BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 27 — NO. 10 SPRINGFIELD JANUARY 1, 1952

Operational Matters

Operating problems and procedures are receiving increased attention from bank directors and boards are beginning to exercise much more concern in internal matters than at any time in the past.

Formerly, directors were primarily attentive to asset conditions and to earnings. The one subject most certain to be discussed at board meetings concerned asset items or accounts. The discussion might pertain to the application for a sizable loan, a line to an unsatisfactory borrower, the volume of the loan account or the revision of credit policies. The investment account, too, has had a similar degree of attention. These are important items of business, but, in general, besides earnings and possibly tax problems, many other important duties were more or less left to the discretion of the active management with, in some instances, a subsequent review and approval by the board.

At best, with some few satisfactory exceptions, it might be said that operating procedures and internal matters were given only perfunctory treatment by bank directors.

There has been very little to criticise and there have been only a few cases where criticism might be due as regards the exercise of diligence and attention by directors in matters concerning assets, yet, certain other phases of directors' responsibility have not appeared to receive the consideration that they seemingly required. Consequently this recent trend of directors to inquire into operating matters is a most healthy sign and one surely to produce beneficial results.

At the risk of appearing to be going beyond the province of supervision and entering into the realm of management this Department;

nevertheless, feels that a general discussion of certain internal operating matters is warranted, especially since they may affect safety and soundness, a situation that is of mutual interest to this Department as well as to banks and bankers.

These certain matters mentioned above may be narrowed into four subjects: (1) service, (2) personnel, (3) books and records, and (4) internal control. There are numerous interrelated phases that complicate the segregation of these subjects for separate discussion. Most operational breakdowns can not be localized into any one of them.

Service is the most important, if not the sole, commodity that a bank has to sell. Certainly, it is the item that justifies the bank's existence and the one which determines the degree to which the enterprise may expect to prosper.

The public expects that their transactions with a bank will receive careful, prompt, and accurate handling. They also expect patient consideration to their dealings and problems.

After nearly ten years, many customers are not ready to accept the lesser services that became necessary in the early 1940's because of the war circumstances and emergencies.

With the competition which faces banks not only from other banks but also from other types of financial institutions and facilities, banks are likely to find business going elsewhere that logically should be theirs.

The importance of proper personnel is well understood. Many institutions, however, overlook the fact that the value of personnel extends much further than the point of merely accomplishing the routine of daily tasks. There is the matter of customer service to be considered as well as how public relations are being handled and whether it is working for the benefits and interests of the bank. The possibility of defalcations and other acts of dishonesty likewise should be of concern to the management responsibility that is vested in directors.

It is not a case of whether a bank has a certain number of employees, which number may be either sufficient or inadequate to perform the daily operating functions, but rather it is a highly complex problem involving the manner in which these operating functions are performed as well as how the performance of personnel benefits or discredits the bank itself.

A bank's books and records, or plainly its bookkeeping and accounting, are required to be of the highest standard. This is particularly so because of the quasi-public nature of the institution. Customers not only expect but also quite frequently depend upon having their transactions handled accurately with proper dispatch and of traceable record. Furthermore, comprehensive records are of vital importance to the bank.

The objective of a bank's books and records should be a complete and accurate accounting of all assets and of all liabilities with a detailed recording of the daily transactions as they occur on each particular business day.

These objectives have been well founded and may be accomplished by many differing but acceptable means and methods. Techniques should not be adopted, even though advantageous from an economic standpoint, if they sacrifice or impair the principal objectives.

The principle of internal control seems very generally understood by bank officers and directors, but in too many instances it is not practiced to an apparently deserving degree.

Proper internal control in the ordinary course of business is a necessary part of a good accounting system and its installation is a definite duty of those charged with the management of a bank's affairs. Undoubtedly, much of the recent interest in systems of internal control has been aroused by the frequent press reports of shortages and defalcations. There are no airtight methods that provide absolute protection against dishonesties, particularly systematic looting. Certain simple steps may be installed, however, that will prevent or discourage many of the initial offenses. As improvements are inserted the protection of course becomes greater.

The Mid-Winter Conference of the Illinois Bankers Association held in St. Louis during the latter part of this month included a "Public Opinion Forum" where bankers had the opportunity to hear a "Candid Appraisal of Banks and Bankers" by people representing important segments of their business. It seems expedient that every suggestion or disclosure from this forum should be studied thoroughly by bank managements.

Indicative of the current trend is the following statement issued by the president of a bank which had announced longer business hours: "We believe that banks should give realistic recognition to the convenience of their depositors instead of forcing their depositors to do their banking at the convenience of part-day banking hours."

The administrative officers of banks seem well aware of the urgency of these operating problems and are desirous of making the necessary adjustments. Apparently, however, through misunderstanding there has been a tendency on the part of directors to place greater stress upon the cost impact rather than upon obtaining and preserving the required standards.

The present interest in these matters that is now being displayed by bank directors seems to indicate a reversal in the unsatisfactory trends originated by rising costs and shortages of manpower.

The solution to many of the operating problems that have worked to the disadvantage and disfavor of banking can be accomplished by alert and responsive boards of directors.

Report of Changes

CHARTER ISSUED

			Capital	Surplus	Reserve	
Palmyra	Macoupin	Bank of Palmyra 100 South Main Street Howard Nevins, President. Boyce Huson, Cashier.	$50,000	$10,000	$20.000	Dec. 19, 1951

PERMITS CANCELLED

Armington ..Tazewell ....Armington State Bank ....Dec. 28, 1951

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	456
Total December 31, 1951	509

Printed by Authority of the State of Illinois. (44580—6M—1-52) 1

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VOL. 27—NO. 11 SPRINGFIELD **FEBRUARY 1, 1952**

Year End --- 1951

Over four billions of dollars in total resources were reported by the 509 Illinois state banks at the close of business December 31, 1951. This amount represents a net gain of $237 million for the year and consists of increases amounting to $79 million in cash asset accounts, $23 million in U. S. Government Obligations, $8 million in other securities and $129 million in loans. All other resources decreased about $2 million.

The following are comparative distributions of the principal resource accounts for the years as indicated:

	1941	1946	1950	1951
Cash Assets	35.67%	22.89%	22.26%	22.91%
U. S. Government Obligations	22.33%	53.97%	44.64%	42.56%
Other Bonds	17.87%	7.29%	10.50%	10.07%
Loans	22.80%	15.24%	21.86%	23.78%

During the year deposits had a net gain of about $225 million and capital accounts were increased $14 million. Capital accounts were equivalent to 6.049% of total deposits on December 31, 1951 and compares to 6.037% at the close of 1950, 5.44% five years ago and 8.48% ten years ago.

Review of Call Reports Covering All Illinois State Banks

	507 December 30, 1950	Increase or Decrease (—)	507 March 27, 1951	Increase or Decrease (—)	507 June 30, 1951	Increase or Decrease (—)	510 September 28, 1951	Increase or Decrease (—)	509 December 31, 1951
RESOURCES:									
Cash and Due from Banks	$ 836,635,974.38	$ —79,166,250.44	$ 757,469,723.94	$ 10,473,697.02	$ 767,943,420.96	$ 34,677,498.28	$ 802,620,919.24	$ 112,896,625.34	$ 915,517,544.58
Outside Checks and Other Cash Items	3,852,620.01	—991,704.83	2,860,915.18	1,146,461.71	4,007,376.89	—859,245.41	3,148,131.48	541,671.84	3,689,803.32
U.S. Governments—Direct & Guaranteed	1,684,529,134.90	—9,743,710.58	1,674,785,424.32	7,284,291.98	1,682,069,716.30	48,710,296.96	1,730,780,013.26	—22,817,420.40	1,707,962,592.86
Other Bonds, Stocks and Securities	396,433,781.06	—10,720,218.31	385,713,562.75	16,832,365.06	402,545,927.81	—20,871,537.45	381,674,390.36	22,583,270.26	404,257,660.62
Loans and Discounts	824,889,788.60	27,665,739.98	852,555,528.58	13,942,060.03	866,497,588.61	44,924,334.27	911,421,922.88	42,732,743.41	954,154,666.29
Overdrafts	281,439.59	—10,780.30	270,659.29	—26,996.74	243,662.55	65,154.96	308,817.51	—90,518.99	218,298.52
Banking House, Furniture & Fixtures	14,209,988.71	220,704.48	14,430,693.19	181,621.91	14,612,315.10	173,241.51	14,785,556.61	—255,913.84	14,529,642.77
Other Real Estate	43,174.84	—16,779.83	26,395.01	34,218.78	60,613.79	9,705.31	70,319.10	22,143,15	92,462.25
Customers' Liability—Letters of Credit	4,294,312.43	183,994.05	4,478,306.48	—747,310.12	3,730,996.36	—952,617.96	2,778,378.40	—987,718.07	1,790,660.33
Customers' Liability—Acceptances	556,516.14	—127,877.94	428,638.20	142,428.58	571,066.78	—5,559.96	565,506.82	45,934.80	611,441.62
Other Resources	8,219,370.44	—1,575,371.53	6,643,998.91	1,795,138.12	8,439,137.03	—65,714.93	8,373,422.10	—142,328.52	8,231,093.58
GRAND TOTAL RESOURCES	$3,773,946,101.10	$ —74,282,255.25	$3,699,663,845.85	$ 51,057,976.33	$3,750,721,822.18	$ 105,805,555.58	$3,856,527,377.76	$ 154,528,488.98	$4,011,055,866.74
LIABILITIES:									
Capital Stock	$ 51,455,500.00	$ 1,397,500.00	$ 52,853,000.00	$ 380,000.00	$ 53,233,000.00	$ 275,000.00	$ 53,508,000.00	$ 15,000.00	$ 53,523,000.00
Income Debentures	238,000.00	None	238,000.00	None	238,000.00	None	238,000.00	None	238,000.00
Surplus	70,589,850.00	1,074,500.00	71,664,350.00	723,250.00	72,387,600.00	309,000.00	72,696,600.00	2,009,750.00	74,706,350.00
Undivided Profits (Net)	41,269,139.54	21,650.48	41,290,790.02	2,011,831.47	43,302,621.49	4,919,945.20	48,222,566.69	—2,864,741.70	45,357,824.99
Reserve Accounts	50,182,035.52	1,002,563.26	51,184,598.78	619,064.86	51,803,663.64	2,835,123.29	54,638,786.93	—691,090.73	53,947,696.20
TOTAL CAPITAL STRUCTURE	$ 213,734,525.06	$ 3,496,213.74	$ 217,230,738.80	$ 3,734,146.33	$ 220,964,885.13	$ 8,339,068.49	$ 229,303,953.62	$ —1,531,082.43	$ 227,772,871.19
Demand Deposits	$2,259,487,305.47	$ —83,665,222.82	$2,175,822,082.65	37,6[illegible].46	$2,213,462,626.11	$ 81,468,854.26	$2,294,931,480.37	$ 92,814,816.95	$2,387,746,297.32
Time Deposits	1,095,149,358.16	—2,121,557.76	1,093,027,800.40	30,162,[illegible].01	1,123,189,833.41	16,158,477.44	1,139,348,310.85	36,604,520.41	1,175,952,831.26
Due to Banks	185,588,047.56	—29,965,676.44	155,622,371.12	8,330,570.59	163,952,941.71	8,537,898.99	172,490,840.70	28,991,640.17	201,482,480.87
TOTAL DEPOSITS	$3,540,224,711.19	$ —115,752,457.02	$3,424,472,254.17	$ 76,133,147.06	$3,500,605,401.23	$ 106,165,230.69	$3,606,770,631.92	$ 158,410,977.53	$3,765,181,609.45
Bills Payable	$ 6,500.00	$ 38,000,000.00	$ 38,006,500.00	$ —28,003,250.00	$ 10,003,250.00	$ —8,300,000.00	$ 1,703,250.00	$ —1,700,000.00	$ 3,250.00
Rediscounts	None	None	None	None	None	None	None	None	None
Dividends Unpaid	836,265.00	—278,738.00	557,527.00	85,373.00	642,900.00	—166,900.00	476,000.00	381,379.40	857,379.40
Letters of Credit	4,393,193.86	206,294.32	4,599,488.18	—840,230.32	3,759,257.86	—942,868.68	2,816,389.18	—980,060.82	1,836,328.36
Bank Acceptances	570,879.07	—73,541.39	497,337.68	103,394.54	600,732.22	42,050.24	642,782.46	111,786.08	754,568.54
Other Liabilities	14,180,026.92	119,973.10	14,300,000.02	—154,604.28	14,145,395.74	668,974.84	14,814,370.58	—164,510.78	$ 14,649,859.80
TOTAL OTHER LIABILITIES	$ 19,986,864.85	$ 37,973,988.03	$ 57,960,852.88	$ —28,809,317.06	$ 29,151,535.82	$ —8,698,743.60	$ 20,452,792.22	$ —2,351,406.12	$ 18,101,386.10
GRAND TOTAL LIABILITIES	$3,773,946,101.10	$ —74,282,255.25	$3,699,663,845.85	$ 51,057,976.33	$3,750,721,822.18	$ 105,805,555.58	$3,856,527,377.76	$ 154,528,488.98	$4,011,055,866.74
ANALYSIS:									
Deposits Secured by Pledge	$ 155,903,346.93	$ 69,893,222.51	$ 225,796,569.44	$ —8,511,927.51	$ 217,284,641.93	$ —5,693,695.17	$ 211,590,945.76	$ —31,259,105.04	$ 180,331,840.72
Deposits Not Secured by Pledge	3,384,321,364.26	—185,645,679.53	3,198,675,684.73	84,645,074.57	3,283,320,759.30	111,858,926.86	3,395,179,686.16	189,670,082.57	3,584,849,768.73
TOTAL—DEPOSITS	$3,540,224,711.19	$ —115,752,457.02	$3,424,472,254.17	$ 76,133,147.06	$3,500,605,401.23	$ 106,165,230.69	$3,606,770,631.92	$ 158,410,977.53	$3,765,181,609.45
Banking House	$ 10,945,455.87	$ 94,302.63	$ 11,039,758.50	$ 25,811.17	$ 11,065,569.67	$ 37,739.48	$ 11,103,309.15	$ —163,913.95	$ 10,939,395.20
Furniture & Fixtures	3,264,532.84	126,401.85	3,390,934.69	155,810.74	3,546,745.43	135,502.03	3,682,247.46	—91,999.89	3,590,247.57
TOTAL—Banking House, Furn. & Fixtures	$ 14,209,988.71	$ 220,704.48	$ 14,430,693.19	$ 181,621.91	$ 14,612,315.10	$ 173,241.51	$ 14,785,556.61	$ —255,913.84	$ 14,529,642.77
Commercial Paper	$ 23,267,312.98	$ —4,209,849.82	$ 19,057,463.16	$ —3,162,773.87	$ 15,894,689.29	$ 2,860,251.40	$ 18,754,940.69	$ 4,687,189.32	$ 23,442,130.01
Collateral Loans	220,956,509.81	10,248,854.28	231,205,364.09	—14,239,585.14	216,965,778.95	10,666,721.21	227,632,500.16	24,383,386.41	252,015,886.57
Other Loans	396,241,068.13	15,527,274.45	411,768,342.58	23,890,943.80	435,659,286.38	25,147,450.76	460,806,737.14	7,695,410.71	468,502,147.85
Farm Loans	19,482,917.34	762,523.49	20,245,440.83	—210,998.60	20,034,442.23	—724,586.70	19,309,855.53	1,304,854.10	20,614,709.63
Other Real Estate Loans	164,941,980.34	5,336,937.58	170,278,917.92	7,664,473.84	177,943,391.76	6,974,497.60	184,917,889.36	4,661,902.87	189,579,792.23
TOTAL—LOANS AND DISCOUNTS	$ 824,889,788.60	$ 27,665,739.98	$ 852,555,528.58	$ 13,942,[illegible].03	$ 866,497,588.61	$ 44,924,334.27	$ 911,421,922.88	$ 42,732,743.41	$ 954,154,666.29

