actions.

The following article reprinted from the Federal Bank Service, published by Prentice-Hall, Inc., is a pointed exposition of some objectionable features to hiding profits through accounting methods:

*"DIRECTOR'S DILEMMA

(9.4) Through the years it has been brought home to business (and bank) managements that assets must not be written up without unassailable reason. But during the last two decades it has become increasingly popular to write-down assets. That the write-down of sound assets may also bring knotty problems is noted by the following letter:

"Bank Asset Writedowns
Editor, The Wall Street Journal:

I am a director in a country bank. While I was vacationing this summer our bank was examined * * * * * about July 15, a routine procedure. I came home in August and promptly got a copy of our June 30 statement and, as usual, compared it with our April 12 call.

I suffered a sickening shock. Instead of the usual nice picture, we had apparently taken a long step backward. I hot-footed it to the bank—just happened to be meeting day. My fellow directors smilingly gave me this reassuring explanation: Examiner made a few trivial charge-offs, usually requested by us to assure legal tax saving. But, he also suggested we charge off a very sizeable number of round thousands against undivided profits and reduce bills receivable and bond account—each by half of the reduction.

My fellow directors glibly told me that the examiner said this was getting to be common practice and was good accounting.

"Why not add it to our reserves?" I asked. "Better to hide it," they said that he said.

"Like a hidden cushion," I said, "but who certified that our statement was true and correct? How about Mrs. Widow Woman who owns 100 shares of our stock and who has lived in California for several years? She was a good accountant, and can read a bank statement as well as any of us. She gets the same jolt that I did. She decides to sell her stock pronto. Later on she finds we directors issued a false statement and sues all of us. If I were the judge she would get hers and we directors would surely get ours."

I believe in getting fixtures and supplies charged down to a dollar as quickly as practicable—they are one-purpose items of little cash value in case of liquidation. I also believe in getting land and building down to quick salable value in a depression period.

But I certainly do not believe that an arbitrary write-down of good sound assets should be concealed from any stockholder. Like most banks we have provided reserves for contingencies instead of adding all earnings over dividends to surplus and undivided profits but those reserves are there for every stockholder to read and feel good about.

A false statement either way should not be sanctioned, let alone suggested, * * * * *. "Country Banker", from Wall Street Journal, 10-15-45, p. 4, col. 3, Letters to the Editor.

SUGGESTION 1. This director ought to study #21,051, Federal Bank Service, where the duties and liabilities of directors are set forth.

SUGGESTION 2. Certainly the directors ought to ask to see the Bank Examiner's Report and study the specific items to be charged off with the reasons assigned therefor.

QUERY. By statute, the directors, not the examiner, direct the affairs of the bank. Since this director believes that the bank's current Statement is false, what do his fellow directors think?

(1) That they have really been sanctioning unsafe discounts and risky bond investments?
(2) That their competitive position will not be impaired by the concealed charge-offs? or
(3) That unexpected recoveries will not boost them up several income tax brackets next year?'"

Banks are quasi-public institutions and by their nature require accurate accounting as well as exacting and considerate preparation of reports of condition. All known losses and depreciation, of course, should be removed from the assets and adjustments should be made to eliminate the probable loss or shrinkage in assets that have been determined to be of questionable value.

For statement purposes, directors not only have the authority but have the responsibility of promptly removing known losses from the assets and from the bank's net worth. Losses that appear likely but the actual extent of which cannot be accurately estimated should have similar

*"Reprinted from Prentice-Hall Federal Bank Service, Report No. 9, 11-3-48.

treatment to the degree determined by the directors after careful analysis and appraisal. In the matter of fixed assets it is an accepted axiom that they may have usage value and may be costly to replace but nevertheless have a very low salvage value in the event of liquidation. The banking house frequently is the finest and costliest building in its town, occupying probably the most desirable business site, yet it is a single purpose structure, peculiarly adapted and costly to convert into another usage. It consequently rarely liquidates at actual value and usually brings but a fraction of its worth. Similarly, furniture and fixtures generally liquidate at low prices. As a result it is well recognized and advocated that fixed assets should be written down as rapidly as is practical and possible. There are other items occasionally acquired, especially other real estate that are not satisfactory bank assets, not readily disposable and which also liquidate unfavorably in most instances. These too, should be adjusted, as determined by the directors, to a quick salable value.

Such asset devaluations as we have just mentioned are ordinarily determined by logical and recognized methods. The charge off of known losses is, of course, mandatory. In the case of fixed assets, periodical depreciation is allowed to continue until only a nominal balance remains. In the case of distressed items, property appraisals or directors' analysis or both should determine the amount of the write down. If provision is to be made against indefinite, unspecified or unforeseen contingencies, an appropriate reserve account offers the only proper means of segregating earnings for such purposes.

Unwittingly, directors have approved of overly writing down good bankable values in the feeling that an understatement of current worth was commendable and free from criticism or hazard to themselves. Whatever the purpose, it is difficult to establish justification for the absorption of capital accounts by assets that currently appear sound; lacking that justification, it is inaccurate reporting and is characterized as "Hidden Profits."

TRUST CERTIFICATE ISSUED

			Deposit	
Chicago	Cook	Standard State Bank	$200,000	Dec. 14, 1948

BANK PLACED IN LIQUIDATION

Claremont	Richland	Claremont State Bank	Dec. 3, 1948

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	452
Total	503

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AUDITOR *of* PUBLIC ACCOUNTS
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VOL. 24 SPRINGFIELD, ILL., FEBRUARY 1, 1949 NO. 11

TO THE OFFICERS AND DIRECTORS
OF STATE BANKS IN ILLINOIS:

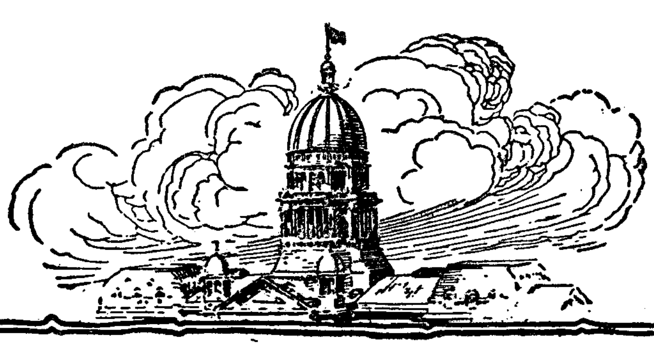
As I enter into my duties as Auditor of Public Accounts and assume the authority of that office, I am keenly aware that one of my most important public services arises from the responsibilities that are charged to me by the Banking Act.

The Act establishes a banking system under the supervision of the State, regulates the organization of the individual banks, and provides means of preventing the continued operation of any that might conduct their business in an illegal, fraudulent or unsafe manner.

The Auditor of Public Accounts is designated in the Act as the sole administrator of the laws relating to banks and banking, and except for certain specified judicial functions assigned to the courts, there is no provision in the Illinois Statutes for any other authority over Illinois State Banks. The responsibility for administering the Banking Act is accordingly assessed and may not otherwise be shared or assumed.

I realize that my responsibility in protecting the interest of depositors can best be fulfilled by having the cooperation of the officers and directors of the State banks in Illinois. I seek that cooperation and propose to encourage it by conducting an efficient, progressive and well informed Banking Department that endeavors to accomplish the objectives of the Act through helpful and friendly relations with the bankers of Illinois.

Benjamin O. Cooper



REVIEW OF CALL REPORTS
COVERING ALL [illegible] STATE BANKS

NUMBER OF BANKS	504	Increase or Decrease (—)	504	Increase or Decrease (—)	505	Increase or Decrease (—)	505	Increase or Decrease (—)	503
DATE OF CALL	December 31, 1947		March 19, 1948		June 30, 1948		September 20, 1948		December 31, 1948
RESOURCES:									
Cash and Due from Banks	$ 757,935,895.98	$ —76,289,695.30	$ 681,646,200.68	$ 26,988,200.49	$ 708,634,401.17	$ 9,824,577.64	$ 718,458,978.81	$ 67,046,832.90	$ 785,505,811.71
Outside Checks and Other Cash Items	6,844,246.19	—3,681,052.23	3,163,193.96	—304,161.89	2,859,032.07	6,441,284.69	9,300,316.76	—6,195,622.12	3,104,694.64
U. S. Governments—Direct & Guaranteed	1,726,107,375.74	10,466,548.42	1,736,573,924.16	—25,822,420.88	1,710,751,503.28	7,306,662.72	1,718,058,166.00	—4,823,987.31	1,713,234,178.69
Other Bonds, Stocks & Securities	288,230,640.33	9,142,447.74	297,373,088.07	—1,514,149.93	295,858,938.14	—6,626,289.21	289,232,648.93	16,171,118.07	305,403,767.00
Loans and Discounts	584,962,999.03	4,839,913.73	589,802,912.76	18,837,136.81	608,640,049.57	25,114,032.40	633,754,081.97	—285,417.98	633,468,663.99
Overdrafts	173,454.17	110,527.97	283,982.14	—44,731.29	239,250.85	154,871.71	394,122.56	—208,977.08	185,145.48
Banking House, Furniture & Fixtures	9,439,915.25	1,528,737.07	10,968,652.32	339,274.60	11,307,926.92	500,020.97	11,807,947.89	359,349.88	12,167,297.77
Other Real Estate	30,805.16	—4,093.44	26,711.72	—4,173.49	22,538.23	—431.53	22,106.70	—2,913.29	19,193.41
Customers' Liability—Letters of Credit	2,392,543.50	289,533.17	2,682,076.67	—283,854.92	2,398,221.75	—1,033,345.10	1,364,876.65	—174,066.71	1,190,809.94
Customers' Liability—Acceptances	509,055.26	85,690.42	594,745.68	—138,298.80	456,446.88	—132,383.65	324,063.23	108,777.36	432,840.59
Other Resources	7,008,674.55	—1,328,712.52	5,679,962.03	1,857,847.44	7,537,809.47	—987,024.96	6,550,784.51	421,773.98	6,972,558.49
GRAND TOTAL RESOURCES	$ 3,383,635,605.16	$ —54,840,154.97	$ 3,328,795,450.19	$ 19,910,668.14	$ 3,348,706,118.33	$ 40,561,975.68	$ 3,389,268,094.01	$ 72,416,867.70	$ 3,461,684,961.71
LIABILITIES:									
Capital Stock	$ 46,141,550.00	$ —60,000.00	$ 46,081,550.00	$ 171,800.00	$ 46,253,350.00	$ 290,000.00	$ 46,543,350.00	$ —65,000.00	$ 46,478,350.00
Income Debentures	294,400.00		294,400.00		294,400.00		294,400.00		294,400.00
Surplus	54,966,850.00	459,007.97	55,425,857.97	833,700.00	56,259,557.97	314,000.00	56,573,557.97	1,478,375.00	58,051,932.97
Undivided Profits (net)	34,595,470.54	995,839.17	35,591,309.71	1,130,021.12	36,721,330.83	2,656,145.93	39,377,476.76	—705,293.75	38,672,183.01
Reserve Accounts	36,053,970.08	894,458.94	36,948,429.02	882,185.23	37,830,614.25	1,505,163.23	39,335,777.48	—425,157.31	38,910,620.17
TOTAL CAPITAL STRUCTURE	$ 172,052,240.62	$ 2,289,306.08	$ 174,341,546.70	$ 3,017,706.35	$ 177,359,253.05	$ 4,765,309.16	$ 182,124,562.21	$ 282,923.94	$ 182,407,486.15
Demand Deposits	$ 2,042,070,402.20	$ —49,884,941.78	$ 1,992,1[illegible]42	[illegible],813,034.73	$ 1,973,372,425.69	$ 38,775,412.54	$ 2,012,147,838.23	$ 61,061,162.40	$ 2,073,209,000.63
Time Deposits	982,778,238.06	9,899,623.34	992,677,[illegible].40	[illegible]0,433,206.39	1,023,111,067.79	—1,821,183.50	1,021,289,884.29	12,022,361.54	1,033,312,245.83
Due to Banks	176,100,117.58	—20,280,135.81	155,819,981.77	7,375,739.72	163,195,721.49	—570,713.38	162,625,008.11	—1,262,783.70	161,362,224.41
TOTAL DEPOSITS	$ 3,200,948,757.84	$ —60,265,454.25	$ 3,140,683,303.59	$ 18,995,911.38	$ 3,159,679,214.97	$ 36,383,515.66	$ 3,196,062,730.63	$ 71,820,740.24	$ 3,267,883,470.87
Bills Payable	$	$ 2,000,000.00	$ 2,000,000.00	$ —2,000,000.00	$	$	$	$ 17,050.50	$ 17,050.50
Rediscounts									
Dividends Unpaid	743,548.68	—264,115.34	479,433.34	30,545.00	509,978.34	—193,278.34	316,700.00	445,374.00	762,074.00
Letters of Credit	2,424,544.66	280,979.42	2,705,524.08	—235,756.15	2,469,767.93	—1,076,871.78	1,392,896.15	—181,092.65	1,211,803.50
Bank Acceptances	509,055.26	85,690.42	594,745.68	—138,298.80	456,446.88	—59,937.70	396,509.18	42,791.16	439,300.34
Other Liabilities	6,957,458.10	1,033,438.70	7,990,896.80	240,560.36	8,231,457.16	743,238.68	8,974,695.84	—10,919.49	8,963,776.35
TOTAL OTHER LIABILITIES	$ 10,634,606.70	$ 3,135,993.20	$ 13,770,599.90	$ —2,102,949.59	$ 11,667,650.31	$ —586,849.14	$ 11,080,801.17	$ 313,203.52	$ 11,394,004.69
GRAND TOTAL LIABILITIES	$ 3,383,635,605.16	$ —54,840,154.97	$ 3,328,795,450.19	$ 19,910,668.14	$ 3,348,706,118.33	$ 40,561,975.68	$ 3,389,268,094.01	$ 72,416,867.70	$ 3,461,684,961.71
ANALYSIS:									
Deposits Secured by Pledge	$ 111,534,748.02	$ 24,405,694.12	$ 135,940,442.14	$ 430,758.47	$ 136,371,200.61	$ 4,592,403.13	$ 140,963,603.74	$ 31,307,579.98	$ 172,271,183.72
Deposits Not Secured by Pledge	3,089,414,009.82	—84,671,148.37	3,004,742,861.45	18,565,152.91	3,023,308,014.36	31,791,112.53	3,055,099,126.89	40,513,160.26	3,095,612,287.15
TOTAL—DEPOSITS	$ 3,200,948,757.84	$ —60,265,454.25	$ 3,140,683,303.59	$ 18,995,911.38	$ 3,159,679,214.97	$ 36,383,515.66	$ 3,196,062,730.63	$ 71,820,740.24	$ 3,267,883,470.87
Banking House	$ 7,723,090.58	$ 1,348,295.99	$ 9,071,386.57	$ 59,814.71	$ 9,131,201.28	$ 201,502.71	$ 9,332,703.99	$ 239,732.48	$ 9,572,436.47
Furniture & Fixtures	1,716,824.67	180,441.08	1,897,265.75	279,459.89	2,176,725.64	298,518.26	2,475,243.90	119,617.40	2,594,861.30
TOTAL—BANKING HOUSE, FURNITURE & FIXTURES	$ 9,439,915.25	$ 1,528,737.07	$ 10,968,652.32	$ 339,274.60	$ 11,307,926.92	$ 500,020.97	$ 11,807,947.89	$ 359,349.88	$ 12,167,297.77
Commercial Paper	$ 25,840,555.01	$ —7,866,233.20	$ 17,974,321.81	$ 5,498,119.35	$ 23,472,441.16	$ —978,489.78	$ 22,493,951.38	$ —4,460,312.28	$ 18,033,639.10
Collateral Loans	158,163,614.83	—6,786,716.63	151,376,898.20	1,525,948.66	152,902,846.86	3,587,847.47	156,490,694.33	4,160,776.38	160,651,470.71
Other Loans	271,536,060.94	17,707,368.46	289,243,429.40	6,494,874.50	295,738,303.90	18,026,174.48	313,764,478.38	—5,847,328.31	307,917,150.07
Farm Loans	15,741,800.71	410,425.28	16,152,225.99	—39,077.02	16,113,148.97	—570,514.74	15,542,634.23	188,648.11	15,731,282.34
Other Real Estate Loans	113,680,967.54	1,375,069.82	115,056,037.36	5,357,271.32	120,413,308.68	5,049,014.97	125,462,323.65	5,672,798.12	131,135,121.77
TOTAL—LOANS AND DISCOUNTS	$ 584,962,999.03	$ 4,839,913.73	$ 589,8[illegible]76	[illegible]8,837,136.81	$ 608,640,049.57	$ 25,114,032.40	$ 633,754,081.97	$ —285,417.98	$ 633,468,663.99