Report of Changes

DURATION OF CHARTER EXTENDED

Newman	Douglas	First State Bank of Newman Charter extended 50 years from June 12, 1952	January 7, 1952
Herscher	Kankakee	State Bank of Herscher Charter extended 99 years from May 20, 1952	January 10, 1952
Virginia	Cass	Petefish Skiles & Co. Charter extended 50 years from September 24, 1952	January 11, 1952

CHANGE OF NAME

Chicago	Cook	Southmoor Bank of Chicago to Southmoor Bank & Trust Company	January 27, 1952

CHANGE OF LOCATION

LaGrange	Cook	LaGrange State Bank from 22 South LaGrange Road, to 14 South LaGrange Road	January 18, 1952

CAPITAL STOCK INCREASED

Mokena	Will	Mokena State Bank from \$25,000 to \$50,000	January 10, 1952
Beecher	Will	Farmers State Bank of Beecher from \$25,000 to \$50,000	January 15, 1952
Flanagan	Livingston	Flanagan State Bank from \$25,000 to \$50,000	January 15, 1952
Itasca	DuPage	The Itasca State Bank from \$40,000 to \$50,000	January 15, 1952
LaHarpe	Hancock	State Bank of LaHarpe from \$25,000 to \$40,000	January 15, 1952
Morton	Tazewell	The Morton State Bank from \$50,000 to \$100,000	January 15, 1952
Trivoli	Peoria	Trivoli State Bank from \$40,000 to \$50,000	January 15, 1952
Augusta	Hancock	State Bank of Augusta from \$25,000 to \$50,000	January 21, 1952
Forrest	Livingston	First State Bank of Forrest from \$25,000 to \$50,000	January 21, 1952
Frankfort	Will	Frankfort State Bank from \$25,000 to \$50,000	January 22, 1952
Riverdale	Cook	First Trust and Savings Bank of Riverdale from \$50,000 to \$100,000	January 22, 1952
Wheeling	Cook	Wheeling State Bank from \$25,000 to \$50,000	January 22, 1952
Holcomb	Ogle	Holcomb State Bank from \$50,000 to \$75,000	January 25, 1952
Somonauk	DeKalb	Farmers State Bank of Somonauk from \$50,000 to \$100,000	January 25, 1952
Chicago	Cook	Southmoor Bank of Chicago from \$250,000 to \$300,000	January 25, 1952

CHANGE OF PAR VALUE OF CAPITAL STOCK

LaHarpe	Hancock	State Bank of LaHarpe from \$100.00 to \$40.00	January 15, 1952
Villa Park	DuPage	Villa Park Trust & Savings Bank from \$100.00 to \$10.00	January 18, 1952
Holcomb	Ogle	Holcomb State Bank from \$100.00 to \$50.00	January 25, 1952

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	456
Total January 31, 1952	509

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STATE OF ILLINOIS

VOL. 27 — NO. 12 SPRINGFIELD MARCH 1, 1952

Operating Results --- 1951

The operating results of 504 Illinois State banks doing business in the years of both 1950 and 1951 have been combined for comparative purposes and appear on the inner pages of this Bulletin. The operating results also have been tabulated by groups of banks according to size.

The figures confirm to some extent facts already known or which could be reasonably assumed. The expanding volume of loans during the year was a reasonable indication that gross operating income would increase. Loans increased 15.7% while the total amount reported as interest and discount on loans was 24.1% greater than the figure reported for the previous year. Similarily it has been quite generally understood that operating costs were increasing. Concurrent with the expansion in loans were increases in total resources and in total deposits. These increased 15.7%, 6.3% and 6.4% respectively during the past year, while the total operating expense for the period amounted to 13.2% more than in 1950.

Operating expenses amounted to 68.9% of the total income reported from 1951 operations while net earnings were 31.1%. For 1950, expenses amounted to 66.6% and net earnings were 33.4%. After adjusting net operating earnings for the amounts reported as recoveries and profits and for losses, depreciation and write-offs, the net additions to profit accounts appear slightly less than for the previous year.

On the basis of the combined earning figures of Illinois State banks, the managements appear to be continuing the policy of retaining 75% to 80% of net profits as additions to capital and related accounts. Dividends reported in 1951 amounted to 24.2% of the amount shown as net profits and represented 5.6% of the total reported as gross operating earnings.

OPERATING RESULTS OF ILLINOIS STATE BANKS
FOR THE YEARS 1950 - 1951

	GROUP 1 Under $500,001		GROUP 2 $500,001 to $1,000,000		GROU[illegible] [illegible]0,001 to [illegible]0,000		GROUP 4 $5,000,001 to $10,000,000		GROUP 5 $10,000,001 and over		GENERAL COMPARISON	
	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951
Number of Banks	21	13	85	79	310	318	44	49	45	48	504	504
GROSS EARNINGS:												
Interest and discount on loans	120,193	55,916	808,129	791,703	8,381,019	9,307,996	3,473,173	3,804,623	15,868,445	21,527,370	28,559,744	35,448,245
Interest and dividends on securities	82,373	35,681	706,002	606,395	7,247,802	7,268,088	3,163,926	3,473,100	28,565,572	28,647,969	39,715,654	40,017,450
Exchange, collection charges, etc.	6,851	3,726	45,269	38,821	440,754	440,857	314,406	276,049	1,011,673	1,162,304	1,799,130	1,915,944
Service charges on deposit accounts	12,135	6,195	116,139	91,864	1,118,517	1,123,130	644,058	733,836	2,531,704	2,760,716	4,396,411	4,780,373
Trust Departments	....	....	....	2,355	42,887	29,752	85,538	83,452	5,959,560	6,026,870	6,162,448	6,142,430
Miscellaneous	3,350	1,469	37,902	38,071	483,790	458,055	347,253	314,160	1,781,552	1,816,545	2,634,307	2,621,100
Total	224,902	102,987	1,713,441	1,569,209	17,714,769	18,627,878	8,028,354	8,685,220	55,718,506	61,941,774	83,267,694	90,925,542
UNIT AVERAGE	10,709	7,922	20,157	19,863	57,144	58,578	182,463	177,249	1,238,189	1,290,453	1,165,213	180,407
Average Per $1.000 of Deposits	29.40	25.80	26.82	26.00	26.30	26.56	26.58	25.72	22.35	23.27	23.56	24.19
EXPENSES:												
Salaries	84,430	45,092	565,990	523,713	5,369,575	5,716,414	2,569,276	2,860,203	17,175,395	19,278,881	25,727,801	28,423,213
Interest on deposits	13,666	5,810	107,259	106,212	1,541,024	1,549,464	801,964	890,330	6,569,689	7,922,804	9,013,225	10,471,066
Taxes	25,764	11,775	170,610	153,955	1,830,721	1,946,675	1,401,569	883,366	3,826,474	5,316,996	6,572,697	8,318,305
Miscellaneous	44,462	19,125	306,286	278,618	2,845,190	2,786,526	729,519	1,477,253	9,600,353	10,882,631	14,147,940	15,400,321
Total	168,322	81,802	1,150,145	1,062,498	11,586,510	11,999,079	5,502,328	6,111,152	37,171,911	43,401,312	55,461,663	62,612,905
UNIT AVERAGE	8,015	6,292	13,531	13,449	37,376	37,733	125,053	124,717	826,042	904,194	110,043	124,231
Average Per $1,000 of Deposits	22.00	20.49	18.00	17.60	17.20	17.11	18.22	18.10	14.91	16.30	15.69	16.66
NET EARNINGS:	56,580	21,185	563,296	506,711	6,128,259	6,628,798	2,526,026	2,574,068	18,546,595	18,540,462	27,806,031	28,312,636
UNIT AVERAGE	2,694	1,630	6,627	6,414	[illegible]9,768	[illegible]0,845	57,410	52,532	412,147	386,259	55,170	56,176
Average Per $1,000 of Deposits	7.40	5.31	8.82	8.40	9.10	9.45	8.36	7.62	7.44	6.97	7.87	7.53
RECOVERIES AND PROFITS:												
Recoveries on loans	815	1,193	16,654	14,025	204,265	174,127	84,367	40,979	535,193	248,295	828,966	478,620
Recoveries on securities	2,756	183	5,437	2,788	192,688	161,503	26,835	7,498	160,160	75,588	385,986	247,560
Profits on securities	1,178	2,843	8,693	1,955	101,918	50,072	39,028	28,609	1,427,755	864,166	1,578,543	946,001
Miscellaneous	1,974	3,581	15,810	3,713	75,877	68,621	86,181	28,421	473,238	274,857	648,786	379,006
Net earnings plus recoveries and profits	63,303	28,985	609,890	529,192	6,703,007	7,083,121	2,762,437	2,679,575	21,142,941	20,003,368	31,248,312	30,363,823
LOSSES, DEPRECIATION AND WRITE-OFFS:												
On loans	1,192	2,866	29,571	35,587	353,451	236,586	133,606	81,757	353,138	310,028	858,707	666,824
On securities	2,940	4,116	25,378	13,510	431,445	629,923	212,267	351,892	5,127,186	6,849,528	5,795,715	7,848,620
Banking house, furniture and fixtures	3,587	556	31,258	33,804	417,335	439,116	263,606	247,460	810,934	1,680,294	1,526,291	2,400,586
Miscellaneous	384	281	12,007	3,849	112,039	91,209	132,214	36,797	292,073	325,377	547,945	457,388
Total	8,103	7,819	98,214	86,750	1,314,270	1,396,834	741,693	717,906	6,583,331	9,165,227	8,728,658	11,373,418
NET PROFITS	55,200	21,166	511,676	442,442	5,388,737	5,686,287	2,020,744	1,961,669	14,559,610	10,838,141	22,519,654	18,990,405
UNIT AVERAGE	2,629	1,628	6,020	5,601	17,383	17,881	45,926	40,034	323,547	225,794	44,682	37,679
Average Per $1,000 of Deposits	7.22	5.30	8.01	7.33	8.00	8.11	6.69	5.81	5.34	4.07	6.37	5.05
Cash dividends paid to shareholders	13,600	4,750	116,330	90,125	1,026,775	1,095,540	349,950	385,100	2,816,850	3,014,500	4,326,505	4,600,015
Percentage of Net Profits	24.64%	22.44%	22.74%	20.37%	19.05%	19.27%	17.26%	19.63%	19.35%	27.81%	19.21%	24.22%
Capital, Surplus, Undivided Profits and Reserves	929,221	615,928	5,563,632	5,321,945	47,358,799	50,759,648	18,837,183	21,524,105	140,682,039	149,197,005	213,302,063	226,805,402
Time Deposits	1,422,219	713,897	12,937,873	14,298,452	180,290,487	185,565,368	107,548,517	117,173,271	792,950,260	858,201,841	1,092,351,526	1,173,596,889
Total Deposits	7,650,292	3,991,492	63,889,887	60,340,230	673,643,960	701,325,223	301,988,826	337,615,323	2,493,061,745	2,661,909,340	3,533,836,134	3,758,317,797

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 504 Illinois State Banks that operated in both 1950 and 1951.

Report of Changes

CHARTER ISSUED

			Capital	Surplus	Reserve
Hanover	Jo Daviess	Hanover State Bank	$60,000	$6,000	$6,000
		425 Jefferson Street, Hanover, Illinois	February 28, 1952.		

Wm. R. Kerr, President.
C. F. Graham, Cashier.

DURATION OF CHARTER EXTENDED

Blue Mound..Macon ......The State Bank of Blue Mound
Charter extended 99 years
from October 29, 1952 ....February 15, 1952.

Ashton ......Lee ....The Ashton Bank
Charter extended 99 years
from December 30, 1952 ....February 18, 1952.

Robinson ....Crawford ...Crawford County State Bank
Charter extended 50 years
from August 28, 1952 ....February 19, 1952.

CHANGE OF NAME

Carlyle ......Clinton .....Farmers' and Merchants' Bank of Carlyle
to Farmers and Merchants Bank
of Carlyle ....February 11, 1952.

CAPITAL STOCK INCREASED

Biggsville ...Henderson ..First State Bank of Biggsville
from $25,000 to $50,000 ....February 1, 1952.

Osco ....Henry ....State Bank of Osco
from $25,000 to $50,000 ....February 5, 1952.

Carlyle ......Clinton ......Farmers and Merchants Bank of Carlyle
from $25,000 to $50,000 ....February 11, 1952.

Chicago .....Cook ....Drovers Trust and Savings Bank
from $500,000 to $625,000 ....February 13, 1952.

Ipava ....Fulton ......Ipava State Bank
from $25,000 to $50,000 ....February 25, 1952.

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	457
Total February 29, 1952	510

Printed by Authority of the State of Illinois (47758—6M—3-52) 1

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 28 — NO. 1 SPRINGFIELD APRIL 1, 1952

March Call Figures

The results shown by the combined figures of Illinois state banks reflect the usual decline in deposits that ordinarily occurs during the early months of each year. Although the Spring call in 1952 came somewhat earlier in the month of March than customary, the decline of $119 million compares with seasonal declines of $115 million last year, $46 million in 1950, $119 million in 1949 and $60 million in 1948. These figures, of course, are indicative only of the seasonal trend and are not truly comparative since the statement dates do not coincide except that they occur during the month of March and are computed against the year-end statements previous to each.

The reduction in cash accounts which occurred simultaneously with the deposit decline was not unexpected, but the additional investment of nearly $69 million in U. S. government obligations and the reduction of $21 million in loans both appear somewhat contrary to what, before the release of the final figures, was generally assumed would be the trend.

Stated capital accounts increased over $3 million during the period. This increase plus the effect of the deposit decline resulted in an average capital ratio for Illinois state banks equivalent to 6.34% of total deposits.

Total Resources and Li[illegible]ilitie[illegible] of Illinois State Banks

as reported at the close of business March 4, 1952

(Grouped as to location and showing changes since December 31, 1951)

	City of Chicago		Seventh Federal Reserve District but outside the City of Chicago		Eighth Federal Reserve District		Entire State of Illinois	
	25 Banks	Increase or (-) Decrease	345 Banks	Increase or (-) Decrease	140 Banks	Increase or (-) Decrease	510 Banks	Increase or (-) Decrease
RESOURCES:								
Cash and Due from Banks	$ 485,388,273.89	$ -79,612,986.98	$ 235,432,074.22	$ -34,094,894.46	$ 65,973,788.62	$ -15,015,526.41	$ 786,794,136.73	$ -128,723,407.85
Outside Checks and Other Cash Items	1,325,942.37	-1,153,526.41	757,539.78	-208,027.25	271,730.33	26,962.82	2,355,212.48	-1,334,590.84
U. S. Governments—Direct & Guaranteed	959,583,774.57	67,545,726.61	629,670,090.83	3,645,541.03	187,580,497.51	-2,319,497.59	1,776,834,362.91	68,871,770.05
Other Bonds, Stocks and Securities	234,449,489.51	-17,413,426.44	114,755,521.65	2,665,855.71	40,716,653.15	411,574.42	389,921,664.31	-14,335,996.31
Loans and Discounts	533,053,085.56	-26,608,584.36	310,319,069.06	2,978,923.30	89,386,602.17	2,233,751.56	932,758,756.79	-21,395,909.50
Overdrafts	322,271.92	225,518.46	236,582.91	138,329.86	53,777.23	30,485.22	612,632.06	394,333.54
Banking House, Furniture & Fixtures	6,972,699.36	69,793.41	5,791,675.14	94,040.27	1,948,210.64	19,108.69	14,712,585.14	182,942.37
Other Real Estate	11.00	None	60,485.76	2,068.03	35,521.79	1,488.27	96,018.55	3,556.30
Customers' Liability—Letters of Credit	1,087,932.53	-682,277.80	140,243.75	119,793.75	None	None	1,228,176.28	-562,484.05
Customers' Liability—Acceptances	579,055.10	2,613.48	35,000.00	None	None	None	614,055.10	2,613.48
Other Resources	7,512,935.19	1,268,197.09	1,884,644.23	460,592.58	549,149.63	-13,154.20	9,946,729.05	1,715,635.47
GRAND TOTAL RESOURCES	$2,230,275,471.00	$ -56,358,952.94	$1,299,082,927.33	$ -24,197,777.18	$ 386,515,931.07	$ -14,624,807.22	$3,915,874,329.40	$ -95,181,537.34
LIABILITIES:								
Capital Stock	$ 23,815,000.00	$ 125,000.00	$ 22,490,900.00	$ 463,400.00	$ 7,830,500.00	$ 25,000.00	$ 54,136,400.00	$ 613,400.00
Income Debentures	200,000.00	None	38,000.00	None	None	None	238,000.00	None
Surplus	41,010,000.00	65,000.00	26,574,850.00	94,500.00	7,366,000.00	85,000.00	74,950,850.00	244,500.00
Undivided Profits (Net)	19,944,750.45	257,895.83	19,669,940.54	236,541.72	6,262,513.42	24,941.87	45,877,204.41	519,379.42
Reserve Accounts	37,723,401.67	1,603,145.47	13,498,636.28	198,697.14	4,654,916.14	127,415.28	55,876,954.09	1,929,257.89
TOTAL CAPITAL STRUCTURE	$ 122,693,152.12	$ 2,051,041.30	$ 82,272,[illegible]	$ [illegible],138.86	$ 26,113,929.56	$ 262,357.15	$ 231,079,408.50	$ 3,306,537.31
Demand Deposits	$1,227,294,495.40	$ -51,476,105.02	$ 810,025,734.27	$ -30,744,323.39	$ 251,837,211.23	$ -16,368,428.01	$2,289,157,440.90	$ -98,588,856.42
Time Deposits	679,262,145.78	874,282.35	398,645,969.15	5,634,173.16	106,367,109.98	1,813,938.14	1,184,275,224.91	8,322,393.65
Due to Banks	167,135,150.15	-28,651,802.13	3,611,439.02	-314,871.55	1,433,195.08	-336,022.94	172,179,784.25	-29,302,696.62
TOTAL DEPOSITS	$2,073,691,791.33	$ -79,253,624.80	$1,212,283,142.44	$ -25,425,021.78	$ 359,637,516.29	$ -14,890,512.81	$3,645,612,450.06	$ -119,569,159.39
Bills Payable	$ 22,000,000.00	$ 22,000,000.00	$ None	$ None	$ 3,250.00	$ None	$ 22,003,250.00	$ 22,000,000.00
Rediscounts	None	None	None	None	None	None	None	None
Dividends Unpaid	326,000.00	-128,500.00	86,098.00	-224,187.40	3,000.00	-89,594.00	415,098.00	-442,281.40
Letters of Credit	1,114,207.18	-682,009.30	150,402.63	110,290.75	None	None	1,264,609.81	-571,718.55
Bank Acceptances	830,854.60	111,286.06	35,000.00	None	None	None	865,854.60	111,286.06
Other Liabilities	9,619,465.77	-457,146.20	4,255,957.44	348,002.39	758,235.22	92,942.44	14,633,658.43	-16,201.37
TOTAL OTHER LIABILITIES	$ 33,890,527.55	$ 20,843,630.56	$ 4,527,458.07	$ 234,105.74	$ 764,485.22	$ 3,348.44	$ 39,182,470.84	$ 21,081,084.74
GRAND TOTAL LIABILITIES	$2,230,275,471.00	$ -56,358,952.94	$1,299,082,927.33	$ -24,197,777.18	$ 386,515,931.07	$ -14,624,807.22	$3,915,874,329.40	$ -95,181,537.34
ANALYSIS:								
Deposits Secured by Pledge	$ 101,309,398.39	$ -9,941,868.79	$ 50,761,708.13	$ 1,435,760.75	$ 20,133,105.18	$ 378,479.02	$ 172,204,211.70	$ -8,127,629.02
Deposits Not Secured by Pledge	1,972,382,392.94	-69,311,756.01	1,161,521,434.31	-26,860,782.53	339,504,411.11	-15,268,991.83	3,473,408,238.36	-111,441,530.37
TOTAL—DEPOSITS	$2,073,691,791.33	$ -79,253,624.80	$1,212,283,142.44	$ -25,425,021.78	$ 359,637,516.29	$ -14,890,512.81	$3,645,612,450.06	$ -119,569,159.39
Banking House	$ 5,655,006.64	$ 36,088.81	$ 3,820,620.77	$ -20,466.89	$ 1,484,079.32	$ 4,689.61	$ 10,959,706.73	$ 20,311.53
Furniture & Fixtures	1,317,692.72	33,704.60	1,971,054.37	114,507.16	464,131.32	14,419.08	3,752,878.41	162,630.84
TOTAL—Banking House, Furn. & Fixtures	$ 6,972,699.36	$ 69,793.41	$ 5,791,675.14	$ 94,040.27	$ 1,948,210.64	$ 19,108.69	$ 14,712,585.14	$ 182,942.37
Commercial Paper	$ 10,685,491.46	$ 861,065.98	$ 13,014,197.97	$ 248,845.09	$ 852,961.65	$ 610.00	$ 24,552,651.08	$ 1,110,521.07
Collateral Loans	153,876,476.08	-14,125,858.16	68,338,561.84	95,361.88	16,617,412.47	847,060.10	238,832,450.39	-13,183,436.18
Other Loans	299,290,944.70	-12,375,883.76	121,178,361.35	162,131.30	36,875,412.28	1,056,322.94	457,344,718.33	-11,157,429.52
Farm Loans	1,581,912.28	44,365.66	13,840,911.85	1,376,131.83	6,779,128.56	166,745.57	22,201,952.69	1,587,243.06
Other Real Estate Loans	67,618,261.04	-1,012,274.08	93,947,036.05	1,096,453.20	28,261,687.21	163,012.95	189,826,984.30	247,192.07
TOTAL—LOANS AND DISCOUNTS	$ 533,053,085.56	$ -26,608,584.36	$ 310,31[illegible]6	$ [illegible]923.30	$ 89,386,602.17	$ 2,233,751.56	$ 932,758,756.79	$ -21,395,909.50

Opening and Closing Hours

The June 1952 edition of the booklet showing the business hours of Illinois banks will be ready for distribution about the first of June.

This edition, which is the fourth, has been revised to show the current operating schedules of all banks in Illinois, national as well as state, and will indicate banking locations reported to be operating on Daylight Saving Time.

One copy will be sent to each Illinois bank. Additional copies may be obtained by notifying this office as to the number desired. An adequate supply also will be available to fill requests of others who are interested in receiving the booklet.

Report of Changes

CAPITAL STOCK INCREASED

Tonica	LaSalle	Tonica State Bank from $25,000 to $50,000	March 6, 1952

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	457
Total March 31, 1952	510

Printed by Authority of the State of Illinois (49708—6M—4-52) 1.

BANKING BULLETIN
ISSUED BY
BENJAMIN O. COOPER
Auditor of Public Accounts
STATE OF ILLINOIS
VOL. 29 — NO. 2 SPRINGFIELD MAY 1, 1952

Aids To Better Banking

(An outline of remarks prepared by Auditor Cooper for discussion at the district meeting of the Supervisors of State Banks, held June 1 and 2, 1952.)