PERMITS ISSUED

			Capital	Surplus	Reserve	
Round Lake	Lake	First State Bank of Round Lake	$25,000	$15,000	$10,000	Dec. 17, 1948
Odell	Livingston	Odell State Bank	$40,000	$10,000	$10,000	Jan. 13, 1949
Chicago	Cook	Bank of Albany Park	$250,000	$50,000	$100,000	Jan. 27, 1949

CAPITAL STOCK INCREASED

Manito	Mason	People's State Bank of Manito from $25,000 to $50,000	Jan. 11, 1949
Toulon	Stark	State Bank of Toulon from $50,000 to $75,000	Jan. 17, 1949
McHenry	McHenry	McHenry State Bank from $50,000 to $100,000	Jan. 18, 1949
Spring Valley	Bureau	Spring Valley City Bank from $50,000 to $100,000	Jan. 21, 1949
Beecher	Will	First State Bank of Beecher from $25,000 to $50,000	Jan. 24, 1949
Chicago	Cook	Beverly State Savings Bank of Chicago from $100,000 to $300,000	Jan. 24, 1949
Henry	Marshall	Henry State Bank from $25,000 to $50,000	Jan. 24, 1949
Jerseyville	Jersey	The State Bank of Jerseyville from $50,000 to $100,000	Jan. 24, 1949
Zion	Lake	Zion Bank from $50,000 to $75,000	Jan. 24, 1949
Chicago	Cook	Bank of Chicago from $200,000 to $300,000	Jan. 25, 1949

CHANGE OF PAR VALUE OF CAPITAL STOCK

Chicago	Cook	Bank of Chicago from $20.00 to $15.00	Jan. 25, 1949

CHANGE OF LOCATION

Zion	Lake	Zion Bank from 2700 Sheridan Road, Zion, Illinois, to 2612-18 Sheridan Road, Zion, Illinois	Jan. 24, 1949

CHANGE OF NAME

Zion	Lake	Zion Bank to Zion State Bank	Jan. 24, 1949

TRUST CERTIFICATES ISSUED

			Deposit	
Pontiac	Livingston	The Pontiac National Bank	$50,000	Dec. 17, 1948
Chicago	Cook	The Exchange National Bank of Chicago	$200,000	Jan. 12, 1949

TITLE GUARANTEE CERTIFICATE ISSUED

			Deposit	
Granite City	Madison	Metropolitan Title & Guaranty Co.	$25,000	Jan. 6, 1949

BANK PLACED IN LIQUIDATION

Montrose	Effingham	Crews State Bank and Trust Company	Jan. 13, 1949

BANKS DISSOLVED

Pontiac	Livingston	Illinois State Savings Bank (In liquidation February 18, 1948.)	Mar. 19, 1948
Claremont	Richland	Claremont State Bank (In liquidation December 3, 1948.)	Dec. 14, 1948

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	451
Total	502

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BANKING DEPARTMENT
State of Illinois

VOL. 24 SPRINGFIELD, ILL., MARCH 1, 1949 NO. 12

OPERATING RESULTS—1948

A tabulation of the operating results for 1948 as reported by Illinois State banks indicates an increase in the average earnings per bank as well as an increase in the average earnings per $1000 in deposits over similar figures for the preceding year; likewise, expenses of operation have increased during the year when averaged per bank and when averaged on the basis of each $1000 in deposit volume.

Net profits before dividends amounted to $4.38 in 1948 per each $1000 of deposits while $3.85 was the average figure in 1947. Cash dividends to stockholders averaged 29% of net profits in 1947 and somewhat less than 25% in 1948.

For each $1.00 of income received from earnings, recoveries and profits, sixty-seven cents was absorbed by expense of operation in 1948 as compared to sixty-nine cents in 1947. Losses, depreciation charges and other asset adjustments required slightly over twelve cents in each of the years while less than five and one-half cents in both instances was distributed as cash dividends to shareholders. An average of nearly fifteen cents was retained in the capital structures of the banks in 1948 as compared to twelve cents in 1947 and in both of the years about one cent of each total dollar of income was used for other purposes.

OPERATING RESULTS OF ILLINOIS STATE BANKS
FOR TH^ YEAR^ 1947-1948

	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	
	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948
Number of Banks	22	18	71	84	330	317	42	44	37	37	499	499
GROSS EARNINGS:												
Interest and discount on loans	40,442	57,531	392,068	604,873	5,222,273	6,538,922	2,041,871	2,821,907	10,586,142	12,590,314	18,238,034	22,605,864
Interest and dividends on securities	67,945	61,953	561,936	711,885	7,198,934	7,531,783	2,999,748	3,214,519	22,510,447	24,177,295	33,225,464	35,713,304
Exchange, collection charges, etc.	4,035	4,793	39,017	41,455	454,307	465,457	165,388	212,090	777,874	961,036	1,566,955	1,680,238
Service charges on deposit accounts	9,918	10,708	77,359	107,100	984,932	1,077,819	433,946	541,589	1,798,139	2,111,519	3,296,750	3,845,255
Trust Departments					24,013	32,682	61,361	94,874	4,544,606	4,834,279	4,687,580	5,023,742
Miscellaneous	5,003	4,269	27,116	35,640	426,861	453,357	272,173	331,369	1,311,463	1,372,799	1,912,402	2,195,621
Total	127,343	139,254	1,097,496	1,500,953	14,311,320	16,100,020	5,974,487	7,216,348	41,528,671	46,047,242	62,927,185	71,064,024
UNIT AVERAGE	5,788	7,736	15,457	17,868	43,367	50,789	142,249	164,008	1,122,396	1,244,520	126,106	142,413
Average Per $1,000 of Deposits	16.88	21.22	20.13	23.58	19.73	23.09	20.85	23.49	19.52	21.00	19.70	21.76
EXPENSES:												
Salaries	55,831	57,746	346,275	482,992	4,181,154	4,688,146	1,773,946	2,227,775	13,466,352	14,777,488	19,812,085	22,254,002
Interest on deposits	10,722	4,992	82,495	99,817	1,352,383	1,500,931	650,871	700,599	5,397,408	6,028,271	7,493,588	8,331,590
Taxes	10,871	14,217	95,848	126,765	1,444,832	1,385,299	599,759	630,381	4,011,724	2,734,959	6,142,741	4,901,275
Miscellaneous	36,043	38,752	196,846	259,112	2,507,767	2,874,100	1,138,540	1,371,781	8,288,834	9,119,641	12,153,633	13,653,196
Total	113,467	115,707	721,464	968,686	9,486,136	10,448,476	4,163,116	4,930,536	31,164,318	32,660,359	45,602,047	49,140,063
UNIT AVERAGE	5,157	6,428	10,161	11,532	28,746	32,961	99,121	112,058	842,279	882,713	91,386	98,477
Average Per $1,000 of Deposits	15.04	17.63	13.23	15.22	13.08	14.97	14.53	16.05	14.65	14.89	14.27	15.05
NET EARNINGS:	13,876	23,547	376,032	532,267	4,825,184	5,651,544	1,811,371	2,285,812	10,364,353	13,386,883	17,325,138	21,923,961
UNIT AVERAGE	631	1,308	5,296	6,336	14,621	17,828	43,128	51,950	280,117	361,807	34,720	43,936
Average Per $1,000 of Deposits	1.84	3.59	6.90	8.36	6.65	8.12	6.32	7.44	4.87	6.11	5.43	6.71
RECOVERIES AND PROFITS:												
Recoveries on loans	885	783	34,999	31,978	270,448	209,641	91,831	78,601	349,420	396,337	748,101	720,461
Recoveries on securities	1,371	833	7,049	8,358	227,992	176,996	94,927	52,394	164,057	152,759	494,621	391,340
Profits on securities	913	2,767	18,570	9,068	314,733	102,218	122,512	51,696	784,888	550,147	1,225,210	715,897
Miscellaneous	2,791	3,917	9,072	4,921	126,302	136,058	90,023	88,788	309,525	307,136	559,562	540,714
Net earnings plus recoveries and profits	19,836	31,847	445,722	586,592	5,764,659	6,276,457	2,210,664	2,557,291	11,972,243	14,793,262	20,352,632	24,292,373
LOSSES, DEPRECIATION AND WRITE-OFFS:												
On loans	806	1,146	5,518	31,728	248,787	219,553	34,886	94,374	529,740	354,879	819,505	703,007
On securities	5,953	3,422	73,908	48,777	1,023,643	714,043	364,305	353,862	4,527,470	5,405,511	5,978,406	6,526,146
Banking house, furniture and fixtures	2,319	3,272	20,413	28,450	287,305	378,419	155,049	209,183	299,467	486,263	765,140	1,104,921
Miscellaneous	1,820	1,342	14,264	7,143	139,672	155,305	63,102	64,450	261,180	397,598	480,040	628,274
Total	10,898	9,182	114,103	116,098	1,699,407	1,467,320	617,342	721,869	5,617,857	6,644,251	8,043,091	8,962,348
NET PROFITS	8,938	22,665	331,619	470,494	4,065,252	4,809,137	1,593,322	1,835,422	6,354,386	8,149,011	12,309,541	15,330,025
UNIT AVERAGE	406	1,259	4,670	5,601	12,319	15,170	37,936	41,714	171,740	220,243	24,668	30,721
Average Per $1,000 of Deposits	1.19	3.45	6.08	7.39	5.60	6.89	5.56	5.97	2.99	3.71	3.85	4.88
Cash dividends paid to shareholders	4,800	4,515	56,980	75,979	854,566	932,036	239,750	260,250	2,434,467	2,524,300	3,589,813	3,807,079
Percentage of Net Profits	53.71%	19.92%	17.18%	16.15%	21.02%	19.38%	15.04%	14.18%	38.31%	30.98%	29.16%	24.83%
Capital, Surplus, Undivided Profits and Reserves	943,563	728,438	3,474,105	4,534,724	38,457,483	40,888,824	14,831,045	16,155,596	114,005,401	119,075,200	171,292,719	182,185,032
Time Deposits	1,536,396	992,543	11,324,609	13,482,022	184,952,041	190,784,924	102,946,511	104,730,841	682,018,680	723,321,889	982,615,846	1,032,333,128
Total Deposits	7,544,651	6,562,572	54,528,533	63,654,520	,326,39	197,287,249	286,484,821	307,194,388	2,127,064,354	2,193,181,772	3,194,714,414	3,264,987,903

Group 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 499 Illinois State Banks that operated in both 1947 and 1948.