Rigid examinations and follow-ups have their influences upon the strength and well-being of banking systems. The effect, however, does not necessarily progress as the efforts of supervision are applied or increased, and methods of enforcement often react in the opposite direction or create a stagnant position. There is a great difference between rigidity and overemphasis of authority.

The experience of this Department leads us to be quite positive that bankers, both officers and directors, want sound banks and that they favor the type of supervision that will assist them in achieving such condition. They expect, and for the most part welcome, thorough and rigid examinations. But the good that might be accomplished can be diminished or voided when essentials are given a position subordinate to matters of lesser consequence. Similarly, conclusions based upon established facts and unbiased reasoning are much more likely to achieve results than those lacking foundation or those generated by departmental quirks and expediencies.

Banks are individuals within themselves. No one is quite the same as any other. In addition, their communities or trade areas vary in character one from the other. Likewise, there are wide differences in the types and in the extent of abilities found in management. These are some of the uncontrollable factors that do not blend with rigid patterns or permit the successful application of average measures.

In arriving at the scope and character of examinations and of supervisory follow-ups that are necessary both to fulfill the statutory duties of the supervisor, as well as to provide the maximum benefit to the individual banks and to the state system, it might be well to explore and define certain of the various component phases of our objective.

Basically, we examine a bank to learn as accurately as possible its true condition so that, in the interests of the public, the proper steps may be taken to prevent the continued operation of any bank which might be conducting its business with a capital impairment or in any illegal, fraudulent, or otherwise unsafe manner.

Using Illinois as an example, our scope of examination therefore should encompass these essential activities:

(1) An evaluation of assets for soundness

(2) A determination, as far as practical, of liabilities

(3) An analysis as to the adequacy of cash and readily convertible securities

(4) An inspection as to the suitability of books and records

(5) An appraisal of the ability and competence of management

(6) An investigation as to compliance with statutory requirements

Once these essentials are established in the examination program, they need be correlated to the character of our activities and to the results that they may be expected to produce.

While the program should be rigid in character, nevertheless, rigidity should be confined to essentials, should be within the range of actual authority, and conclusions should be reached with mutual understanding.

Essentials should not be confused by the inclusion of minor matters having inconsequential importance. The impact of such matters usually is quite obvious as to general effect when analyzing the overall picture. Pursuit is advisable, however, if they appear to reflect incompetence in management or an accumulation of troublesome problems.

Authority should be exercised only with a clear understanding of its statutory boundries. Its application should be guided by logic and reasoning so that there is neither overemphasis of authority nor invasion into the province of management.

Mutual understanding is necessary in order to diminish the field of controversy and dispute. Arbitrary conclusions are rarely necessary, seldom accurate, and should be avoided.

Examinations must be comprehensive and be conducted in an intelligent workmanlike manner in order that the final result is an accurate unbiased report. Report forms should be designed so that the examiner reports his findings in clear concise order, omitting much of the detail work from the finished report except as may be necessary to support facts or to explain conclusions.

When examination procedures, reports, and follow-ups are established on those ideals, we, as supervisors, have a better position upon which to act if necessary, as well as to present recommendations that will be received with confidence and understanding by the directors.

Supervisory action that is not established upon those ideals is usually biased, unfair, and cannot be sustained. Such action weakens systems.

In addition to fulfilling our statutory requirements as to solvency, stability, and compliance with legal requirements, we can at the same time provide constructive guidance through our official contacts with banks. In these official contacts—that is, in our examining procedures, our examiners' reports, and in supervisory follow-ups—we must avoid directives where the decision actually lies within the realm of management. Our purpose should be to seek consideration by the directors on matters that could be of benefit to their institution and to obtain their cooperation on desirable improvements.

In Illinois, we have attempted to accomplish apparent benefits by inviting the directors into a general discussion at the close of each examination.

For the most part directors seem to be well informed on matters concerning assets, and they conscientiously avoid violations of the banking laws. The adequacy of cash and liquidity is not particularly a problem at the present time. But we are finding it difficult to interest many boards of directors in taking steps toward adopting the most advantageous methods of internal and external controls.

Our greatest difficulty lies in the many directors who seem to feel that their systems are acceptable if they are not subjct to extremely severe criticism by the examiner. They do not seem to realize that our examinations are conducted on the basis of what is shown on the books and found in the bank, that it is neither practical nor possible for us to go beyond the bank's own records, and that it is their own responsibility to see that the assets are properly accounted for and that the liabilities are properly stated.

The directors who are found on the boards of our banks usually have a very successful business history. In nearly every case they possess that degree of intelligence commensurate with a successful business career. When records, accounting systems, and outside audits are discussed, they evidence considerable interest and understanding. Unfortunately, however, adoptions of these vital programs are falling far short of what reasonably might be expected.

It is our opinion that the greatest contribution to the strength of banking lies in the advantages of internal accounting systems and in the use of external audits, including the direct verification of assets and liabilities.

While it is neither practical nor possible for supervisory authorities to initiate these programs, there are practical and possible means by which directors can do so. At every opportunity, where weaknesses are found by the examiner, a discussion should be held with the board and suggestions should be made that they investigate procedures and adopt such programs as are best suited to their bank. Our Department does not sponsor or favor any one particular system of accounting, audit, or verification. There are a number of possibilities, some more advantageous than others when applied to any particular bank. It is up to management to determine this. Our part should be to urge investigation and consideration.

Report of Changes

CAPITAL STOCK INCREASED

Robinson........ Crawford..... Crawford County State Bank
from $50,000.00 to $100,000.00 .... April 2, 1952

Sainte Marie..... Jasper....... Sainte Marie State Bank
from $15,000.00 to $30,000.00 .... April 2, 1952

TRUST CERTIFICATE ISSUED

			Deposit	
Mount Carmel	Wabash	Security Bank of Mount Carmel	$50,000	Apr. 10, 1952

BANK CLOSED

Camden......... Schuyler..... Camden State Bank .... April 10, 1952

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	456
Total April 30, 1952	509

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BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 29 — NO. 3 SPRINGFIELD JUNE 1, 1952

Bank Problems

The May 1, 1952, Bulletin contained an outline of the remarks prepared by Auditor Cooper for discussion at the district meeting of the National Association of Supervisors of State Banks, held in Chicago on June 1 and 2, 1952.

This meeting, attended by representatives from the State Banking Departments of Arkansas, Illinois, Indiana, Iowa, Minnesota, Missouri, North Dakota, Wisconsin and by the Association's president, Alexander Chmielewski, Bank Commissioner of Rhode Island, was devoted to discussions of current problems common to all, as well as some that were being experienced by the various individual states.

One problem of prominence at the meeting, common not only to bank supervisory authorities, but also to bank officials and all others concerned with, or interested in, banking operations is the rising trend in bank defalcations; some of these misapplications have reached relatively spectacular proportions in the last few years.

Many of the monthly BULLETINS issued by this office recently and over the past years have urged the adoption by banks of precautionary and preventive measures; especially, by familiarizing bank directors of their responsibilities toward matters of internal control and external audits.

The National Association of Bank Auditors and Comptrollers has done an enormous amount of research and some excellent work in its program to develop audit and control systems suitable for every bank.

The American Bankers Association is presently undertaking an exhaustive study concerning the current dangerous trend of defalcations.

Portions of President Chmielewski's remarks on the subject of defalcations follow:

"Just as in the field of medicine, two courses seem to suggest themselves, — stated in inverse order, — the curative and the preventive. Because of the increase in the number and amount of bank defalcations recently uncovered, many banks have increased the amounts of their blanket bonds with particular reference to the fidelity insuring clause.

"Although adequate bond coverage seems to be the real treatment as to those cases where defalcation proves to be an accomplished fact, and while this may prove to be sufficient in the majority of cases, it does not lessen the responsibility of those entrusted with bank management and direction for taking proper measures to prevent losses.

"A factor looming large in this preventive field is the manifest duty of bank directors to live up to the obligations which their title seems to imply. Aside from the legal responsibility that may rest upon him, a person accepting and assuming the office of director owes a duty not only to his depositors but also to his officers and employees.

"Actually, in the last analysis, the funds of a bank are in the custody of the directors, and while volumes have been, and will be, written on the legalistics of the extent of his liability, a vital factor in the situation is that according to the statutes of many, if not most, states, he has taken an oath not merely to perform his duties, but to perform them **diligently.**

"A realistic and not too cynical view would admit that every man is open to temptation. On this premise alone, it becomes the duty of directors to adopt proper means of protecting people from themselves, —surety bonds don't do this.

"In the case of a large bank where resources and income justify it, the maintenance of a good and adequate system of internal audit probably satisfies in large measure the demands that may be reasonably exacted of a director. But in the case of the smaller bank, a somewhat different situation is met and special arrangements must be made to cope with the situation.

"In this connection, it may be pertinent to point out that examinations by bank examiners are merely balance sheet audits dealing chiefly with assets and liabilities and that they do not purport to be audits in the real sense of the term. Accordingly, some other means must be adopted to detect and prevent defalcations.

"First, it may be pointed out that nothing can take the place of a good and thorough audit by independent auditors covering, with other things, all items of income and expense to see that the former are properly accounted for and collected, and that the latter are properly authenticated.

"Supplementing the outside audit, every bank of whatever size, should have within its organization some officer or employee who, whatever his title, shall be charged with the duty of reviewing or checking all vital operations and who shall be responsible to the directors only. This independence of action and authority are essential to a proper performance of his duties. Wherever feasible, a system of rotation in office should be maintained so that no person for too great a length of time should have exclusive charge of any important function.

"Along the same line, vacations of some fair duration should be required in the case of every member of the bank staff.

"To give added force to some of these recommendations, the by-laws, wherever necessary, should be amended.

"When defalcations, embezzlements and irregularities occur, the public always asks this question: Where were the bank examiners? It does not know the distinction between a bank examination and a bank audit.

"Maury Sparling, Superintendent of Banks of California, rendered an excellent service to all of our State Supervisors and to the public last October, by the issuance of an informative and suggestive letter to the state-chartered financial institutions under his supervision. In his splendid letter he succinctly defined the functions of an examiner and that of an auditor. He emphasized that 'the bank examiner checks the books and records **as they appear** and values the assets'. And, 'the responsibility of the auditor is to determine that the books and records **truly** reflect the fact'.

"This distinction unknown to the general public is also unknown to the vast majority of bank depositors. Nevertheless the responsibility for defalcations falls on the bankers and the supervisory authorities. In view of this fact, the American Bankers Association through its Insurance and Protective, and the Country Bank Operations sub-committee, has undertaken an exhaustive study of the current dangerous trend, for the purpose of sponsoring a curative and preventive program to be adopted by country as well as city banks.

"At the Executive Committee Meeting of our Supervisors Association last month, John Hospelhorn, our vice-chairman, submitted a report of our participation in a joint conference last January of federal supervisory authorities and A.B.A. officials, for the purpose of coordinating our ideas on a program of audit requirements in commercial banks. It was a very fine report, and we ought to give it a full amount of serious consideration.

"In the course of this joint meeting it was learned that approximately 12,000 out of the 14,000 banks throughout the country have assets of less than ten million dollars. It is therefore very important that these banks be influenced to adopt a definite and safe audit program.

"As supervisors—just how far we can go in setting up standards for a minimum audit program, or telling an auditing department how they should audit is a very debatable question. However the A.B.A. has taken the initiative. It is, at present, working on a program for a system of internal controls. The federal supervisory agencies have their co-operation and support. I am sure that our individual and collective assistance will be available at all times in order to check this serious leakage undermining public confidence in our banks."

Report of Changes

CAPITAL STOCK INCREASED

Herrin	**Williamson**	The Bank of Herrin from $150,000 to $200,000	**May 1, 1952**
Chicago	**Cook**	Sears-Community State Bank from $1,600,000 to $2,000,000	**May 16, 1952**

CHANGE OF PAR VALUE OF CAPITAL STOCK

Herrin	**Williamson**	The Bank of Herrin from $100.00 to $20.00	**May 1, 1952**

BANKS PLACED IN LIQUIDATION

Camden	Schuyler	Camden State Bank (closed for examination and adjustment April 10, 1952)	**May 5, 1952**

BANKS DISSOLVED

Chicago	Cook	Edison Park State Savings Bank (In liquidation July 30, 1934)	Sept. 6, 1951

RECAPITULATION

State Banks in Chicago	**25**
State Banks in Cook County outside Chicago	**28**
State Banks in Illinois outside Cook County	456
Total May 31, 1952	509

Printed by Authority of the State of Illinois **(53087—6M—6-52) 1**

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 29 — NO. 4 SPRINGFIELD JULY 1, 1952

Defalcations---A Challenge to Banking

During the past few years, much stress has been made upon the seriousness of defalcations, embezzlements, misappropriations and other acts of dishonesty that have plagued banking and upon the necessity for taking precautionary and preventive measures.