CHANGE OF NAME

Granite City... Madison.......Metropolitan Title & Guaranty Co.
to Midwest Title & Guaranty Co..............Feb. 16, 1949

TRUST CERTIFICATE CANCELLED

New York.....New York.....The National City Bank of New York...........Feb. 28, 1949

BANK DISSOLVED

Montrose ......Effingham......Crews State Bank and Trust Company..........Jan. 27, 1949
(In liquidation January 13, 1949.)

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	27
State Banks in Illinois outside Cook County	451
Total	502

MONTHLY BULLETIN
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AUDITOR *of* PUBLIC ACCOUNTS
BANKING DEPARTMENT
State *of* Illinois

VOL. 25 SPRINGFIELD, ILL., APRIL 1, 1949 NO. 1

Capacity of Officers

A question frequently brought to the attention of this Department involves the capacity of the president, cashier or other executive officer to act upon extraordinary matters without first having specific authority expressed by the Board of Directors.

Under the Illinois Banking Law the Board of Directors has the sole responsibility for the management and operation of an Illinois State bank. The board elects one of its members as president and appoints other necessary executive officers to provide active management. The president —and such other executive officers as the directors may appoint—act under the direction of the board. Their duties and responsibilities are usually outlined in the by-laws. By custom an executive office is generally considered to carry certain implied powers. These duties and powers of executive officers, either implied or outlined, are usually general in nature and considered to be confined to the ordinary transactions encountered in the normal course of business.

Authorities do not seem to be in complete agreement and also there are customs and peculiarities of the individual institution to be considered; consequently, the inherent powers, duties and responsibilities of executive officers are not clearcut to such a degree that they may be completely delineated from actions requiring the consideration and authorization of directors.

As with any question requiring a legal interpretation, an attorney should be consulted in order to determine whether there is proper provision in the bank's by-laws for every executive and administrative officer and that the authority granted to each is proper, sufficient and as intended.

Compromise of Debts

There are many matters of extraordinary character that occur or are encountered in the course of business which are too numerous and varied to be individually itemized or to be combined by generalization. One that may be generalized, however, involves a question as to the authority of an executive officer, acting solely upon his official capacity, to compromise the debt of a borrower due the bank.

The compromise of debts not only involves the settlement of obligations at less than the principal amount but also includes any waiver or reduction of contracted interest obligations.

The release of any collateral or of any form of security before full repayment of the loan, including the extension of a loan without the knowledge and consent of an endorser, thereby extinguishing the liability of such endorser, are related items of questionable authority, when occurring upon the individual decision of an executive officer and without the expressed instructions of the board of directors.

Directors' Responsibilities

In the collection of debts as in the sale or disposal of assets, directors are obliged to receive for the bank the true value in return or the carefully determined fair and reasonable value. In case equivalent value is not received, the directors may be expected to show that their action was, in all respects, to the best interest and advantage of the bank.

Since directors cannot give away or sacrifice assets of the bank it is logical to conclude that neither can an officer. It would seem that the safest course to follow in matters that are beyond the normal and ordinary transaction of bank business is to withhold action upon such matters until the board has had an opportunity to consider the proposition.

Letter to the Auditor

"Dear Mr. Cooper—Thanks for arranging to send us copies of your Bulletin. You people do a nice job on the Bulletin and we find it interesting and instructive."—W. F. Sheehan, Chief Examiner, Federal Reserve Bank of New York."

Deferred Operations

The adoption of delayed posting and the enactment of laws and regulations permitting the delayed return of items originated as means of circumventing a serious and unusual operating situation. The predicament with which banks were faced was looked upon as a wartime problem and the acceptance of these auxiliary methods was predicated upon their value as an immediate solution for processing a volume of business that had increased suddenly at a time when help, equipment and space were not readily available.

At the time, most bankers were prone to accept these alternate methods. The majority of those who placed them in practice did so with a conflict between necessity and opinion. Banking opinion was founded on an established principle that each day's business was required to be processed as far as possible toward final settlement or determination on the day that it was received or presented, that the presentation of an item was against the balances available on that particular day, and that any intermingling of one day's business with the business of another's as a practice was not to be tolerated.

Practically every banker who converted to a delayed procedure did so with the intention of returning to the immediate processing of items as soon as the necessary means could be obtained and placed in operation. There were very few who had any thought of adopting delayed operation as a permanent installation.

Facilities Now Available

Although the volume of business has remained high, and very likely will remain so, the facilities for handling this volume are now reasonably available. Yet, the number of banks which have equipped themselves and have returned to the practice of current-day processing is negligible. In fact, the number of banks on a delayed program is increasing rapidly.

It has been said that this Department—and possibly that other supervising authorities—are opposed to delayed posting on account of the inconvenience caused examiners. This is not the case.

Section 4 of the Illinois Banking Law provides, **"The directors shall cause to be kept suitable books of record of all the transactions of the bank . . . "** We feel that a bank as a quasi-public institution has a very definitely implied duty to maintain a complete and comprehensive record of all transactions, so designed and of sufficient detail that every transaction not only can be readily reconstructed but also that each transaction will be reflected on the books exactly as it occurred.

Our concern is not with advanced methods and systems but whether records are complete and accurate—and whether proper safeguards have been taken against the hazards which might arise through a departure from time-proven methods.

Frequently procedures will be found to have been placed in operation, which cause a digression between the figures appearing on the general books and those actually resulting from the business of that particular day. In these cases the likelihood also exists that a sworn statement or a published call report might not reflect the bank's true condition at the close of business on a coincident date.

The intermingling of one day's business with another's confuses and in many cases obliterates all possibility of definitely establishing the course of a transaction.

A wider range is afforded defalcations and the manipulation of accounts, the utilization of float balances by customers is not as readily observed or controlled, and the dishonest check operator has a greater possibility for success.

We believe that directors should examine the procedures, if their bank is operating on a delayed program or is contemplating a change from current-day processing.

Report of Changes

TRUST CERTIFICATE ISSUED

Woodstock	McHenry	First National Bank of Woodstock	Deposit $50,000	Mar. 7, 1949

BANK DISSOLVED

Petersburg	Menard	The Schirding State Bank (In liquidation November 8, 1948.)	Dec. 17, 1948

RECAPITULATION

State Banks in Chicago	24
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VOL. 25 **SPRINGFIELD, ILL., MAY 1, 1949** **NO. 2**

Uncollected Funds

The impost borne by banks as a result of the payment of items drawn by customers against deposit balances that are represented by uncollected funds may be justified on occasion by peculiar and unusual circumstances. Certainly there is no justification for such accommodations to exist as a general practice, especially, when tolerated to the extent that the customer assumes the use of such practice to an unreasonable advantage.

From the number of cases observed where customers are permitted to draw continually against uncollected credits, it would seem that the possible consequences have not been fully considered nor realized by the bank. Otherwise there would be fewer bankers permitting these impositions and surely, more boards of directors would restrict, if not prohibit, this inadvisable means of accommodation, were they aware of its existence and implications.

Banks have no obligation to pay an item drawn by a customer until that customer has in his account at least an equivalent amount of solid funds to his credit. Deposit tickets, customarily and in almost universal usage, apprise the depositor that the credit so placed to his account is conditional, being subject to final collection of the deposited items in cash or by solvent credits.

Payment by a bank of items drawn against conditional credits of a customer is, in effect, a loan to that customer the same as though a note form was used for the advance, but, with the disadvantage that although the banker has granted the loan, either by acquiescence or tolerance, the customer is exercising the greater control over the situation, assumes to dictate the amount of the advance, pays no interest for the privilege of using the funds so advanced by the bank, and, if reverses occur, usually leaves the bank involved with a serious or impossible collection problem.

The individual who deposits his pay check or a check received in exchange for crops or livestock, for goods or for professional services and immediately draws against the credit so obtained is also dependent upon a float credit and upon its eventual collection, if the deposited item is payable elsewhere. In cases such as these where any one particular depositor follows this pattern on occasion or at infrequent intervals, banks more or less accept the situation as one commonly encountered in the normal course of business, and, if past experience has not been unfavorable, items drawn against that balance are paid as though drawn against actually collected credits.

Recapitulation

Aggregate Resources and Liabilities of the 502 Illinois State Banks at the close of business March 22, 1949, as compared with the next preceding statement issued by the Department.

NUMBER OF BANKS	503	Increase or (—) Decrease	502
DATE OF CALL	December 31, 1948		March 22, 1949
RESOURCES:			
Cash and Due from Banks	$ 785,505,811.71	$ —91,052,988.38	$ 694,452,823.33
Outside Checks and Other Cash Items	3,104,694.64	—580,535.36	2,524,159.28
U. S. Governments—Direct & Guaranteed	1,713,234,178.69	—40,147,930.06	1,673,086,248.63
Other Bonds, Stocks & Securities	305,403,767.00	5,347,933.82	310,751,700.82
Loans & Discounts	633,468,663.99	11,419,330.42	644,887,994.41
Overdrafts	185,145.48	66,495.77	251,641.25
Banking House, Furniture & Fixtures	12,167,297.77	267,429.52	12,434,727.29
Other Real Estate	19,193.41	—3,743.65	15,449.76
Customers' Liability—Letters of Credit	1,190,809.94	108,392.33	1,299,202.27
Customers' Liability—Acceptances	432,840.59	54,207.10	487,047.69
Other Resources	6,972,558.49	—700,578.51	6,271,979.98
GRAND TOTAL RESOURCES	$3,461,684,961.71	$—115,221,987.00	$3,346,462,974.71
LIABILITIES:			
Capital Stock	$ 46,478,350.00	$ 565,000.00	$ 47,043,350.00
Income Debentures	294,400.00	—4,600.00	289,800.00
Surplus	58,051,932.97	339,000.00	58,390,932.97
Undivided Profits (net)	38,672,183.01	1,445,747.24	40,117,930.25
Reserve Accounts	38,910,620.17	1,350,295.12	40,260,915.29
TOTAL CAPITAL STRUCTURE	$ 182,407,486.15	$ 3,695,442.36	$ 186,102,928.51
Demand Deposits	$2,073,209,000.63	$—118,671,145.37	$1,954,537,855.26
Time Deposits	1,033,312,245.83	19,566,872.86	1,052,879,118.69
Due to Banks	161,362,224.41	—19,799,829.97	141,562,394.44
TOTAL DEPOSITS	$3,267,883,470.87	$—118,904,102.48	$3,148,979,368.39
Bills Payable	$ 17,050.50	$ —17,050.50	....
Rediscounts	....	....	....
Dividends Unpaid	762,074.00	—278,874.00	$ 483,200.00
Letters of Credit	1,211,803.50	104,280.77	1,316,084.27
Bank Acceptances	439,300.34	75,130.59	514,430.93
Other Liabilities	8,963,776.35	103,186.26	9,066,962.61
TOTAL OTHER LIABILITIES	$ 11,394,004.69	$ —13,326.88	$ 11,380,677.81
GRAND TOTAL LIABILITIES	$3,461,684,961.71	$—115,221,987.00	$3,346,462,974.71
ANALYSIS:			
Deposits Secured by Pledge	$ 172,271,183.72	$ —5,112,406.81	$ 167,158,776.91
Deposits Not Secured by Pledge	3,095,612,287.15	—113,791,695.67	2,981,820,591.48
TOTAL—DEPOSITS	$3,267,883,470.87	$—118,904,102.48	$3,148,979,368.39
Banking House	$ 9,572,436.47	$ 25,916.56	$ 9,598,353.03
Furniture & Fixtures	2,594,861.30	241,512.96	2,836,374.26
TOTAL—BANKING HOUSE, FURNITURE AND FIXTURES	$ 12,167,297.77	$ 267,429.52	$ 12,434,727.29
Commercial Paper	$ 18,033,639.10	$ —1,013,700.35	$ 17,019,938.75
Collateral Loans	160,651,470.71	9,805,760.14	170,457,230.85
Other Loans	307,917,150.07	1,304,920.36	309,222,070.43
Farm Loans	15,731,282.34	818,492.60	16,549,774.94
Other Real Estate Loans	131,135,121.77	503,857.67	131,638,979.44
TOTAL LOANS AND DISCOUNTS	$ 633,468,663.99	$ 11,419,330.42	$ 644,887,994.41

Although some banks are more restrictive than others, if the affairs of the customer are known to be satisfactory and he is not using the advantage unduly, it is common to find that banks accommodate such patrons as natural matters to be met in the usual day's business. **The** amounts involved are usually of small consequence, occurring only on infrequent or well spaced occasions, seldom resulting in collection methods other than the usual transit method, and the amount is always within the means of that customer if recourse becomes desirable or necessary.

Advancing Delayed Credit

In such cases, the customer imposes upon the bank to the extent of using uncollected funds, but the bank accepts the imposition as a peculiar situation to be countenanced in the usual course of business, and, other than the imposition, seldom incurs an objectionable result.

New accounts opened by strangers are seldom permitted to be drawn against until the deposited items have been cleared and finally collected. **Similar restrictions should be placed against the uncollected credit of a depositor, who is not amply prepared financially to be worthy of an unsecured loan of an equivalent amount.** In either of the instances the customer may desire to have his funds become available sooner than might be accomplished under the usual transit method. Where such accommodation to the customer is desired some banks send the items direct to the drawee bank for payment while others include them in their usual transit letter, attaching a notation requesting wire advice of payment. Both methods require special services for which a cost accrues. Inasmuch as the charge is incurred for the customer's convenience, it is reasonable for him to expect and be willing to reimburse the bank for such costs.

Collection Agreements

In computing float, some bankers occasionally overlook the time lapse occurring as a result of laws permitting the delayed return of checks, also frequently overlooked in the premature release of balances are possible changes in collection arrangements. Consequently, unless these arrangements are thoroughly understood, every banker should consult his correspondent banks as to such matters, especially the minimum dollar amount of an item required for wire advice of nonpayment.

One collection agreement frequently overlooked is the elimination of the requirement for advice of nonpayment where items are refused on account of missing, irregular or otherwise unsatisfactory endorsement. These too, on occasions may become collection problems as difficult as though returned for other reasons.

Banks may by arrangement with their correspondent banks obtain wire advice of payment or of nonpayment of any particular item on which they feel such information to be expedient.

Where there is any question whatever about a depositor's ability or affairs, precautions should be taken before permitting him to withdraw funds that are in the process of collection.

Extreme caution should be exercised regarding the depositor who immediately operates on the conditional credit obtained by the deposit of sight drafts, with or without bills of lading attached, and other items of a similar collection nature.

The most serious and hazardous operators are those who seldom, if ever, have solid balances of collected funds sufficient to pay their current checks. Similarly, the accounts of those who operate at frequencies on uncollected credits are subject to close scrutiny.

In addition to all of the impositions placed upon the bank and the hazards encountered in the manipulations of the float operators, **directors especially should be cognizant that they might become personally liable under the provisions of Section 10 of the Illinois Banking Act.** Accommodations to a float operator can, and do, become a serious personal problem to directors if the items of that customer when paid against his uncollected balance exceed, or cause his obligations to exceed, the bank's loaning limit.

Check Kites

The matter of uncollected funds also brings up the possibility of a check kiting operation. Bankers should be particularly alert against this practice.

Of late there has been considerable tolerance of, or laxness in some banks about, the float operator and the check kiter. **It has proven costly in some instances.**

It is not too difficult for a banker to detect these situations. Directors not engaged in the active management are not so well equipped or informed, but it is upon them that the responsibility falls when trouble occurs.

Directors are not expected to be completely familiar with the details of every transaction that passes through their bank, but they are required to have knowledge of how the business is being transacted and of the principles, practices and methods that are in daily use in their bank.

Report of Changes

PERMIT ISSUED

			Capital	Surplus	Reserve	
Canton	Fulton	Canton State Bank (Previous Permit cancelled and capital structure revised.)	$125,000	$35,500	$27,000	Apr. 22, 1949

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Round Lake	Lake	First State Bank of Round Lake Southeast Corner of Cedar Lake Road and Railroad Avenue Gasper F. Goshgarian, President Willard J. Murphy, Cashier	$25,000	$15,000	$10,000	Apr. 5, 1949
Lyons	Cook	Bank of Lyons 8011 West Ogden Avenue Theofil Bulat, Chairman of Board of Directors Jacob Stagman, President Carl Hummell, Vice President and Cashier	$50,000	$10,000	$15,000	Apr. 11, 1949

CAPITAL STOCK INCREASED

Roseville	Warren	Roseville State Bank from $25,000 to $35,000	Apr. 11, 1949

BANK DISSOLVED

Ridgway	Gallatin	Gallatin County Bank (In liquidation September 22, 1947.)	Mar. 31, 1949

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	452
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VOL. 25 **SPRINGFIELD, ILL., JUNE 1, 1949** **NO. 3**

An Address to Illinois Bankers

Following is the text of the address prepared by Benjamin O. Cooper, Auditor of Public Accounts, for presentation at the fifty-eighth annual convention of the Illinois Bankers Association in St. Louis, Missouri at their opening session on Wednesday, June 15, 1949:

In the five months since I assumed the duties of the office of the Auditor of Public Accounts, it has been my privilege to meet informally with many members of this group. It also has been my privilege to discuss matters of mutual interest with your representatives.

In all of these associations, I have been grateful for your interest and appreciative of the patience and understanding accorded me as the new Supervisor of State Banks of Illinois. My experience, as you know, has not been in the field of banking. It has been in the fields of public administration and engineering. So today, in my first appearance as a speaker before the members of the Illinois Bankers Association, it is only natural for you to expect a presentation of my concepts concerning the duties of my office as they relate to all Illinois banks—national as well as state.

To the layman like myself, as well as to members of the profession, the dual banking system is the common desire in this country because it conforms to the American ideal of providing effective checks and balances. I find proof of this statement in the fact that all of our 48 states and our territorial possessions have statutory provisions for the organization and supervision of local chartered banking systems.

I find still further proof in the fact that many of the laws and regulations governing the operation of national chartered banks were designed to preserve and to protect the existence of the dual system. Similar provisions are found in the Federal Reserve Act and in the regulations concerning member banks of that system. Likewise, the act creating the Federal Deposit Insurance Corporation and the laws and regulations that govern its operations encourage the perpetuation of the dual system.

Certainly, it is significant that state chartered banks may acquire membership in the Federal Reserve System and that they may obtain insured status from the Federal Deposit Insurance Corporation without prejudice—and with the same benefits as those gained by national banks.

Surely, with such stable foundations as these, the likelihood of unification of all banking facilities would seem to be remote as long as there are no serious derelictions on the part of bankers or on the part of authorities responsible for bank supervision.

I recognize that the more than 500 state chartered banks in Illinois and the administration by my office of the Illinois Banking Act are integral components in the dual banking system. We have mutual responsibilities for maintaining our position as such. Indeed, this is even emphasized by the very considerable and fraternal interest shown by national bankers toward the administration of the affairs of the Illinois Banking Department, notwithstanding the fact that its official relationship extends to only those 88 of the nearly 400 national banks in Illinois which have trust powers.

When I began my stewardship as Supervisor of State Banks in Illinois, I was frankly surprised to discover the brevity of the Illinois Banking Act. In fact, I have since learned that it is one of the shortest sets of banking regulations and directives existing in any of the 48 States or other regulatory agencies.

My explorations into the intent and scope of the act and its comparison with those of other states, however, soon convinced me of its logic and consistency.

I learned that the act was formulated on the theory that state chartered banks were to be strictly community enterprises, with their origin and existence justified, and dependent, upon local necessity and local organization. The Illinois law recognizes the banks chartered under it to be individuals possessed of individual personalities and distinctive peculiarities. Consequently, the act avoids the enforcement of a standardized or centralized control over the system.

The framers of our act also prudently omitted provisions for departmental codes and regulations, in the belief that arbitrary standards do not allow for the natural variations in managerial ability and in community characteristics. As a still further precaution, the framers avoided specified averages and ratios, thereby placing upon each local management the responsibility for evolving its own set of rules and regulations.

I am frank to admit that bank supervision by the Auditor of Public Accounts would be greatly simplified if the act established rigid rules and regulations, and if it blueprinted by ratios and averages the requisites for determining the range of sound banking conduct. But I have found that sound managements have ably demonstrated their ability to set up tested rules and regulations for the healthy conduct of their own institutions. In fact, many of them have imposed upon themselves more rigid standards than a legislative body or supervising authority would dare prescribe.

Insofar as maintaining averages and ratios is concerned, sound managements also have ably demonstrated their ability to evaluate the risks and the needs peculiar to their own operating problem. As an example, these bankers realize that a substantial portion of the earnings created in good times must be plowed back into capital structures if their institutions are to be well fortified against any eventuality which may arise. They have set up the necessary precautions to make the funds so accumulated available at all times in such a form as to permit their use in the event of need. They have demonstrated their capacity for determining at what level capital dedications might become burdensome.

Overall, standardization and central control over operations can never adequately replace the individual capacity and the flexibility of responsible management in operating and maintaining a sound institution, fitted to the peculiarities and needs of the community which it serves and upon which it is so highly dependent for continued success.

As the administrator of the Illinois Banking Act, I fully realize that the board of directors of each Illinois chartered bank has the sole statutory authority and responsibility for operating decisions. I know that my official duty toward the operations of such banks lies in my obligation to cause periodic examinations. I know that in the public interest it is my responsibility to prevent the continued operation of any bank which might be found to be conducting its business with a capital impairment or in any illegal, fraudulent or otherwise unsafe manner.

To discharge this responsibility, I not only need an adequate, but a capable staff. The nucleus of my examining staff is composed of men who served several changes of administration, as well as changes in party regimes. It includes three men with more than 25 years each in examining experience, five with more than 20 years individual experience, 10 with more than 15 years service each, and a considerable number of others with individual examining experiences ranging between 10 and 15 years. Besides certain other examining personnel of lesser experience who were retained in their positions, I have confined my selection of supplemental appointments to applicants with the necessary technical qualifications.

A capable, qualified staff is only the beginning of my responsibilities. I have been reviewing with my key personnel the examining procedures in order to make sure that we are doing the best possible job on every assignment. I expect not only intelligent and comprehensive examinations conducted in a workman-like manner, but an accurate unbiased report of each examination. In this effort, I seek your cooperation.

Within the past two weeks, I took several actions which I wish to report to this group here today. One of these was in opposition to United States Senate Bill 1775, which would give the Federal Reserve System powers to require certain reserves from non-member insured state banks. I felt that inclusion of arbitrary and discretionary control over non-member banks in the authority now held by the Federal Reserve over its member banks to be an approach to the centralization of banking. My opposition was voiced in telegrams to Senator B. R. Maybank, Chairman of the Senate Committee on Banking and Currency, Senator Scott W. Lucas and Senator Paul H. Douglas from Illinois. I opposed the bill on the grounds that it proposes a serious step toward unification of our dual banking system as well as an encroachment upon the prerogatives of state chartered banks.

As you know, there is proposed in the Congress another measure of jeopardy to the dual banking system. That is a bill proposing the consolidation of the powers and functions of the three federal banking authorities under a single agency, thereby solidifying control over all insured banks. This would seem to merit your attention and action.

Here in Illinois, bills recently were introduced in the General Assembly which appeared unfair to state chartered banks. I refer to the bills proposing a tax on business, trades, professions and other livelihoods. These measures as drawn, excluded national banks, but left state banks within their taxing provisions. I do not quarrel with the General Assembly's power and privileges of determining methods of, and extending taxation, I do feel, however, that the proposed legislation discriminated against state banks. I therefore prepared and caused to be introduced in both houses of the legislature an amendment to exempt state banks as well as national banks from the licensing proposals. The response of officers and directors of Illinois State Banks to my letter to them explaining my action was most gratifying and I do appreciate your cooperation.