Audits and controls have been frequent subjects of BULLETIN articles. The innumerable banking periodicals seldom appear without at least one article dealing with the prevention of bank losses from within. New embezzlements are being reported constantly in the daily newspapers. Through the many sources of information, it is hardly possible that there could be anyone identified with the banking industry who is not aware that losses do occur from within banks and that there are practical measures of precaution which may be applied.

A vast amount of research and study has been made by the National Association of Bank Auditors and Comptrollers, by bankers' associations in many states, by other groups from the industry, and by representatives from the accounting field. As a result, current designs in internal control systems and in audit programs have been developed which are adaptable and practical to every bank, regardless of its size or its number of employees.

Many bank directors have studied the various systems and programs. In most cases, these directors have extended their study into the requirements of their own institution. As a result, a considerable number of banks have adopted measures that are considered expedient to, and particularly designed for, the problems of the respective bank.

While it is recognized that an increasing number of banks are adopting devices of precautionary and preventive nature, nevertheless, these movements have not reached the bulk of the industry.

It must be admitted that there are no sure methods of defeating every case of dishonesty; however, reasonable measures must be taken throughout the industry at a pace more rapid than that accomplished to date. Otherwise, in the absence of reasonable measures, the trend with which defalcations are being brought to light may lead to loss of confidence in banks and bankers, to public indignation, and, quite likely, to specified audit requirements in the statutes.

It is understood that the American Bankers Association is undertaking a study with the view of developing control and audit measures which will be more generally accepted and adopted.

Some few bankers, bankers' associations, financial writers, and others have suggested that supervisory authorities enlarge the scope of their activities to include the audit of banking operations and the direct verification of assets and liabilities. There are many apparent reasons why these suggestions are not logical, practical, or possible.

If departmental examinations were to be enlarged by the addition of these suggested functions, the character of supervision would change from that which was contemplated originally by the public and expressed in the law. It would not be consistent with the established conclusion that all managerial authority and responsibility, as far as an operating bank is concerned, should rest entirely with its own board of directors.

The provision of adequate operational safeguards is as much a primary responsibility of the board of directors as is the provision of adequate vault protection for the cash and other valuable property of the bank.

While the proposed study by the American Bankers Association is commendable and while it indicates that they, too, recognize that the initiative for providing appropriate safeguards should originate within the banking system, the general opinion seems to indicate that additional studies and additional systems are of lesser consequence to the solution than is the need for causing every bank director to be aware of, and alert to, the necessity for precautionary and preventive measures.

It is the board of directors that accepts or rejects operating proposals and that has the responsiblity of determining and adopting adequate safeguards.

Although practically every director is aware that losses have been occurring within banks and that there are precautionary measures, yet certain misunderstandings and false notions prevail to such degree that most boards, where appropriate action has not been taken, are predominated by members having one or more of these misbeliefs.

It is understandable why so many directors feel that losses through dishonesty cannot happen in their own bank. For one reason, they would not knowingly employ, retain, or have confidence in anyone about whom they might have even the slightest suspicion or misapprehension. But, almost every serious loss of this nature does occur where the board has such feeling and confidence.

Many directors seem to be of the opinion that, in the absence of any revelations to the contrary, pointed examinations and audits of the internal operating affairs are unnecessary, as they believe that these are accomplished through supervisory examinations.

A considerable number of directors have the impression that surety bonds and deposit insurance are substitutes for proper vigilance, while, actually these are only supplemental forms of protection against the failure of reasonable precautionary measures.

Some amount of resistance comes from the knowledge that audits and control systems are not positive measures of protection. In the majority of such cases it is not sufficiently realized that these are the most effective known means of removing temptation and of discouraging dishonesty.

Cost, of course, is another factor that influences boards, yet an investigation will reveal that there are systems and programs to be had within the economic ability of almost every bank.

Wherever possible, during the course of examinations by this Department, our examiners informally discuss operating safeguards with members of the board. The above matters are those most commonly encountered.

While this Department neither sponsors nor favors any one particular system or program of accounting, auditing, or verification, and while there may be other systems and programs of greater effectiveness and adaptability than those already developed, nevertheless, it would seem that the groundwork has been sufficiently accomplished in those respects and that future studies and efforts should be in the direction of enlightening bank directors individually.

Internal control systems, audit programs, and verification procedures should be sold at the directors' level and some means should be found to accomplish this.

The problem presenting a challenge to banking is that management, directors as well as officers, must recognize that losses from within can occur in their own institution, that there are reasonable precautionary measures available, that a general adoption of reasonable measures should originate within the industry, and that, once adopted, future alterations may be necessary to suit changing circumstances or developments.

Because each director of every Illinois State Bank receives the BULLETINS issued by this Department, the following message is published—this message having been sent by the California State Banking Department to all banks in that state with a view of encouraging auditing procedures:

> Gentlemen:
>
> For each of the last five years there has been a continual increase in the number of bank defalcations throughout the Nation. On the average there are now over two such bank defalcations discovered every banking day — and the number is increasing. Since the inception of the Federal Deposit Insurance Corporation over 104 banks in 34 states have suffered defalcations far in excess of their surety coverage.
>
> The ordinary function of bank examiners is the evaluation of credits and management, and compliance with banking laws and proper banking procedure. Bank examiners are not ordinarily expected to make, nor is it intended that they should make, detailed audits of the bank. Primarily, the bank examiner checks the books and records **as they appear** and values the assets.

The primary function of bank auditors is to verify the correctness of the bank's books, records, customers' balances and accounts. It is the Bank Officers', Directors', and Auditors' responsibility to determine that the books and records **truly** reflect the facts; that assets and liabilities are correctly shown by the books and that there has been no falsification of the records, concealment, or embezzlement. In all embezzlements it is the concealment factor primarily through the distortion of the bank's records that generally can only be discovered through an adequate audit.

This brings me to the point and purpose of this letter. If you do not already have a regular, reasonably frequent, complete audit of your bank — you need one! Without regular audits, adequate internal controls, and every reasonable precaution being taken against defalcations, your Bank's Officers and Directors are neglecting their responsibilities and may be considered to be largely to blame for any defalcation. Adequate surety bonds are a help — but only after a defalcation has occurred.

We urge you to have adequate protection of both types, as well as modern internal controls. We believe that your responsibility can only be met in this manner.

The ABC of Banking is adequate Audits, Bonds, and Controls.

Most sincerely yours,
Maurice C. Sparling,
Superintendent of Banks.

Report of Changes

PERMITS CANCELLED

Charleston..... Coles.......... Coles County State Bank ....**March 15, 1952**

CHANGES OF LOCATION

Pontiac........ **Livingston**..... **Bank of Pontiac**
from 204 North Main Street,
to 124 West Washington Street ....**June 9, 1952**

BANKS PLACED IN LIQUIDATION

Somonauk..... DeKalb........ Somonauk State Bank ....**June 30, 1952**

RECAPITULATION

State Banks in Chicago	**25**
State Banks in Cook County outside of Chicago	**28**
State Banks in Illinois outside Cook County	**455**
Total June 30, 1952	**508**

Printed by Authority of the State of Illinois (54856—6M—7-52) 1

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 29 — NO. 5 SPRINGFIELD AUGUST 1, 1952

June Call Figures

The total resources compiled from the June 30, 1952, statements submitted by Illinois State banks are $29 million greater than the total for March 4, 1952, and $194 million greater than the total reported one year ago, June 30, 1951. The current figure, however, is $66 million less than the peak reached on December 31, 1951, when $4,011,-055,866.74 in resources were reported.

Total deposits are greater than the amounts reported on March 4, 1952, and on June 30, 1951, by $49 million and $194 million, respectively, although the present total is $70 million less than on last December 31. While the total of all deposits is $70 million under the peak figure, nevertheless, that portion which is represented by time deposits is $39½ million larger than reported at that time.

Principal changes occurring between March 4, 1952, and June 30, 1952, concurrent with the $49 million increase in deposits are the $32 million expansion in loans and the additional investment of $31½ million in securities other than Government issues. During the same time, U. S. Government obligations held by Illinois State banks were reduced $39 million and bills payable aggregating slightly over $22 million were entirely retired.

Combined capital accounts increased nearly $1 million since March and are $11 million greater than one year ago.

Total Resources and Liabilities of Illinois State Banks

as reported at th[illegible]ose of b[illegible]ess June 30, 1952

(Grouped as to location and showing changes since March 4, 1952)

	City of Chicago 25 Banks	City of Chicago Increase or (-) Decrease	Seventh Federal Reserve District but outside the City of Chicago 343 Banks	Seventh Federal Reserve District Increase or (-) Decrease	Eighth Federal Reserve District 140 Banks	Eighth Federal Reserve District Increase or (-) Decrease	Entire State of Illinois 508 Banks	Entire State of Illinois Increase or (-) Decrease
RESOURCES:								
Cash and Due from Banks	$ 464,289,243.69	$ -21,099,030.20	$ 253,507,076.18	$ 18,075,001.96	$ 72,001,983.33	$ 6,028,194.71	$ 789,798,303.20	$ 3,004,166.47
Outside Checks and Other Cash Items	2,976,456.92	1,650,514.55	909,214.16	151,674.38	231,651.40	-40,078.93	4,117,322.48	1,762,110.00
U. S. Governments—Direct & Guaranteed	933,125,735.20	-26,458,039.37	622,999,316.15	-6,670,774.68	181,397,439.63	-6,183,057.88	1,737,522,490.98	-39,311,871.93
Other Bonds, Stocks and Securities	260,947,420.30	26,497,930.79	118,468,969.92	3,713,448.27	42,107,299.07	1,390,645.92	421,523,689.29	31,602,024.98
Loans and Discounts	546,869,229.64	13,816,144.08	320,694,954.48	10,375,885.42	97,391,982.54	8,005,380.37	964,956,166.66	32,197,409.87
Overdrafts	265,064.39	-57,207.53	166,877.26	-69,705.65	36,546.68	-17,230.55	468,488.33	-144,143.73
Banking House, Furniture & Fixtures	6,969,826.59	-2,872.77	6,071,154.35	279,479.21	2,027,238.99	79,028.35	15,068,219.93	355,634.79
Other Real Estate	11.00	None	143,618.53	83,132.77	24,749.31	-10,772.48	168,378.84	72,360.29
Customers' Liability—Letters of Credit	1,038,153.60	-49,778.93	8,900.00	.131,343.75	None	None	1,047,053.60	-181,122.68
Customers' Liability—Acceptances	563,441.65	-15,613.45	35,000.00	None	None	None	598,441.65	-15,613.45
Other Resources	7,054,152.88	-458,782.31	1,878,941.65	-5,702.58	763,188.90	214,039.27	9,696,283.43	-250,445.62
GRAND TOTAL RESOURCES	$2,224,098,735.86	$ -6,176,735.14	$1,324,884,022.68	$ 25,801,095.35	$ 395,982,079.85	$ 9,466,148.78	$3,944,964,838.39	$ 29,090,508.99
LIABILITIES:								
Capital Stock	$ 24,265,000.00	$ 450,000.00	$ 22,535,500.00	$ 44,600.00	$ 7,945,500.00	$ 115,000.00	$ 54,746,000.00	$ 609,600.00
Income Debentures	200,000.00	None	38,000.00	None	None	None	238,000.00	None
Surplus	41,210,000.00	200,000.00	26,768,350.00	193,500.00	7,435,000.00	69,000.00	75,413,350.00	462,500.00
Undivided Profits (Net)	20,879,315.38	934,564.93	20,563,308.97	893,368.43	6,529,329.46	266,816.04	47,971,953.81	2,094,749.40
Reserve Accounts	35,299,580.25	-2,423,821.42	13,564,867.84	66,231.56	4,815,760.02	160,843.88	53,680,208.11	.2,196,745.98
TOTAL CAPITAL STRUCTURE	$ 121,853,895.63	$ -839,256.49	$ 83,470,026.81	$ 1,197,699.99	$ 26,725,589.48	$ 611,659.92	$ 232,049,511.92	$ 970,103.42
Demand Deposits	$1,218,671,105.18	$ -8,623,390.22	$ 821,4[illegible]6.01	$ [illegible]83,101.74	$ 258,705,213.85	$ 6,868,002.62	$2,298,785,155.04	$ 9,627,714.14
Time Deposits	695,110,932.98	15,848,787.20	411,[illegible]71	92,585.56	108,525,438.54	2,158,328.56	1,215,584,926.23	31,309,701.32
Due to Banks	175,697,768.32	8,562,618.17	3,[illegible].54	23,734.52	1,256,893.30	-176,301.78	180,589,835.16	8,410,050.91
TOTAL DEPOSITS	$2,089,479,806.48	$ 15,788,015.15	$1,236,992,564.26	$ 24,709,421.82	$ 368,487,545.69	$ 8,850,029.40	$3,694,959,916.43	$ 49,347,466.37
Bills Payable	$ None	$ -22,000,000.00	$ None	$ None	$ None	$ .3,250.00	$ None	$ -22,003,250.00
Rediscounts	None	None	None	None	None	None	None	None
Dividends Unpaid	466,375.00	140,375.00	139,900.00	53,802.00	42,750.00	39,750.00	649,025.00	233,927.00
Letters of Credit	1,066,462.16	-47,745.02	18,219.50	-132,183.13	None	None	1,084,681.66	-179,928.15
Bank Acceptances	594,011.63	-236,842.97	35,000.00	None	None	None	629,011.63	-236,842.97
Other Liabilities	10,638,184.96	1,018,719.19	4,228,312.11	-27,645.33	726,194.68	-32,040.54	15,592,691.75	959,033.32
TOTAL OTHER LIABILITIES	$ 12,765,033.75	$ -21,125,493.80	$ 4,421,431.61	$ -106,026.46	$ 768,944.68	$ 4,459.46	$ 17,955,410.04	$ -21,227,060.80
GRAND TOTAL LIABILITIES	$2,224,098,735.86	$ -6,176,735.14	$1,324,884,022.68	$ 25,801,095.35	$ 395,982,079.85	$ 9,466,148.78	$3,944,964,838.39	$ 29,090,508.99
ANALYSIS:								
Deposits Secured by Pledge	$ 127,588,491.12	$ 26,279,092.73	$ 55,120,064.71	$ 4,358,356.58	$ 21,251,396.74	$ 1,118,291.56	$ 203,959,952.57	$ 31,755,740.87
Deposits Not Secured by Pledge	1,961,891,315.36	-10,491,077.58	1,181,872,499.55	20,351,065.24	347,236,148.95	7,731,737.84	3,490,999,963.86	17,591,725.50
TOTAL—DEPOSITS	$2,089,479,806.48	$ 15,788,015.15	$1,236,992,564.26	$ 24,709,421.82	$ 368,487,545.69	$ 8,850,029.40	$3,694,959,916.43	$ 49,347,466.37
Banking House	$ 5,626,100.31	$ -28,906.33	$ 3,886,607.94	$ 65,987.17	$ 1,513,314.00	$ 29,234.68	$ 11,026,022.25	$ 66,315.52
Furniture & Fixtures	1,343,726.28	26,033.56	2,184,546.41	213,492.04	513,924.99	49,793.67	4,042,197.68	289,319.27
TOTAL—Banking House, Furn. & Fixtures	$ 6,969,826.59	$ -2,872.77	$ 6,071,154.35	$ 279,479.21	$ 2,027,238.99	$ 79,028.35	$ 15,068,219.93	$ 355,634.79
Commercial Paper	$ 10,055,597.93	$ -629,893.53	$ 12,902,505.16	$ -111,692.81	$ 1,154,690.43	$ 301,728.78	$ 24,112,793.52	$ -439,857.56
Collateral Loans	165,092,490.46	11,216,014.38	68,382,863.06	44,301.22	18,182,337.52	1,564,925.05	251,657,691.04	12,825,240.65
Other Loans	301,253,899.59	1,962,954.89	127,053,191.18	5,874,829.83	41,774,256.53	4,898,844.25	470,081,347.30	12,736,628.97
Farm Loans	1,449,288.45	-132,623.83	13,458,827.26	-382,084.59	6,967,230.01	188,101.45	21,875,345.72	-326,606.97
Other Real Estate Loans	69,017,953.21	1,399,692.17	98,897,567.82	4,950,531.77	29,313,468.05	1,051,780.84	197,228,989.08	7,402,004.78
TOTAL—LOANS AND DISCOUNTS	$ 546,869,229.64	$ 13,816,144.08	$ 320,694,954.48	$ 10,375,885.42	$ 97,391,982.54	$ 8,005,380.37	$ 964,956,166.66	$ 32,197,409.87

Report of Changes

DURATION OF CHARTER EXTENDED

Avon .... Fulton ...... Tompkins State Bank
Charter extended 99 years
from June 26, 1953 .... July 14, 1952

TITLE GUARANTEE CERTIFICATE ISSUED

St. Louis ... Missouri .... Title Insurance Corporation of St. Louis
Deposit $55,000 .... July 15, 1952
(Registered office and agent—
Granite City, Madison County, Illinois)

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	455
Total July 31, 1952	508

Printed by Authority of the State of Illinois. (56033—6M—8-52) 1

BANKING BULLETIN
ISSUED BY
BENJAMIN O. COOPER
Auditor of Public Accounts
STATE OF ILLINOIS
VOL. 28 — NO. 6 SPRINGFIELD SEPTEMBER 1, 1952

Important Public Measures

As Election Day approaches, the issues of the campaign will become more intense and it is quite possible that the interest of the voters may become centered upon political issues, that is, parties and candidates, with lesser consideration and attention to other important public measures that are to be decided by the voters at the same election.

These imporant public measures are proposed revisions to the laws under which we, as the citizens of the State of Illinois, are governed. They are issues having non-partisanship proposal and support. As public measures, they are highly important, and therefore, their purposes and effects should have more than casual attention. Each proposal is a public matter and of public interest. Every voter should intelligently express his views on each individual proposal by voting either in favor of its adoption or of its rejection.

There are five such proposals of state-wide interest. Four are proposed amendments to the State Constitution and will appear on the "Blue Ballot." The fifth proposes to amend the Banking Act and appears on the same ballot as the names of the candidates for State and other offices.

While all of the five proposals are highly important and of general public interest, two relate to banks and banking. In addition to the proposed amendment to the Banking Act, which as previously stated appears on the regular ballot, the other is one of the four proposed constitutional amendments and so appears on the special "Blue Ballot".

Both of these measures were proposed in the primary belief that their adoption would do much to benefit and advance the interests of the general public, who are dependent upon and are served by our dual system of banking facilities. Both proposals appear as logical consequences to present day banking provisions and seem to be reasonable modifications to the Illinois laws. While they have been aimed to remove discriminatory disadvantages now borne by state banks in Illinois, provisions were made at the same time giving national banks as well as state banks prerogatives accorded to them through recent federal legislation but denied to them by the existing Illinois law.

Blue Ballot Banking Amendment

This amendment would remove the constitutional provision (Section 6 of Article XI) imposing double liability on stockholders in Illinois chartered banks.

The double liability with respect to national banks was abolished by the federal government beginning in 1933 and completely effective since 1937.

The elimination of superadded liability has progressed through the national system and through state banking systems, until today there are but two states, Arizona and Minnesota, that carry double liabiliy provisions similar to the present Illinois law.

Furthermore, depositor protection provided by the Federal Deposit Insurance Company has virtually eliminated any occasion for the creditors of an insured bank to seek recourse through superadded liability provisions. The present Federal Deposit Insurance Act gives 100% protection to all deposits of $10,000 or less in every insured bank (either state or national). In 1938 Congress provided that the Federal Deposit Insurance Corporation should waive its claim against any person against whom a stockholder's superadded liability might be asserted and provided further that said waiver be effected so as to prevent the increase of recoveries or dividends to uninsured creditors.

Experience has clearly demonstrated that the double liability provision is ineffective as a remedial measure when loss appears imminent or is suffered by bank creditors.

The prevention of bank failures is much more desirable and of greater public interest than ineffectual remedies that only may be applied after a bank is closed.

Adequate capital is a contributing factor to sound banks. The double liability provision to which our Illinois state banks are now subject, although virtually eliminated through deposit insurance and further relieved by limitations passed by the Illinois General Assembly in 1941, does continue to have an adverse influence on state bank stock.

The purpose of this amendment is to strengthen the financial condition of our Illinois state banks and to encourage their growth. The present constitutional provisions discourages the investment of additional capital in existing state banks, discourages the formation of new state banks and tends to encourage the conversion of state banks into national banks.

The adoption of this amendment to the constitution requires approval by the votes of two-thirds of those voting on this particular amendment or the votes of a majority of those voting at the election, whichever number is less.

Amendment to the Banking Act

This proposal would amend one section (13) of the Banking Act and would add four sections (12¼, 12½,12¾ and 13½) to the present law.

Its purpose is to provide enabling legislation so that national banks may consolidate with state banks under state charter or may convert from a national bank to a state bank if the stockholders of the national bank so desire.

For many years the federal laws have authorized a state bank in any state to consolidate with a national bank under national charter, or to convert from a state bank to a national bank, but federal laws prior to 1950 did not authorize a national bank to become a state bank.

It was the consensus that any bank should be free to transfer from the national banking system to the state banking system, as well as from the state banking system to the national banking system, in order to make the dual system of banks effective and to provide proper checks and balances.

Accordingly, Congress, in the Fall of 1950, and subsequently, enacted measures providing for the conversion of national banking associations into, and their merger or consolidation with, state banks if national banks and their stockholders follow the course of action prescribed in the federal acts.

In order to make this federal legislation effective in the various states, it is deemed necessary to have enabling legislation in the state banking laws. This proposed amendment to the Illinois Banking Act has been prepared for such purpose.

It authorizes one or more national banks, upon the approval of the Auditor of Public Accounts, to consolidate with one or more state banks under state charter if the national bank takes the action prescribed by the laws of the United States.

In addition, it permits a national bank in Illinois, upon approval by the Auditor, to convert into a state bank if the national bank follows the procedure prescribed by federal law.

The act also sets up certain requirements which the banks must meet before the Auditor shall approve any such proposed consolidation or conversion.

This proposal is not a constitutional amendment, but is an amendment to the Banking Act. Its ratification requires only a majority of those voting upon this particular question.

"Watching Your Money"

Distribution of the pamphlet, "Watching Your Money," through the Bulletin last month drew so many inquiries that I believe there will be general interest in the story behind the movie.

Shortly after assuming the duties of Auditor of Public Accounts, I started comprehensive surveys in every department to evaluate operations and to develop a plan for replacing old fashioned manual operations with modern business methods. When the studies in my own office were completed, I sent representatives into industry throughout the country to view their methods. Along with the reports brought back to me about their business operations were stories of visual aids used throughout industry, both in training of employees and in dissemination of public information. Among the startling facts reported to me was the fact that a film produced by the Aluminum Company of America had been shown to more people than "Gone With the Wind", which has the greatest attendance record of any Hollywood film.

Coupled with the reports of industry's use of visual aids was the fact that so few people really knew the full scope of the public services under the Auditor's jurisdiction and how they affected not only the public pocket book but so many millions of dollars of private funds. I have always believed that government should be no secret and that citizens should be better informed about their public affairs. That is why I planned a documentary film on the public service functions of the Auditor's office.

Since the release of the movie in the early summer, it has been shown the length and breadth of Illinois to every type of community group—civic clubs, women's clubs, farm groups, veterans' organizations, schools, churches, labor groups, chambers of commerce and others.

Particularly encouraging have been the comments from educators on the need for more films of its kind in civic, social science and government classes.

—Benjamin O. Cooper
Auditor of Public Accounts

Report of Changes

BANKS DISSOLVED

Somonauk	DeKalb	Somonauk State Bank (In Liquidation June 30, 1952)	August 23, 1952

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside of Cook County	455
Total August 31, 1952	508

Printed by Authority of the State of Illinois (57923—6M—9-52) 1

BANKING BULLETIN
ISSUED BY
BENJAMIN O. COOPER
Auditor of Public Accounts
STATE OF ILLINOIS
VOL. 28 — NO. 7 SPRINGFIELD OCTOBER 1, 1952

BLUE BALLOT BANKING AMENDMENT

Remarks of Benjamin O. Cooper, Auditor of Public Accounts, to the bankers of five counties—Cass, Menard, Morgan, Sangamon and Scott—at their joint meeting held at Virginia, Illinois, on September 25, 1952.

It is no exaggeration to say that the banking system of the United States is the largest material contributing factor toward free enterprise in this nation. Our laws furnish protection and encouragement to the free enterprise of our citizens while our banking system furnishes the money to the extent of 205 billion dollars. That is the amount of money and various forms of credit held by the nearly fifteen thousand banking institutions of the United States at the end of 1951.

This banking system of ours is a unique and ingenious economic device, for it is in reality two separate and distinct systems, each essentially different from the other. And yet, in operation, the units of each system are so thoroughly intergrated with the units of the other that they function as one.

Each day, as you know, business transactions of our citizens aggregating billions of dollars flow smoothly through both systems, passing from one to another, in many instances, several times from point of origin to destination.

Our dual banking system is often referred to as one of checks and balances. One serves as a check against the other to the end that neither can develop operating policies too radically conservative or liberal. Thus a well balanced overall governing policy is achieved under more than forty-nine different sets of laws. Competition is keen among national banks, among state banks and between national and state banks. This competition has developed for the citizens of our nation the finest and most extensive banking service in the world.

The foregoing statements I have made as a framework for my comments to follow on the need for passage of the Blue Ballot Amendment.

In 1933, as our nation began to emerge from the disastrous depression, the restoration of our banking system was greatly retarted by the lack of new bank capital. Adequate temporary capital was made available through the Reconstruction Finance Corporation but that was not the kind of capital our banking system needed. Sound and sustained recovery required the investment of private citizens in the bank stocks of their own communities. That is the only kind of capital that would insure community interest and community responsibility to meet community needs on a permanent basis. And that kind of bank capital was not coming forward. Bank stock as an investment was in disrepute. The reason was the super-added 100% liability attached to stocks in national as well as most of the state banks of the nation.