Many of you know that officials of your association discussed with me certain revisions to the Illinois Banking Act. We decided to defer the proposals for another session of the legislature. Because the suggested revisions were not of immediate urgency, it was considered expedient, in view of the press of other important legislation, to withhold introduction of the revisions at this time. Your association and my office, however, do have an agreement to give these proposals continued consideration.

As far as I can ascertain, there is no growing desire upon the part of the public for a central control over all banking functions. In the absence of public clamor, the threat of unified powers can be avoided as long as bankers continue to properly conduct their affairs in a sound, prudent manner, and as long as supervisory agencies continue to properly administer their responsibilities.

We who favor the dual system, however, must be constantly alert that individual agencies are not empowered to unify supervisory functions, and we must be eternally resistant to discriminatory legislation which would in effect force banks to forsake one for another more advantageous system.

For my part, I want to assure you that the Illinois Banking Department will continue to respect banks as individual businesses, correctly appraising not only the assets, but the character, the ability and the operating results of the management of each individual bank. And I give you my further pledge, that the Banking Department will continue to refrain from interference with the sound accomplishments of conscientious management.

Report of Changes

PERMIT ISSUED

			Capital	Surplus	Reserve	
Odell	Livingston	Odell State Bank (Previous Permit expired.)	$40,000	$10,000	$10,000	May 10, 1949

CHARTERS ISSUED

			Capital	Surplus	Reserve	
Viola	Mercer	Farmers State Bank of Viola Part (28 x 50 ft.) of Lot Seven, Block Ninety, original Town, now Village of Viola L. D. Cook, President Eli Donaldson, Jr., Cashier	$25,000	$10,000	$ 5,000	May 18, 1949
Odell	Livingston	Odell State Bank 406 Waupansie Street James B. Muir, President Gordon Speers, Cashier	$40,000	$10,000	$10,000	May 20, 1949

CAPITAL STOCK INCREASED

DeSoto	Jackson	Albon State Bank from $15,000 to $25,000	May 2, 1949
Lena	Stephenson	Citizens State Bank of Lena from $50,000 to $75,000	May 20, 1949

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	454
Total	506

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 25--NO. 4 SPRINGFIELD JULY 1, 1949

Direct Verification and Audit Control

An operation which is having increased consideration by bank directors as a desirable adjunct to their annual examinations is the direct verification of assets and liabilities.

The thought of direct verifications is not of recent origin but the techniques necessary for satisfactory accomplishment have been the subject of much research and development during the past few years.

The National Association of Bank Auditors and Comptrollers has made a study of the subject and has prepared a current, comprehensive, easily understood manual for the information and guidance of those who might want to adopt a direct verification program, as well as for those who seek to improve programs that are now in effect and practice.

Any suggestion of "direct verification" usually produces the reaction that such an undertaking is too complicated, involved and costly for other than large city banks. Studies on the subject have shown this is not the case.

Recent inquiries as a means of determining the extent of ill-will resulting from requests for verification are reported to have completely nullified an existing belief that a certain amount of unfavorable customer reaction occurred when such programs were placed in effect.

The attention of those who might hesitate for fear of creating unfavorable reaction, is called to the following statement: "Out of 376 responses received, 190 reported periodic verification of accounts by either positive or negative methods, **NONE REPORTED ANY INSTANCES OF CUSTOMER COMPLAINT.** On the contrary, the many banks using the positive means of verifying balances have found that their depositors consider the practice mutually beneficial, an added service and a **FURTHER EVIDENCE THAT THEIR BANK IS CAREFULLY AND CONSERVATIVELY MANAGED.**"

Direct Verification Manual

The "Direct Verification Manual" prepared by the National Association of Bank Auditors and Comptrollers contains a special message to the smaller banks, the opening statements being: "To obtain the advantages of direct verification, it is not essential that a bank have a trained auditing staff. The job has few complications and may be performed by almost any member, or members, of the staff other than those responsible for keeping the accounts or records that are to be verified."

It is entirely practical to apply, even to banks having but one employee, the procedures outlined in the manual. Consequently, this publication is being brought to the attention of every director of each Illinois State bank in the belief that direct verification is a subject that bank directors cannot afford to ignore and because the manual offers a workable plan for every bank regardless of size.

The procedures developed by the association and outlined in their manual bring to a closer realization a program pioneered by this Department over ten years ago. In our BULLETIN of January 1, 1939 we urged the verification of accounts by circulation and outlined a procedure. Later articles on the subject appeared in subsequent issues of the BULLETIN, especially, in the issues of June 1, 1941 and September 1, 1943.

Internal Audit Control

Another recent publication by the same association is its "Audit Schedule Control Book." Here again is a treatment of a subject that should be thoroughly understood by every bank director. The booklet was prepared by the Committee on Problems of Smaller Banks and its suggestions are readily adaptable to banks as small as those having but three employees. In fact, one section of the booklet is devoted to suggestions concerning banks having that number of employees.

The Auditgram of June 1949 published by the same association contains the following statement which should be addressed to every bank director:

DON'T TURN YOUR BACK ON BANK FRAUD!

Let's face it - - - - frauds are real - - - - they're increasing in number - - - - they're harmful to you, your bank, stockholders, depositors and employees, even though your bank is free of embezzlers and defaulters.

Think of the alarming estimate that $10,000,000.00 in bank funds is now in the hands of embezzlers, which, admittedly, is a small amount in the overall banking picture. But, nevertheless that's TEN MILLION DOLLARS. How many banks, unknowingly sharing this estimated sum in shortages, will be forced to make a direct charge against their capital funds because they carried insufficient insurance coverage?

During the years from 1945 to 1948, inclusive, there have been at least 18 banks that sustained losses in excess of the amount of blanket bond coverage carried. The total losses reported on these banks amounted to $4,621,022.00, of which $1,770,000.00 was covered by blanket bonds, leaving a balance of $2,851,022.00 uninsured.

Certainly it's wise to hold adequate insurance coverage. But, isn't it still more sound to do everything you can to prevent embezzlements? Our Association recommends sufficient coverage, but it also strongly urges the adoption of an audit program.

The people of this country have the best operated banks in the world but each time a headline screams BANK FRAUD, public confidence is shaken and we hear the question: "Why wasn't that prevented?"

The first step toward safer banking is an audit program.

Our Association has been hammering away at the importance of audit programs since its inception. And, since last October, the aim has been: An Audit Program in Every Bank—Regardless of Size.

How does your bank measure up in the face of that slogan?

Do you have a thorough, effective audit program?

NABAC is offering every bank in the nation assistance in improving its present audit program or in formulating a new one, by making available to them a copy of the Audit Schedule Control Book, prepared by our Committee on Problems of Smaller Banks.

The Audit Schedule Control Book contains suggestions for auditing a bank with a staff of only three persons, a second part for banks with four to seven persons, and a third part for small banks with a staff of more than seven persons.

You, as a member, can receive a copy of this book from the Central Office. This offer is not being restricted to members though. Late last month over 11,500 non-member banks received a letter signed by President Williams, and a four-page folder describing NABAC's War on Bank Fraud and telling about NABAC'S willingness to offer assistance in the installation of audit programs. These non-members were told that copies of our Audit Schedule Control Book are available to them upon request.

If you want to improve your present audit program, or if you want an easy to understand guide for the formulation of an audit program, order your copy of the Audit Schedule Control Book today.

Don't turn your back!

Help NABAC carry the banner in its War on Bank Fraud.

Bank directors actually are trustees of the funds representing the deposits of customers and the investment of shareholders. Their responsibilities extend beyond the duty to safeguard the assets of their institution from losses due to the inability of borrowers to repay and from adverse circumstances affecting investments.

As trustees they have a duty to provide safeguards against losses and depletions occurring by other causes. They have a responsibility to determine, as far as possible, (1) that the assets of their trusteeship are genuine and intact and (2) that the liabilties are not falsified nor misstated.

Every bank director should fully realize his obligation to take adequate measures against losses from all sources and he should not expose himself to charges of negligence by failing to insist upon recognized precautionary measures.

The following statement is found in the "Audit Schedule Control Book":

"The well informed banker knows that examinations by supervisory authorities cannot justifiably be expected to uncover nor to prevent irregularities and defalcations, and he wants internal audit control if it is within the realm of possibility for his institution. Actually, almost every bank uses internal audit control to a degree. If the cashier counts his teller's cash once in a while; if he looks over reconcilements of accounts with correspondent banks sometimes; if he wonders whether employees are living within their incomes, he is auditing. From there on, the question

is not whether there shall be a system of internal audit control, but rather how the system already in existence can be developed, in conformity with the requirements and facilities of the institution."

While direct verification and a system of internal audits are not absolute preventives for irregularities, shortages and defalcations, they are the closest approach to a practical solution. Procedures have now been developed that are available for use in nearly every bank. Every administrative bank officer should be familiar with recent material on the subject.

The same material should be available to and thoroughly studied by every bank director. If this cannot be accomplished, it is recommended that a study be made by **at least one director** in every bank other than an active officer.

It is our understanding that the Direct Verification Manual and the Audit Schedule Control Book are offered to non-members as well as members. Every NABAC member bank has received a copy of each. Non-members may purchase the Direct Verification Manual at $5.00 per copy. The Audit Schedule Control Book may be obtained without cost upon request. If either or both of these publications are desired, inquiry should be directed to the National Association of Bank Auditors and Comptrollers, 38 South Dearborn Street, Chicago 3, Illinois.

Report of Changes

CAPITAL STOCK INCREASED

Lyons........Cook.........Bank of Lyons
from $50,000 to $75,000...............................June 13, 1949

Highland.....Madison.....Farmers and Merchants Bank of Highland
from $60,350 to $85,000...............................June 15, 1949

CHANGE OF PAR VALUE OF CAPITAL STOCK

Highland.....Madison.....Farmers and Merchants Bank of Highland
from $71.00 to $50.00...............................June 15, 1949

PERMIT CANCELLED

Chicago......Cook.........Bank of Albany Park...............................May 26, 1949

BANK DISSOLVED

Hennepin....Putnam......Putnam County State Bank...............................June 10, 1949
(In liquidation February 4, 1947.)

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	454
Total	506

(82487—6M)

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

Vol. 25—No. 5 SPRINGFIELD August 1, 1949

Mid-Year Call Figures --- 1949

Over three billion four hundred and eight million dollars in total resources were reported by 506 Illinois State banks at the close of business June 30, 1949. This compares with the three billion three hundred and forty-eight million dollars in total resources reported one year ago by 505 Illinois State banks at the close of business June 30, 1948.

Although the various trends were not steady throughout the past twelve months and fluctuations were not entirely in a consistent relationship to one another, the net increase of sixty million dollars in total resources since June 30, 1948 is marked by net increases of nearly thirty-four million in loans and discounts and slightly more than twenty-five million in investments other than U. S. Government obligations.

U. S. Government obligations which are the major asset item of Illinois State banks declined slightly, about two million dollars during the period under review, although purchases of these obligations amounted to nearly thirty-six million dollars in the last quarter, March 22, 1949 to June 30, 1949.

The net increase in total resources reflects a fifty million dollar increase in total deposits and eleven million dollars in additional capital funds.

Cash, Cash Items, Due from Banks and U. S. Government Obligations were held in the total amount of two billion four hundred and twenty-four million dollars and were the equivalent of 75½% of the nearly three billion two hundred and ten million in total deposits reported by the 506 Illinois State banks.

This percentage (75½%) at the close of business June 30, 1949, compares with 62% of deposits in the so-called non-risk assets ten years ago, June 30, 1939; 66% on June 29, 1935 and 26% on June 29, 1929.