It is understandable that investors shied away from bank stocks when private capital was so urgently needed in 1933. Congress acted promptly to abolish that barrier and removed the super-added 100% liability on national bank stock that same year. Since that time every state in the union that had bank stock liability laws abolished them; with the exception of three states. Our own State of Illinois is one of the three remaining states that imposes the added liability on its state bank stockholders.

Strangely enough, the added liability provision in our state constitution has for all practical purposes been nullified. The legislature has twice voted to abolish it. Congress has denied the Federal Deposit Insurance Corporation the right to collect it when they pay out to the creditors of an insured bank. A statute of limitations has been enacted by our legislature to restrict its effect.

At a referendum conducted in 1937 an overwhelming majority of the citizens who voted upon the proposal to abolish it voted for abolishment. And yet it remains in our constitution as a potential threat that under certain remote circumstances might become a real liability. And it serves no good practical purpose.

In 1870, when our present constitution was adopted, we had virtually no banking system. It is true that the National Banking Act had been adopted about eight years previously, but the objective then was primarily to use the banks organized under that Act as instrumentalities of the United States government to help finance the Civil War.

It is also true that prior to that time our Illinois legislature had issued a number of state bank charters, in each instance a grant of special banking powers to a particular bank, each differing from the other in the delineation of powers and responsibilities.

Generally speaking, experience with banks up to that time had been bad. The State had little or no control over banking. Neither the lawmakers nor general public of that day knew very much about banking, as a result, when the stockholders' liability was suggested to the Constitutional Convention of 1870, it seemed like a good idea and it was adopted.

Theoretically, I suppose, the stockholders' liability should impress bank stockholders with the seriousness of the business of taking and using public deposits. It should inspire them to watch their banks closely, select their Directors carefully, and in the event of failure the enforcement of the liability should return a tidy sum to the depositors. It was a theory that in that day and age was reassuring. But it just hasn't worked out.

Experience has demonstrated that the stockholders' liability has neither been a guarantee of sound and able bank management nor a source of any appreciable return of money to the creditors of failed banks.

It is extremely regrettable that there are no statistics available to prove that point. My office has had nothing to do with the collection of stockholders' liability for about twenty-five years. About that long ago, the courts ruled that the bank receiver appointed by the Auditor of Public Accounts, representing, as he did, both stockholders and creditors could not institute nor pursue an action for the enforcement of the stockholders' liability. This necessitated the establishment of a separate receivership to represent depositors and other creditors in an independent action against the stockholders.

As a result, the Auditor's office had no supervision over the receiver for the depositors and creditors nor control of such records. Attempts have been made to assemble a sufficient amount of the records of such receiverships to form a basis for statistical analysis but they are not available. However, it has been estimated by persons who had considerable contact with such receiverships that the actual average return to depositors and creditors of Illinois state banks from stockholders' liability suits, would not exceed one or two percent. If that estimate is only approximately correct, it would seem to me to establish the fallacy of the theory of the benefits of stockholders' liability that went into our Constitution of 1870 and remains to this day.

The enforcement of the bank stockholders' liability requires an action that most of us would like to avoid. That is a lawsuit, and as a general rule it is a long drawn out, complicated and costly litigation. There are stockholders' liability suits pending at this moment that have been before the courts for over twenty years. Certainly that element of time alone would minimize the practical value of any return, large or small, to the recipient. Let us consider, for a moment, just a few of the barriers to full collection encountered by stockholders receivers.

A heavy stockholder, whose liability, reduced to judgment will saddle him with debt for many years to come, is very apt to seek relief through bankruptcy, and collections from bankrupt estates are as a rule very meagre. Stockholders' receivers were frequently forced to compromise their judgments at extremely low figures. There were usually a number of debtors who were judgment proof and judgments against them uncollectable. Others died leaving no estates from which to collect. On the average, I would say, it was only a small minority who paid in full.

Now let us consider some of the cost of such receiverships. The receiver, of course, had to be paid and in a long drawn out proceeding his fee alone would be substantial. A great deal of legal work was involved, the cost of which was necessarily heavy. In addition to that a stockholders' receivership invariably required an audit by certified public accountants to determine who the stockholders were who were liable for the debts of the bank at the time of closing. I know of one instance where such an audit ran up a bill of twenty-five thousand dollars.

These are just a few of the difficulties, problems and costs that have, for all practical purposes, defeated the objective sought by the bank stockholders' liability provision in our Constitution of 1870, which is prevailing law in our state today. At this point, I hope that I have established my conviction that the bank stockholders' liability law of Illinois has produced little or no benefit to the intended beneficiaries.

Now I shall point out what I believe to be some of the harmful and potentially harmful effects of this law upon our state economy in general and our state banking system in particular. The material foundation upon which a state bank is organized is the stockholders. They select the directors from their own group. The directors appoint the officers and through them operate the bank. The determining factor as to the quality of a bank is its board of directors, each of whom must own at least $1,000.00, at par value, of the bank's capital stock. Ideally, bank boards of directors should attract the ablest, soundest and most experienced business men in the community.

Inasmuch as the primary requirement for qualification as a director is the ownership of $1,000.00 at par value of the bank's capital stock, if the prospective director is the kind of a business man that the stockholders want on the board, he will naturally examine the nature of the stock that he is required to buy.

A prudent business man in investing his money examines his investment from the standpoint of risk. The risk is the possibility of loss, but if he is considering buying Illinois state bank stock he must not only consider the normal risk of losing his investment, but the risk of paying an equal amount as a penalty. Naturally, such an investment would hardly be considered as attractive.

If such an individual were approached by a national bank and a state bank, all other considerations being equal, he would favor the national bank where there is no added liability attached to stock ownership.

The foregoing is not a theory nor a possibility, but has happened many times and serves as a graphic illustration of serious discrimination against state banks and in favor of national banks in Illinois. I know of other instances where bank directors of advancing years, whose mature experience and judgment is invaluable in bank management, have abruptly resigned from boards of state banks and sold their stock.

The reason for doing so was their reluctance to have a large block of state bank stock in their estates. There are numerous other instances where the constitutional liability of state bank stockholders is injuring the banking system of Illinois, but the time at my disposal is not sufficient to permit my going into them.

In laying this matter before you I have attempted to portray it in its simplest and most vital form. As a protective measure for depositors and creditors it has been, for all practical purposes, a complete failure. As a matter of fact, the banks themselves through the insurance of their deposits have replaced stockholders' liability with a completely effective substitute.

In many instances deposit insurance, which is paid for by the banks themselves, has dealt with bank failures and protected depositors without even interrupting their current business transactions. Stockholders' liability is detrimental to our state banking system which must be maintained on a competitive level with national banks if our citizens are to have a free and unhampered choice in selecting the kind of a bank that they want to serve their particular community.

I am an enthusiastic supporter of the "dual" banking system for our nation. I want to see each of these systems strong and competitive. I am convinced that the added liability of bank stockholders imposed under Section 6, Article XI of our Constitution is a serious weakness in our State banking system and, therefore, have been urging its repeal at the forthcoming referendum. Our state legislature has for the second time wisely adopted repeal legislation, and I have given every cooperation to the Citizens' Committee and have worked individually in urging voters to support the Blue Ballot Banking Amendment.

Report of Changes

PERMIT ISSUED

			Capital	Surplus	Reserve
Havana	Mason	State Bank of Havana	$100,000	$50,000	$25,000
		118 West Market Street	September 4, 1952		

CHANGE OF LOCATION

Campus........Livingston.....Campus State Bank
from Lot 5, Blk. 3
to W½ Lot 4, Blk. 3,
Campus, Illinois ....September 2, 1952

Monticello.....Piatt...........First State Bank of Monticello
from 105 West Main Street to
201 West Main Street, Monticello,
Illinois ....September 8, 1952

CAPITAL STOCK INCREASED

Lyons..........Cook...........Bank of Lyons
from $75,000 to $86,250 ....August 25, 1952

Chicago........Cook...........Bank of Rogers Park
from $220,000 to $250,000 ....September 9, 1952

BANK DISSOLVED

Forest City.....Mason.........Forest City State Bank ....September 8, 1952
(In Liquidation June 30, 1934)

TITLE GUARANTEE CERTIFICATE CANCELLED

Granite City....Madison.......Midwest Title & Guaranty Co. ....September 3, 1952

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside of Cook County	455
Total September 30, 1952	508

Printed by Authority of the State of Illinois. (58200—6M—10-52) 1

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 28 — NO. 8 SPRINGFIELD NOVEMBER 1, 1952

A REMINDER–

The majority of Illinois State banks soon will hold their annual meetings of stockholders. Seldom do directors fail to make proper and adequate arrangements for these meetings and usually the boards give considerable prior thought to the business that necessarily must be presented. Occasionally, however, some important matters are overlooked in the pre-meeting plans. These are generally matters where a corporate change is involved and where the board is not completely familiar with the statutory requirements in the matter.

In matters relating to the corporate organization Section 12 marks the limit beyond which the management may not go without the consent and approval of the shareholders; consequently officers and directors are reminded of the provisions contained in this Section of the Illinois Banking Law.

Specifically, those matters which are subject to the provisions of Section 12 and which require the approval of holders representing at least two-thirds of the stock of the corporation, are as follows:

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

Any or several of the foregoing changes may be made at either the regular annual meeting or at a special meeting of the shareholders. The action becomes somewhat more complicated and detailed when undertaken at a special meeting. For that reason, it is usually preferred to have these propositions submitted at the regular annual meeting.

If any of such changes are contempleted, it is recommended that the advisability of presenting them to the stockholders at their annual meeting be carefully

Total Resources and Liabilities of Illinois State Banks

as reported at the close of business September 5, 1952

(Grouped as to location and showing changes since June 30, 1952)