Review of Call Reports Covering All Illinois State Banks

NUMBER OF BANKS	505	Increase or Decrease (—)	505	Increase or Decrease (—)	503	Increase or Decrease (—)	502	Increase or Decrease (—)	506
DATE OF CALL	June 30, 1948		September 20, 1948		December 31, 1948		March 22, 1949		June 30, 1949
RESOURCES:									
Cash and Due from Banks	$ 708,634,401.17	$ 9,824,577.64	$ 718,458,978.81	$ 67,046,832.90	$ 785,505,811.71	$ —91,052,988.38	$ 694,452,823.33	$ 17,847,449.69	$ 712,300,273.02
Outside Checks and Other Cash Items	2,859,032.07	6,441,284.69	9,300,316.76	—6,195,622.12	3,104,694.64	—580,535.36	2,524,159.28	403,556.41	2,927,715.69
U. S. Governments—Direct & Guaranteed	1,710,751,503.28	7,306,662.72	1,718,058,166.00	—4,823,987.31	1,713,234,178.69	—40,147,930.06	1,673,086,248.63	35,755,828.42	1,708,842,077.05
Other Bonds, Stocks and Securities	295,858,938.14	—6,626,289.21	289,232,648.93	16,171,118.07	305,403,767.00	5,347,933.82	310,751,700.82	10,339,949.32	321,091,650.14
Loans and Discounts	608,640,049.57	25,114,032.40	633,754,081.97	—285,417.98	633,468,663.99	11,419,330.42	644,887,994.41	—2,491,618.27	642,396,376.14
Overdrafts	239,250.85	154,871.71	394,122.56	—208,977.08	185,145.48	66,495.77	251,641.25	—43,646.46	207,994.79
Banking House, Furniture & Fixtures	11,307,926.92	500,020.97	11,807,947.89	359,349.88	12,167,297.77	267,429.52	12,434,727.29	108,849.30	12,543,576.59
Other Real Estate	22,538.23	—431.53	22,106.70	—2,913.29	19,193.41	—3,743.65	15,449.76	11,193.20	26,642.96
Customers' Liability—Letters of Credit	2,398,221.75	—1,033,345.10	1,364,876.65	—174,066.71	1,190,809.94	108,392.33	1,299,202.27	—673,505.01	625,697.26
Customers' Liability—Acceptances	456,446.88	—132,383.65	324,063.23	108,777.36	432,840.59	54,207.10	487,047.69	57,181.69	544,229.38
Other Resources	7,537,809.47	—987,024.96	6,550,784.51	421,773.98	6,972,558.49	—700,578.51	6,271,979.98	913,706.66	7,185,686.64
GRAND TOTAL RESOURCES	$ 3,348,706,118.33	$ 40,561,975.68	$ 3,389,268,094.01	$ 72,416,867.70	$ 3,461,684,961.71	$ —115,221,987.00	$ 3,346,462,974.71	$ 62,228,944.95	$ 3,408,691,919.66
LIABILITIES:									
Capital Stock	$ 46,253,350.00	$ 290,000.00	$ 46,543,350.00	$ —65,000.00	$ 46,478,350.00	$ 565,000.00	$ 47,043,350.00	$ 234,650.00	$ 47,278,000.00
Income Debentures	294,400.00	.....	294,400.00	.....	294,400.00	—4,600.00	289,800.00	—36,800.00	253,000.00
Surplus	56,259,557.97	314,000.00	56,573,557.97	1,478,375.00	58,051,932.97	339,000.00	58,390,932.97	351,150.00	58,742,082.97
Undivided Profits (net)	36,721,330.83	2,656,145.93	39,377,476.76	—705,293.75	38,672,183.01	1,445,747.24	40,117,930.25	2,278,027.04	42,395,957.29
Reserve Accounts	37,830,614.25	1,505,163.23	39,335,777.48	—425,157.31	38,910,620.17	1,350,295.12	40,260,915.29	—522,576.99	39,738,338.30
TOTAL CAPITAL STRUCTURE	$ 177,359,253.05	$ 4,765,309.16	$ 182,124,562.21	$ 282,923.94	$ 182,407,486.15	$ 3,695,442.36	$ 186,102,928.51	$ 2,304,450.05	$ 188,407,378.56
Demand Deposits	$ 1,973,372,425.69	$ 38,775,412.54	$ 2,012,147,838	61,06[illegible]0	$ 2,073,209,000.63	$ —118,671,145.37	$ 1,954,537,855.26	$ 39,140,289.45	$ 1,993,678,144.71
Time Deposits	1,023,111,067.79	—1,821,183.50	1,021,289,884..	12,022,[illegible].54	1,033,312,245.83	19,566,872.86	1,052,879,118.69	15,222,479.71	1,068,101,598.40
Due to Banks	163,195,721.49	—570,713.38	162,625,008.11	—1,262,783.70	161,362,224.41	—19,799,829.97	141,562,394.44	6,569,853.62	148,132,248.06
TOTAL DEPOSITS	$ 3,159,679,214.97	$ 36,383,515.66	$ 3,196,062,730.63	$ 71,820,740.24	$ 3,267,883,470.87	$ —118,904,102.48	$ 3,148,979,368.39	$ 60,932,622.78	$ 3,209,911,991.17
Bills Payable	$	$	$	$ 17,050.50	$ 17,050.50	$ —17,050.50	$	$	$ .....
Rediscounts	.....	.....	.....	.....	.....	.....	.....	.....	.....
Dividends Unpaid	509,978.34	—193,278.34	316,700.00	445,374.00	762,074.00	—278,874.00	483,200.00	58,750.00	541,950.00
Letters of Credit	2,469,767.93	—1,076,871.78	1,392,896.15	—181,092.65	1,211,803.50	104,280.77	1,316,084.27	—667,662.01	648,422.26
Bank Acceptances	456,446.88	—59,937.70	396,509.18	42,791.16	439,300.34	75,130.59	514,430.93	34,781.45	549,212.38
Other Liabilities	8,231,457.16	743,238.68	8,974,695.84	—10,919.49	8,963,776.35	103,186.26	9,066,962.61	—433,997.32	8,632,965.29
TOTAL OTHER LIABILITIES	$ 11,667,650.31	$ —586,849.14	$ 11,080,801.17	$ 313,203.52	$ 11,394,004.69	$ —13,326.88	$ 11,380,677.81	$ —1,008,127.88	$ 10,372,549.93
GRAND TOTAL LIABILITIES	$ 3,348,706,118.33	$ 40,561,975.68	$ 3,389,268,094.01	$ 72,416,867.70	$ 3,461,684,961.71	$ —115,221,987.00	$ 3,346,462,974.71	$ 62,228,944.95	$ 3,408,691,919.66
ANALYSIS:									
Deposits Secured by Pledge	$ 136,371,200.61	$ 4,592,403.13	$ 140,963,603.74	$ 31,307,579.98	$ 172,271,183.72	$ —5,112,406.81	$ 167,158,776.91	$ 1,099.59	$ 175,771,750.84
Deposits Not Secured by Pledge	3,023,308,014.36	31,791,112.53	3,055,099,126.89	40,513,160.26	3,095,612,287.15	—113,791,695.67	2,981,820,591.48	52,319,648.85	3,034,140,240.33
TOTAL—DEPOSITS	$ 3,159,679,214.97	$ 36,383,515.66	$ 3,196,062,730.63	$ 71,820,740.24	$ 3,267,883,470.87	$ —118,904,102.48	$ 3,148,979,368.39	$ 60,932,622.78	$ 3,209,911,991.17
Banking House	$ 9,131,201.28	$ 201,502.71	$ 9,332,703.99	$ 239,732.48	$ 9,572,436.47	$ 25,916.56	$ 9,598,353.03	$ 1,099.59	$ 9,599,452.62
Furniture & Fixtures	2,176,725.64	298,518.26	2,475,243.90	119,617.40	2,594,861.30	241,512.96	2,836,374.26	107,749.71	2,944,123.97
TOTAL—Banking House, Furn. & Fixtures	$ 11,307,926.92	$ 500,020.97	$ 11,807,947.89	$ 359,349.88	$ 12,167,297.77	$ 267,429.52	$ 12,434,727.29	$ 108,849.30	$ 12,543,576.59
Commercial Paper	$ 23,472,441.16	$ —978,489.78	$ 22,493,951.38	$ —4,460,312.28	$ 18,033,639.10	$ —1,013,700.35	$ 17,019,938.75	$ 762,968.95	$ 17,782,907.70
Collateral Loans	152,902,846.86	3,587,847.47	156,490,694.33	4,160,776.38	160,651,470.71	9,805,760.14	170,457,230.85	15,732,667.42	186,189,898.27
Other Loans	295,738,303.90	18,026,174.48	313,764,478.38	—5,847,328.31	307,917,150.07	1,304,920.36	309,222,070.43	—21,108,967.57	288,113,102.86
Farm Loans	16,113,148.97	—570,514.74	15,542,634.23	188,648.11	15,731,282.34	818,492.60	16,549,774.94	5,806,233.49	22,356,008.43
Other Real Estate Loans	120,413,308.68	5,049,014.97	125,462,323.65	5,672,798.12	131,135,121.77	503,857.67	131,638,979.44	—3,684,520.56	127,954,458.88
TOTAL—LOANS AND DISCOUNTS	$ 608,640,049.57	$ 25,114,032.40	$ 633,754,081.97	$ —285,417.98	$ 633,468,663.99	$ 11,419,330.42	$ 644,887,994.41	$ —2,491,618.27	$ 642,396,376.14

Letters to the Auditor

This Office is particularly pleased with the fine comments received concerning the article entitled, "Uncollected Funds" that appeared in the May 1, 1949 BULLETIN and with the interest that it aroused in the directors of our Illinois State banks.

Among the comments from others were letters from Director H. E. Cook of the Federal Deposit Insurance Corporation and from Gordon W. Warren of the Pulaski County Bank, Richland, Missouri.

Mr. Cook's letter:

"Your statement is clear and concise and just the type of directive that the banks should give absolute heed to. It has come to our attention in quite a number of cases where payment of checks against uncollected funds have occasioned severe losses to banks. In fact, we had one case where a bank was closed because of kiting operations.

"Chairman Harl joins with me in giving you our appreciation for so sound and constructive a pronouncement. We hope that the banks not only in the State of Illinois but throughout the nation will observe the good advice you have given."

Mr. Warren's letter:

"A copy of the Monthly Bulletin for May 1949 issued by your department has come to the attention of the Bank Management Committee of the Missouri Bankers Association. The article in the bulletin on uncollected funds was of special interest to this group.

"As a member of the committee I have been asked to prepare an article on this subject for the MISSOURI BANKER. I would like to have your permission to use excerpts from your publication in this article."

Report of Changes

CHARTER ISSUED

			Capital	Surplus	Reserve	
Canton	Fulton	Canton State Bank 2 North Main Street A. E. Taff, President Curtis C. Mason, Cashier	$125,000	$35,500	$27,000	July 18, 1949

CAPITAL STOCK INCREASED

Viola.........Mercer.......Farmers State Bank of Viola from $25,000 to $40,000.......July 25, 1949

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	455
Total	507

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 25 -- NO. 6 SPRINGFIELD SEPTEMBER 1, 1949

Operating Problems

One of the most serious problems that has confronted banks remains unsolved to a considerable degree. That is the matter of providing an adequate operating staff and a provision for management succession.

The few exceptions are usually found in the larger city banks while the great majority are operating under-staffed or with the barest minimum of employees.

Most banks were adequately and efficiently equipped to properly handle their volume level of the late 1930's but when the volume of business and the rate of transactions increased in the early 1940's by such a rapid, unheard-of and theretofore unexperienced proportion, banks found themselves faced with a number of operational problems.

These operational problems were intensified by the divergence of employees and prospective employees into endeavors closer related to the war efforts. In addition, few banks at the time possessed the facilities of space and equipment required by the spiralling volume of business.

The war efforts greatly reduced and practically voided all possibility of maintaining adequate personnel, or providing adequate quarters or of obtaining the necessary equipment. Very little, consequently, could be accomplished at that time toward remedying the then existing conditions. Managements conducted their affairs to the degree permitted by the available facilities. In many cases, short-cuts necessarily replaced the detailed procedure of time-proven methods.

With due consideration to the handicaps and circumstances, banks did continue to conduct their affairs and to service the needs of their customers in a very commendable manner during the critical period. That these adverse conditions of operation would continue were, however, either overlooked or unforeseen, the managements' viewpoint, in most cases, being that the passage of time would provide relief in the form of expected post-war adjustments.

A number of banks did realize that they would continue to be confronted with these problems and took steps to adjust their operating facilities to the apparent needs of their institution.

Where quarters have been a problem there is hardly a bank that has not now provided for additional space, either by remodeling or new construction, or by definite plans for either. Similarly, equipment problems have been solved by the replacement of old and obsolete items and by the purchase of additional pieces.

When viewed as a general condition, it is in the field of personnel that the problem remains as an unwholesome situation. There are many banks, of course, that have properly staffed themselves, but there are enough others that are under-staffed to cause the situation to be viewed as a general problem to the banking industry.

OPERATING PERSONNEL

This deficit in operating personnel offers a two-angled threat to the continued sound operation of many of the banks. Although the active management may be both adequate and capable, if the junior and clerical assistance is inadequate, some phase of operations must suffer. Usually there is a short-cutting in the processing and recording of transactions, which causes a departure from practices that have been recognized over long experience to be required or at least to be highly advisable. Where, as an alternative, the managing officers devote time in assisting the operating staff, short-cutting may be avoided or reduced but administrative affairs are usually slighted. The lack of proper attention either to operating details or to administrative functions offers a potential threat to the continuance of successful operations.

The other serious threat arising from a deficit in operating personnel is the matter of management succession. Many well-managed banks are operating with no one within their employ possessing capabilities or experience which would qualify that person to immediately undertake the management of the bank should the present executive officer be removed by death or other cause.

The immediate urgency, of course, concerns present operating problems and directors should determine whether or not their bank has such problems.

The board or a committee of directors selected for such purpose, or a single director as a matter of personal interest should spend the short time required to examine and inspect the various routine operations of his bank.

Among the points to be considered in an evaluation as to the adequacy of the present operating staff, are deficiencies in records and systems.

DIRECTORS' SURVEY

As the first step in the survey, transactions should be selected and the various items involved should be traced through the records to their final disposition, observing whether each step in their progress is clearly identifiable and reflected on the books exactly as it occurred.

While tracing these items, observations should be made as to whether all were handled with the proper diligence and dispatch, or whether it is the practice to allow a portion of one day's transactions to be carried over into the next business day.

This might result in the intermingling on the records of one day's business with another's which, of course, would not permit the transaction to be recorded clearly and exactly as it occurred. Furthermore, items delayed in presentation or in forwarding for presentation might be in violation of the legal relationship between the bank and its customer as concerns the diligence and care required in such relationship.

While the directors are making their inspection of the books, records and operating practices, short-cut procedures and delayed systems should be examined for other weaknesses.

Some banks operate very efficiently with such installations, while on the other hand, if improperly installed and controlled, they have afforded greater opportunities for the dishonest check operator as well as opening the way for other forms of manipulation and defalcation.

DELAYED POSTINGS

We wonder, also, if the banks that delay postings have considered the possible effect on their public relations. Banks are constantly advertising, with becoming dignity, such virtues as their many public services, the skill and experience of their officers, their trained personnel and the efficiency of their organizations. Yet many such banks would be forced to admit that they are always one day behind in posting their business transactions, while many other banks are able to record their customers' transactions on the same day they take place.

It does not take a great deal of imagination to visualize a separation of our banks, in the public mind, into two groups—one that completes today's business today and another that does it tomorrow; nor would it be difficult to find a number of aggressive bankers who would advertise that difference. We think such possibilities should be carefully considered before embarking upon or continuing "day behind" posting.

It may be found that operating procedures conform to the necessary requirements, but that by obtaining such performance, administrative matters are being slighted through the needed participation of officers in the routine and detail phases of operations.

The loaning and investing of the bank's funds constitute a most important operation. Every bank should be so organized that its loaning officer or officers can give careful consideration to loans and investments when made and can give them their constant attention thereafter; yet, it is frequently found that the time of the loaning officer is so burdened with clerical detail that he cannot give the proper attention to his more important responsibilities.

While the executive officer in any bank having two or more employees, should exercise a general supervision, should know the bank's customers and be available to the public, his time should not be taken up in accepting deposits, cashing checks, writing drafts and bookkeeping.

Usually the chief executive officer is "the bank" in the eyes of the public. This is particularly so in the smaller communities where a large part of the local business affairs is influenced by his judgment and counsel. A bank losing such an executive suffers a severe injury. The need is so evident that seemingly some provision would be in continual development within each bank as a means of tempering the impact of such eventualities.

Under present conditions, and as a general situation, there are ample reasons, opportunities and the means for augmenting both operating and administrative staffs. By engaging careers through the payment of commensurate salaries, the offer of certain advancement and providing good working environment, much can be accomplished toward solving not only today's operating problems, but the problem of management succession as well.

The matter of personnel definitely falls within the responsibilities of directors. The directors of an Illinois State bank have a duty to employ such officers and employees as are necessary, not only to carry on the business of the bank, to diligently administer its affairs and to keep suitable books of record of all transactions, but to safeguard its future.

As directors analyze their local situation and weigh their findings, both against their present position and against the potentials of a longer ranged outlook, very likely the urgency of supplementing present personnel will be revealed to many as a problem to be corrected by their own institutions.

Report of Changes

BANKS DISSOLVED

Quincy....... Adams....... Broadway Bank of Quincy.............................. July 14, 1949
(In liquidation December 17, 1945.)

Quincy....... Adams....... The Peoples Bank of Quincy............................ July 14, 1949
(In liquidation December 17, 1945.)

RECAPITULATION

State Banks in Chicago	24
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BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

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Thoughts for Boards of Directors

That time is approaching when the stockholders of Illinois State banks usually hold their annual meetings. It might be well for some thought, in advance of such meetings, as to what action might be advisable, not only on account of requirements arising from vacancies on the board, but from the advantages of altering or enlarging the board's composition.

In Illinois State banks the privilege is given to the stockholders of determining the number of directors and of electing those of their choosing. There is nothing, however, that would prevent a board of directors from making recommendations to the other shareholders and offering guidance to them in such matters. In fact, there are many instances where the board may actually have a duty in this direction.

By their membership on the board, directors are in a position affording them a more intimate understanding of the bank's needs and problems than that usually gained by the ordinary shareholder. It is, therefore, not only reasonable but entirely logical for the board to acquaint other stockholders with expedient or desirable alterations in the functional structure of the organization.

Increasingly in recent years, when vacancies occur, boards have had the tendency to accept a decrease in the established number of directors as the corrective means. In most cases it would appear much more desirable, at least from a long-range viewpoint, had the vacancy been corrected by the election of a new member to complete the previously selected number of directors.

Certainly, those who hold to the ideals of maintaining home-owned units in an independent banking system should be sufficiently moved to encourage the interest of an ambitious, community-minded, local person to become a director, especially, if it is realized that such enterprises are highly dependent upon community support and participation.

However enthusiastic a prospective director might be, it is necessary that he own the required amount of stock. Because of peculiar distributions in the ownership of the stock, these qualifying shares are not always readily attainable; which brings to account another impediment that lowers the extent of community participation and, if desirable, might be readily altered, for in a great many instances, stock lies dormant having never been transferred out of estates and in many other instances, distantly scattered ownership has occurred through inheritance. In each case, the bank affected does not have the aggregate personal and community interest that is possible when the stock is held by local parties.

Board memberships as legally designated by shareholders and the number of banks in each designation are shown below for the 483 Illinois State banks that are located outside of the City of Chicago:

Membership	Banks
3	22
4	20
5	210
6	42
7	130
8	12
9	33
10 and over	14

Of the 24 Illinois State banks in Chicago, fourteen have boards of less than ten directors and ten have memberships of ten or more.

At the present time there are twenty-five director vacancies reported to this Department and prevailing in twenty-four of those banks outside of Chicago. Nearly every one of these vacancies exists in the smaller country banks and many result from inabilities to elect full board memberships at the last regular stockholders' meetings.

Banks in predominantly commercial and industrial localities ordinarily establish a seven to nine member, or even larger, board and have little difficulty maintaining a full membership at all times. When a vacancy occurs a successor is readily forthcoming from sources offering a wide variance of experience and qualifications.

Individual and business advantages make these bank directorships attractive to successful and aggressive men in the many businesses and professions. Furthermore, stock is more easily acquired, if necessary, as the shares have a greater natural movement of ownership.

Except that an Illinois State bank is required to have at least three directors, the number of directors composing the board is left to the judgment and determination of the shareholders.

There is no general formula or rule-of-thumb that can be successfully applied in determining the number and composition of a board of directors. Banks in areas having a diversification of businesses and industries, usually deem their boards to require both a larger membership and a broader coverage of experiences and relationships; while, as the trade becomes less diversified, fewer directors are usually considered adequate by the stockholders and, in addition, the "family" or similarly closely owned institutions are by such peculiarities naturally restricted to smaller boards.

Some authorities hold that the most advantageous and desirable board is composed of at least twice as many outside directors as there are officers and employees holding memberships. There are a number of logical and generally advantageous features to such theory of composition, but it is not the purpose of this BULLETIN to attempt the setting of standards, either as to the number of directors or to eligibility of membership. Our purpose, rather is to stimulate thought in the managements of the smaller, community-owned, country banks as to existing problems and to eventualities that might suddenly impair the proper functioning of the board.

This Department is principally concerned that every Illinois State bank has a strong and active board of directors. That sort of board is always advisable, but particularly so at this time. Under present conditions the problems of banking are becoming more frequent and complex. Applications for loans are increasing and investment opportunities are becoming more diversified.

As collection problems arise, directors must be able to differentiate between such troublesome lines of credit that may be expected to work out and those that require immediate action. Greater care and decision as well as a background of varied experiences are becoming more expedient in passing judgment upon applications for credit advances.

With wider opportunities for investments, decisions must be made as to the evaluation between the apparent risks and the expected returns.

In some cases, loan volumes have enlarged to the extent that any additional expansion in that direction will require changes in the investment portfolio. These, too, will require careful deliberation and, possibly, changes in operating programs.

If every bank is to serve fully the deserving financial needs of its community, protect its depositors by avoiding unwarranted risks and continue to earn a reasonable return for its shareholders, a full board membership seems necessary to all, each composed of alert, aggressive and experienced directors.

As conditions change, sound and individual judgments become more advantageous and offer a better opportunity for continuing successful and profitable operations.

It seems entirely feasible, even though no present problem is apparent, that directors give considerable thought to what might be the most advantageous and efficient composition of a board of directors for their bank. A viewpoint, not only as to the present but as to the future, should enter into their analysis, particularly, what plans, if any, are advisable in the matter of provision for replacement or succession of membership should a vacancy occur on the board.

As previously shown, twenty-two banks have boards consisting of but three members each. Inasmuch as three is the least number of directors permitted by the Illinois Banking Act, these banks usually are in an awkward position when vacancies occur. In such cases it would seem of considerable importance that an antecedent plan or proposal be available for immediate action, should a vacancy arise, if the board is to resume its functions within the legal requirements of membership.

It is realized, of course, that many of these three-member boards result from circumstances peculiar to the individual bank and that they may function as soundly and as competently as a larger board, their only weakness being felt when able and experienced successors are not immediately available or are not qualified by stock ownership.

It is well for every bank to review periodically the composition of its board, (1) taking recognition at that time of possible vacancies and the need for replacement provisions, (2) considering what might be necessary or desirable in the way of adding additional strength to the present board, and (3) analyzing local conditions and circumstances for possible advantages that might be offered the bank by a greater diversification of experience, interests or community representation on the board. If such review suggests the need of altering the board, that condition or situation then should be placed before the shareholders so that they may be fully informed and may consider whether action need be taken.

Report of Changes

CAPITAL STOCK INCREASED

River Forest.....Cook.....River Forest State Bank from $100,000 to $125,000.....Sept. 24, 1949

Farmer City.....DeWitt...Farmer City State Bank from $25,000 to $50,000.....Sept. 27, 1949

RECAPITULATION

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BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 25 -- NO. 8 SPRINGFIELD NOVEMBER 1, 1949

An Honor and a Voice

Recognition was given to Illinois by Elliott W. Bell, New York State Superintendent of Banks and the recently elected President of the National Association of Supervisors of State Banks, when at the close of the annual meeting of the Association, he announced his selections for the twelve appointive memberships to the Executive Committee.

President Bell said that the selection of Auditor Cooper as the committee member from the Seventh Federal Reserve District "gave recognition to Illinois' dominant position in the state bank field and to Mr. Cooper's prominence as the only elected public official among the officers and executive committee members of the National Association."

This appointment gives Illinois direct representation in the policy making sessions and in the legislative activity of the Executive Committee.

The recent annual meeting of the Association, which was a national gathering of state bank supervisors, found the membership entirely opposed to any proposal tending to empower a central authority in matters of control, regulation or supervision over all banking functions and all banking associations.

More specifically and of interest to Illinois bankers was the support voiced by the Association to the National Bank Conversion Bill and to the opposition solidly adopted at the meeting against proposals giving the Federal Reserve Board authority over State nonmember banks, particularly in regard to reserve requirements.

Opposition was also expressed against the suggested merger of the duties and authority of the three Federal banking agencies, the Federal Deposit Insurance Corporation, the Federal Reserve and the Comptroller of Currency.

It is upon these matters that the Executive Committee will be most active during the ensuing year.

Recapitulation

Aggregate Resources and Liabilities of the 507 Illinois State Banks at the close of business September 15, 1949, as compared with the next preceding statement issued by the Department.