	City of Chicago 25 Banks	City of Chicago Increase or (-) Decrease	Seventh Federal Reserve District but outside the City of Chicago 343 Banks	Seventh Federal Reserve District Increase or (-) Decrease	Eighth Federal Reserve District 140 Banks	Eighth Federal Reserve District Increase or (-) Decrease	Entire State of Illinois 508 Banks	Entire State of Illinois Increase or (-) Decrease
RESOURCES:								
Cash and Due from Banks	$ 490,819,519.98	$ 26,530,276.29	$ 268,637,526.82	$ 15,130,450.64	$ 72,310,189.91	$ 308,206.58	$ 831,767,236.71	$ 41,968,933.51
Outside Checks and Other Cash Items	1,885,549.28	-1,090,907.64	784,791.16	-124,423.00	148,851.48	-82,799.92	2,819,191.92	-1,298,130.56
U. S. Governments—Direct & Guaranteed	947,852,434.32	14,726,699.12	648,834,283.44	25,834,967.29	191,194,696.64	9,797,257.01	1,787,881,414.40	50,358,923.42
Other Bonds, Stocks and Securities	255,555,206.05	-5,392,214.25	121,099,033.59	2,630,063.67	44,013,001.67	1,905,702.60	420,667,241.31	-856,447.98
Loans and Discounts	549,133,745.23	2,264,515.59	325,065,832.07	4,370,877.59	99,398,979.11	2,006,996.57	973,598,556.41	8,642,389.75
Overdrafts	324,043.39	58,979.00	273,689.35	106,812.09	57,775.88	21,229.20	655,508.62	187,020.29
Banking House, Furniture & Fixtures	6,978,249.55	8,422.96	6,196,216.96	125,062.61	2,091,615.46	64,376.47	15,266,081.97	197,862.04
Other Real Estate	2,495.09	2,484.09	141,527.31	-2,091.22	24,598.31	-151.00	168,620.71	241.87
Customers' Liability—Letters of Credit	1,143,041.14	104,887.54	3,039.50	-5,860.50	None	None	1,146,080.64	99,027.04
Customers' Liability—Acceptances	517,423.53	-46,018.12	35,000.00	None	None	None	552,423.53	-46,018.12
Other Resources	8,176,491.75	1,122,338.87	2,027,297.86	148,356.21	839,323.61	76,134.71	11,043,113.22	1,346,829.79
GRAND TOTAL RESOURCES	$2,262,388,199.31	$ 38,289,463.45	$1,373,098,238.06	$ 48,214,215.38	$ 410,079,032.07	$ 14,096,952.22	$4,045,565,469.44	$ 100,600,631.05
LIABILITIES:								
Capital Stock	$ 24,265,000.00	$ None	$ 22,546,750.00	$ 11,250.00	$ 7,945,500.00	$ None	$ 54,757,250.00	$ 11,250.00
Income Debentures	200,000.00	None	38,000.00	None	None	None	238,000.00	None
Surplus	41,410,000.00	200,000.00	26,832,600.00	64,250.00	7,462,000.00	27,000.00	75,704,600.00	291,250.00
Undivided Profits (Net)	21,834,116.82	954,801.44	22,036,501.45	1,473,192.48	7,106,044.23	576,714.77	50,976,662.50	3,004,708.69
Reserve Accounts	37,335,954.31	2,036,374.06	14,086,047.43	521,179.59	4,734,521.09	-81,238.93	56,156,522.83	2,476,314.72
TOTAL CAPITAL STRUCTURE	$ 125,045,071.13	$ 3,191,175.50	$ 85,[illegible].88	2,069,872.07	$ 27,248,065.32	$ 522,475.84	$ 237,833,035.33	$ 5,783,523.41
Demand Deposits	$1,247,861,165.92	$ 29,190,060.74	$ 863,[illegible].57	42,102,451.56	$ 269,536,989.15	$ 10,831,775.30	$2,380,909,442.64	$ 82,124,287.60
Time Deposits	694,337,404.10	-773,528.88	416,214,[illegible].31	4,265,588.60	110,315,169.52	1,789,730.98	1,220,866,716.93	5,281,790.70
Due to Banks	177,500,376.80	1,802,608.48	3,417,373.11	-217,800.43	1,535,460.44	278,567.14	182,453,210.35	1,863,375.19
TOTAL DEPOSITS	$2,119,698,946.82	$ 30,219,140.34	$1,283,142,803.99	$ 46,150,239.73	$ 381,387,619.11	$ 12,900,073.42	$3,784,229,369.92	$ 89,269,453.49
Bills Payable	$ 5,900,000.00	$ 5,900,000.00	$ None	$ None	$ 600,000.00	$ 600,000.00	$ 6,500,000.00	$ 6,500,000.00
Rediscounts	None	None	None	None	None	None	None	None
Dividends Unpaid	26,000.00	-440,375.00	29,000.00	-110,900.00	None	-42,750.00	55,000.00	-594,025.00
Letters of Credit	1,169,883.14	103,420.98	12,121.50	-6,098.00	9,095.00	9,095.00	1,191,099.64	106,417.98
Bank Acceptances	551,537.61	-42,474.02	35,000.00	None	None	None	586,537.61	-42,474.02
Other Liabilities	9,996,760.61	-641,424.35	4,339,413.69	111,101.58	834,252.64	108,057.96	15,170,426.94	-422,264.81
TOTAL OTHER LIABILITIES	$ 17,644,181.36	$ 4,879,147.61	$ 4,415,535.19	$ -5,896.42	$ 1,443,347.64	$ 674,402.96	$ 23,503,064.19	$ 5,547,654.15
GRAND TOTAL LIABILITIES	$2,262,388,199.31	$ 38,289,463.45	$1,373,098,238.06	$ 48,214,215.38	$ 410,079,032.07	$ 14,096,952.22	$4,045,565,469.44	$ 100,600,631.05
ANALYSIS:								
Deposits Secured by Pledge	$ 123,799,041.21	$ -3,789,449.91	$ 58,296,384.56	$ 3,176,319.85	$ 23,210,713.05	$ 1,959,316.31	$ 205,306,138.82	$ 1,346,186.25
Deposits Not Secured by Pledge	1,995,899,905.61	34,008,590.25	1,224,846,419.43	42,973,919.88	358,176,906.06	10,940,757.11	3,578,923,231.10	87,923,267.24
TOTAL—DEPOSITS	$2,119,698,946.82	$ 30,219,140.34	$1,283,142,803.99	$ 46,150,239.73	$ 381,387,619.11	$ 12,900,073.42	$3,784,229,369.92	$ 89,269,453.49
Banking House	$ 5,626,866.32	$ 766.01	$ 3,926,327.02	$ 39,719.08	$ 1,533,638.38	$ 20,324.38	$ 11,086,831.72	$ 60,809.47
Furniture & Fixtures	1,351,383.23	7,656.95	2,269,889.94	85,343.53	557,977.08	44,052.09	4,179,250.25	137,052.57
TOTAL—Banking House, Furn. & Fixtures	$ 6,978,249.55	$ 8,422.96	$ 6,196,216.96	$ 125,062.61	$ 2,091,615.46	$ 64,376.47	$ 15,266,081.97	$ 197,862.04
Commercial Paper	$ 10,686,088.05	$ 630,490.12	$ 13,123,623.93	$ 221,118.77	$ 1,221,696.48	$ 67,006.05	$ 25,031,408.46	$ 918,614.94
Collateral Loans	167,552,152.80	2,459,662.34	66,365,611.25	-2,017,251.81	18,818,728.36	636,390.84	252,736,492.41	1,078,801.37
Other Loans	300,537,809.33	-716,090.26	131,343,305.33	4,290,114.15	42,205,420.65	431,164.12	474,086,535.31	4,005,188.01
Farm Loans	1,226,051.79	-223,236.66	13,425,918.64	-32,908.62	7,138,235.07	171,005.06	21,790,205.50	-85,140.22
Other Real Estate Loans	69,131,643.26	113,690.05	100,[illegible]372.92	1,909,805.10	30,014,898.55	701,430.50	199,953,914.73	2,724,925.65
TOTAL—LOANS AND DISCOUNTS	$ 549,133,745.23	$ 2,264,515.59	$ 325,[illegible]32.07	4,370,877.59	$ 99,398,979.11	$ 2,006,996.57	$ 973,598,556.41	$ 8,642,389.75

considered at either the November or December meeting of the board of directors. The proposal also should be taken up with the Banking Department well in advance of the date for the stockholders' meeting in order to ascertain whether such changes, if voted by the stockholders, will be approved by the Auditor as required by law, and also to obtain the proper forms to be used in accomplishing the changes.

The board of directors when arranging for all necessary business to be placed on the agenda should also consider and decide whether other items are advisable and desirable to be presented. Frequently there are matters which properly should be brought before the stockholders for ratification or approval.

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

Failure to elect a full board of directors at the annual stockholders' meeting usually results in a complicated and awkward situation. For that reason, no annual meeting of shareholders should be concluded without electing the full legal number of directors. Every effort should be made to assure full membership on the board. If that is impossible, then the proper steps should be taken to reduce the legal number of directors.

Report of Changes

PERMIT ISSUED

			Capital	Surplus	Reserve
Broadview	**Cook**	Broadview-Winchester State Bank	$50,000	$10,000	$15,000
		2125 S. Seventh Street		October 21, 1952	

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	455
Total October 31, 1952	508

Printed by Authority of the State of Illinois. (59969—6M—11-52) 1

BANKING BULLETIN

ISSUED BY

BENJAMIN O. COOPER

Auditor of Public Accounts

STATE OF ILLINOIS

VOL. 28 — NO. 9 SPRINGFIELD DECEMBER 1, 1952

AMENDMENTS

Both of the banking measures received the required approval of the voters at the election on November 4, 1952 and were proclaimed in force by Governor Stevenson on November 24, 1952.

One of these measures amends Section 6 of Article XI of the State Constitution and thereby removes the constitutional provision that imposed a double liability on stockholders in Illinois chartered banks.

The other measure amends Section 13 of the Banking Act and adds four sections. The four new sections are numbered: 12¼, 12½, 12-¾ and 13½. This measure provides enabling legislation so that national banks may consolidate with state banks or may convert from a national bank to a state bank if the stockholders of the national bank so desire.

The Auditor's Edition of the Banking Law which has been published and distributed in pamphlet form is to be reprinted showing the necessary revisions. Sections 12¼, 12½, 12-¾, 13 and 13½ are published within this issue of the BULLETIN and may be inserted in present copies of the Banking Law.

Constitutional provisions do not appear in the Banking Law pamphlet, consequently, the double liability amendment will not be shown in the revised edition of the law although an appropriate notation will be shown immediately following Sections 6 and 11 of the Banking Act.

Consolidation of national with state banks. Section 12¼. Upon written approval by the Auditor, one or more national banks located in this state may be consolidated under this Act with one or more state banks. The action by the national bank or banks shall be taken in the manner prescribed by and shall be subject to any limitations or requirements imposed by any law of the United States which shall also govern the rights of the dissenting shareholders. The action taken by a state bank or banks which are a party to the consolidation shall be in accordance with the provisions of Section 12 relating to consolidations. (Added by act approved June 30, 1951. L. 1951; ratified at State-wide referendum, Nov. 4, 1952. Proclaimed adopted, Nov. 24, 1952.)

State charter to national bank converted into State bank. Section 12½. Upon written approval by the Auditor, a national bank located in this state which follows the procedure prescribed by federal law to convert into a state bank may be granted a state charter if it meets the requirements of Section 13 of this Act. (Added by act approved June 30, 1951. L. 1951; ratified at State-wide referendum, Nov. 4, 1952. Proclaimed adopted, Nov. 24, 1952.)

Liabilities of banks resulting from consolidation or conversion of national into state bank. Section 12¾. Banks created or resulting from a consolidation or conversion under Section 12 or Section 12¼ or 12½ shall, without limiting the provisions of Section 12, be liable for all liabilities of the respective consolidating banks or converting bank and all the rights, franchises, and interests of the said respective consolidating banks or converting bank so consolidated or converted in and to every species of property, real, personal and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such bank created or resulting from such consolidation or conversion without any deed or other transfer, and the said bank created or resulting from such consolidation or conversion shall, without any order or other action on the part of any court or otherwise, hold and enjoy the same and all rights of property, franchises, and interests, including appointments, designations and nominations and all other rights and interests as trustee, executor, administrator, registrar or transfer agent of stocks and bonds, guardian, assignee, receiver, and in every other fiduciary capacity, in the same manner and to the same extent as was held and enjoyed by the said respective consolidating banks or converting bank. (Added by act approved June 30, 1951. L. 1951; ratified at State-wide referendum, Nov. 4, 1952. Proclaimed adopted, Nov. 24, 1952.)

Records of change to be filed. Section 13. Before the Auditor shall approve any such proposed consolidation under Section 12 or 12¼ or any proposed conversion under Section 12½ he shall require to be filed with him a complete record of the proceedings of such consolidation or conversion, a list of stockholders, the agreement or articles of consolidation or conversion approved by the stockholders, which shall include the amount of capital and surplus of the consolidated or converted corporation, the place of business, name and time for which such consolidated or converted corporation shall continue, a detailed financial statement showing the assets and liabilities of such proposed consolidation or conversion and such other records as he may deem necessary, verified by the affidavit of one or more of the officers of the converting corporation or of each consolidating corporation, as the case may be, and shall satisfy himself, which may be by appointing a suitable person or persons to make examination of the affairs of the converting corporation or of each consolidating corporation, as the case may be, either prior or subsequent to the proposed conversion or consolidation, that said records and list are true and complete and that said financial statement is true and made in accordance with generally accepted principles of accounting.

No one or more banks authorized so to do under the provisions of this Act, shall consolidate with or convert into a State Bank, unless the capital stock and surplus of the resulting State Bank shall equal, in the case of consolidation, the aggregate capital stock and the aggregate surplus respectively of the consolidating banks as of the time of the adoption of the Articles of Consolidation by the stockholders thereof, and in the case of conversion, the full capital stock and surplus of the converting National Bank as of the time of the adoption of the Articles of Conversion by the stockholders thereof; provided that in no event shall the capital stock of any State Bank resulting from such consolidation or conversion be less than the minimum prescribed by Section 11 of this Act, nor shall the surplus of any such bank be less than the minimum prescribed by Section 5 of this Act; and provided further that any such bank resulting from such consolidation or conversion shall be subject to the provisions and requirements of this Act.

The Auditor shall also require each director of such corporation to take and subscribe an oath of fealty as provided by Section 4 of this Act.

In the event any person shall make a fraudulent affidavit or oath he shall be deemed guilty of perjury.

The expenses of any examination made by the Auditor or at his direction hereunder shall be paid by the converting corporation or in the case of a consolidation by each of the consolidating corporations. (As amended by act approved June 30, 1951. L. 1951; ratified at State-wide referendum, Nov. 4, 1952. Proclaimed adopted, Nov. 24, 1952.)

Conversion of state into or consolidation with national bank. Section 13½. Nothing in this Act shall be construed to require the approval of any Illinois state authority as a condition to the right of a state bank, pursuant to the laws of the United States, to be converted into a national bank or to consolidate with a national bank under national charter. Upon completion of such conversion or consolidation, the state bank shall surrender its charter as a state bank. (Added by act approved June 30, 1951. L. 1951; ratified at State-wide referendum, Nov. 4, 1952. Proclaimed adopted, Nov. 24, 1952.)

Report of Changes

CAPITAL STOCK INCREASED

Effingham... Effingham... **Effingham State Bank from $150,000 to $200,000 ....Nov. 3, 1952**

CHANGE OF PAR VALUE OF CAPITAL STOCK

Effingham... Effingham... **Effingham State Bank from $50.00 to $25.00 ....Nov. 3, 1952**

TRUST CERTIFICATE ISSUED

			Deposit	
Hammond	Piatt	The State Bank of Hammond	**$50,000**	**Nov. 7, 1952**

RECAPITULATION

State Banks in Chicago	25
State Banks in Cook County outside Chicago	28
State Banks in Illinois outside Cook County	**455**
Total November 30, 1952	508

Printed by Authority of the State of Illinois. (60793—6M—12-52)