DATE OF CALL	June 30, 1949	Increase or	September 15, 1949
NUMBER OF BANKS	506	(—) Decrease	507
RESOURCES:			
Cash and Due from Banks	$ 712,300,273.02	$ 13,593,234.68	$ 725,893,507.70
Outside Checks and Other Cash Items	2,927,715.69	—499,362.73	2,428,352.96
U. S. Governments—Direct and Guaranteed	1,708,842,077.05	94,682,803.70	1,803,524,880.75
Other Bonds, Stocks & Securities	321,091,650.14	20,024,609.29	341,116,259.43
Loans and Discounts	642,396,376.14	—20,114,421.72	622,281,954.42
Overdrafts	207,994.79	134,697.09	342,691.88
Banking House, Furniture & Fixtures	12,543,576.59	130,636.86	12,674,213.45
Other Real Estate	26,642.96	—2,814.34	23,828.62
Customers' Liability—Letters of Credit	625,697.26	121,725.25	747,422.51
Customers' Liability—Acceptances	544,229.38	—290,516.07	253,713.31
Other Resources	7,185,686.64	639,253.35	7,824,939.99
GRAND TOTAL RESOURCES	$ 3,408,691,919.66	$ 108,419,845.36	$ 3,517,111,765.02
LIABILITIES:			
Capital Stock	$ 47,278,000.00	$ 140,000.00	$ 47,418,000.00
Income Debentures	253,000.00	....	253,000.00
Surplus	58,742,082.97	207,500.00	58,949,582.97
Undivided Profits (net)	42,395,957.29	1,759,907.49	44,155,864.78
Reserve Accounts	39,738,338.30	1,454,498.84	41,192,837.14
TOTAL CAPITAL STRUCTURE	$ 188,407,378.56	$ 3,561,906.33	$ 191,969,284.89
Demand Deposits	$ 1,993,678,144.71	$ 75,527,670.85	$ 2,069,205,815.56
Time Deposits	1,068,101,598.40	—3,983,052.38	1,064,118,546.02
Due to Banks	148,132,248.06	31,236,728.08	179,368,976.14
TOTAL DEPOSITS	$ 3,209,911,991.17	$ 102,781,346.55	$ 3,312,693,337.72
Bills Payable	....	....	....
Rediscounts	....	....	....
Dividends Unpaid	$ 541,950.00	$ —222,750.00	$ 319,200.00
Letters of Credit	648,422.26	122,674.75	771,097.01
Bank Acceptances	549,212.38	—119,909.59	429,302.79
Other Liabilities	8,632,965.29	2,296,577.32	10,929,542.61
TOTAL OTHER LIABILITIES	$ 10,372,549.93	$ 2,076,592.48	$ 12,449,142.41
GRAND TOTAL LIABILITIES	$ 3,408,691,919.66	$ 108,419,845.36	$ 3,517,111,765.02
ANALYSIS:			
Deposits Secured by Pledge	$ 175,771,750.84	$ 3,003,533.51	$ 178,775,284.35
Deposits Not Secured by Pledge	3,034,140,240.33	99,777,813.04	3,133,918,053.37
TOTAL—DEPOSITS	$ 3,209,911,991.17	$ 102,781,346.55	$ 3,312,693,337.72
Banking House	$ 9,599,452.62	$ 40,540.22	$ 9,639,992.84
Furniture & Fixtures	2,944,123.97	90,096.64	3,034,220.61
TOTAL—BANKING HOUSE, FURNITURE AND FIXTURES	$ 12,543,576.59	$ 130,636.86	$ 12,674,213.45
Commercial Paper	$ 17,782,907.70	$ 5,000,175.03	$ 22,783,082.73
Collateral Loans	186,189,898.27	—25,222,350.64	160,967,547.63
Other Loans	288,113,102.86	—1,581,418.70	286,531,684.16
Farm Loans	22,356,008.43	—5,727,016.31	16,628,992.12
Other Real Estate Loans	127,954,458.88	7,416,188.90	135,370,647.78
TOTAL—LOANS AND DISCOUNTS	$ 642,396,376.14	$ —20,114,421.72	$ 622,281,954.42

The Third Quarterly Report of 1949

The $3,517,111,765.02 in aggregate resources reported at the close of business September 15, 1949, is a record volume reached by Illinois State Banks. Aggregate deposits of $3,312,693,337.72 are likewise at a record figure. These resulted from a net increase of nearly one hundred eight and one-half millions of dollars in resources and a net increase in deposits of slightly under one hundred and three millions of dollars.

In face of the above mentioned increases which produced record figures, and although total time deposits in the 139 Illinois State Banks located in the Eighth Federal Reserve District were reported at an increase of one million dollars, the aggregate time deposits for the 507 banks in the entire State declined a net of nearly four million dollars from the June 30, 1949 totals when 506 banks reported.

This is the first net decline in the total time deposits held by Illinois State Banks since the first quarter of 1942 when the total for this class of deposits dropped from the aggregate figure of $398 million on December 3, 1941 to $381 million on April 4, 1942. Total time deposits now stand at $1,064 million and are over two and one-half times greater than the above totals reported in 1941 and 1942.

The $1,803 million total reported investment in U. S. Government obligations has been exceeded by Illinois State Banks on but two previous occasions, December 31, 1945, and March 23, 1946, when $1,826 million and $1,861 million were reported; however, on those dates, U. S. Government deposits, consisting mostly of War Loan Accounts, were reported at $396 million and $432 million respectively. In contrast, deposits of the Government as reported on September 15, 1949, totalled $99 million.

Although other Bonds, Stocks and Securities were reported at a figure greater by $20 million than at June 30, 1949, this increase occurred in the group of 24 banks located in the City of Chicago. Other Illinois State Banks in the Seventh Federal Reserve District and those in the Eighth District having reported substantially identical figures on the two occasions.

Loans and Discounts declined $20 million net in the entire 507 banks. The net reduction reported by the 24 Chicago banks was somewhat less than $2 million, while $19 million decline was reported in the Seventh Federal Reserve District outside of Chicago, and a net increase of one-half millions of dollars was reported in the Eighth District.

PUBLICATION OF HOURS

A folder showing the daily opening and closing hours of each Illinois State Bank has recently been sent to all banks in Illinois, National as well as State.

This information was compiled from reports submitted by each Illinois State Bank in conjunction with the September 15, 1949 Call for statements of condition.

Publication and distribution has been made in the belief that it would be of general interest as inquiries are constantly received by this office concerning the service hours of various banks.

The recently enacted legislation in Illinois which permits a five day business week for banking institutions has increased the number of inquiries inasmuch as all banks have not adopted a five day schedule, while in those that have, there is both a lack of uniformity as to the day selected to remain closed, as well as nonconformity between the various banks in same localities and areas.

Although the hours for each bank as published in the folder are subject to change by appropriate action taken by the board of directors, and consequently may be found in some instances to have been altered subsequently to the schedule reported on September 15, 1949; nevertheless, in view of such allowable contingencies future publication and distribution revised to current dates will be made if this initial undertaking is received with the anticipated response and interest.

Additional copies of the initial issue are available for distribution at either our Chicago or Springfield office upon request. Those wishing copies of future publications of hours, if issued, should so indicate in order that their name may be placed on our mailing list, and in order that a decision may be reached as to the worthiness of publishing periodic listings.

Report of Changes

CAPITAL STOCK INCREASED

Mount Prospect...Cook.......Mount Prospect State Bank
from $50,000 to $100,000..........................Sept. 29, 1949

Sparta............Randolph..Sparta State Bank
from $25,000 to $50,000.............................Oct. 1, 1949

PERMIT CANCELLED

Evergreen Park...Cook.......Western Avenue State Bank........................July 29, 1949

RECAPITULATION

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BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 25 -- NO. 9 SPRINGFIELD DECEMBER 1, 1949

A Holiday Message

The mutual cooperation and understanding which characterize the relations of members of my staff with members of the state banking profession has been one of the most satisfying aspects of my first year as a state officer. I am grateful for this pleasant relationship as well as for the many courtesies extended me as a newcomer.

As we move forward into the New Year I know our experience of working together will stand us in good stead in approaching and solving the problems that may come our way. May we continue to hold common views in all matters vital to the success of the interests we both serve.

The members of my staff join me in extending holiday greetings and best wishes.

Sincerely,

Benjamin O. Cooper

"So Far As Duty Devolves"

Directors of an Illinois state bank are elected by stockholders " . . . to serve as managers for one year, and until their successors are elected." Their selection is one of confidence and trust and while they are not strictly trustees they do assume duties that are fiduciary in character.

The importance of their duties, as well as the attention to their responsibilities, appears thoroughly realized and accomplished by most directors of Illinois state banks. Some comparatively few individual directors, however, fail to exercise that same serious attention and these directors should give thoughtful consideration to the advisability of retaining membership on the board. Such consideration is particularly advisable when unwillingness and a lack of sufficient interest on the part of the individual or extended illness, distant residence or other hampering factors prevent the exercise of normal attention.

When accepting membership on the board, a bank director assumes serious obligations and responsibilities imposed under the bank's charter authority, the Banking Act and the bank's own bylaws. Some are specifically defined, while others are implied in general terms. The obligations and responsibilities of bank directors for the most part are determined by interpretation of the common-law duties that arise from their relationship of peculiar confidence to the bank, its stockholders, its depositors and its other creditors. In a great many instances, courts have voiced expressions as to the duties of such relationship by strict interpretations of common-law emphasized by the bank's position as a quasi-public institution.

Section 4 of the Illinois Banking Act requires each director to file a statement executed under oath 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 . . . "

Further provided in Section 4 is the requirement that "the directors of any bank or association organized under the provisions of this Act shall hold regular meetings at least once each month."

The managerial authority of an Illinois state bank rests solely with the board of directors and they are responsible for the proper conduct of operational matters. Although a director, unless he is also actively employed by the bank, is not expected to devote full time to the affairs of the institution, he is expected to devote such attention as may be reasonably required in the proper performance of his obligations.

Directors are given authority under Section 4 to elect one of their number as president, to appoint such other officers as the bylaws provide, and to engage necessary employees to carry on the business of the bank. Directors are not given authority, however, to delegate their statutory duties nor to discharge their common-law obligations by transferring such responsibilities to executive officers selected by them. Directors must exercise reasonable supervision over the conduct of appointed officers. They must also maintain an adequate knowledge of the bank's affairs and the manner in which its business is conducted.

Obviously, the minimum attention demanded of a director is reasonable attendance at board meetings. The amount of activity required to fulfill the obligation " . . . that he will diligently and honestly administer the affairs of the bank . . . " is held to include something more than officiating as a figurehead.

The following quotation is taken from one of the land-mark cases on common-law duties of directors:

> " (1) Directors are charged with the duty of reasonable supervision over the affairs of the bank. It is their duty to use ordinary diligence in ascertaining the condition of its business, and to exercise reasonable control and supervision over its affairs. (2) They are not issuers or guarantors of the fidelity and proper conduct of the executive officers of the bank, and they are not responsible for losses resulting from their wrongful acts or omissions, provided they have exercised ordinary care in the discharge of their own duties as directors. (3) Ordinary care, in this matter as in other departments of the law, means that degree of care which ordinarily prudent and diligent men would exercise under similar circumstances. (4) The degree of care required further depends upon the subject to which it is to be applied, and each case must be determined in view of all the circumstances. (5) If nothing has come to their knowledge to awaken suspicion that something is going wrong, ordinary attention to the affairs of the institution is sufficient. If, upon the other hand, directors know, or by the exercise of ordinary care should have known, any facts which would awaken suspicion and put a prudent man on his guard, then a degree of care commensurate with the evil to be avoided is required, and a want of that care makes them responsible. Directors cannot, in justice to those who deal with the bank, shut their eyes to what is going on around them. (6) Directors are not expected to watch the routine of every day's business, but they ought to have a general knowledge of the manner in which the bank's business is conducted, and upon what securities its larger lines of credit are given, and generally to know of and give direction to the important and general affairs of the bank. (7) It is incumbent upon bank directors in the exercise of ordinary prudence, and as a part of their duty of general supervision, to cause an examination of the condition and resources of the bank to be made with reasonable frequency." Rankin vs. Cooper 149 F. 1010 (1907)

Directors who acquire knowledge and understanding of the terms of the Banking Act and exercise a faithful regard for its provisions and restrictions should have little cause for apprehension if they conscientiously express their individual judgments on matters for which they are responsible and are guided in their duties by a viewpoint similar to that in the above quotation.

It is difficult to understand how a director can or could properly discharge his voluntarily assumed and sworn duty if he absents himself from board meetings and fails to participate, or is unheard in matters inherently bestowed upon him as responsibilities by reason of his directorship position.

Inability or unwillingness on the part of a director to perform his directorial obligations so far as duty devolves should be sufficient for him to consider the advisability of his retirement from the board so that he may thereby become released of that responsibility and the concurrent possibility of personal liability.

Furthermore, it does not seem reasonable that stockholders, knowingly would continue to select as their agent any director who has had a record of frequent absenteeism from board meetings and who otherwise fails to give proper attention to his duties.

Report of Changes

None.

RECAPITULATION

State Banks in Chicago	24
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	455
Total	507

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