HAND-BOOK

FOR BANK OFFICERS

COFFIN.

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BY

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PREFACE.

This edition of the "Hand Book for Bank Officers," first issued in 1889, is a complete and thorough revision of all previous editions. It now represents a digest of all material provisions contained in the entire National Bank Act, with full annotations on the most important of these. The most valuable addition, perhaps, is contained in Part Three, on the subject of Internal Administration and Bookkeeping.

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HAND-BOOK

FOR

BANK OFFICERS.

PART ONE

CHAPTER I.

LAWFUL-MONEY RESERVE.

Legal Requirements.

The "reserve" of a bank is that proportion of its "deposits" or liabilities payable on demand, which it is required, by law, "at all times" to "have on hand in lawful money of the United States."

The law bearing on the subject is to be found in sections 5191, 5192, and 5195, United States Revised Statutes, chapter 4, National-bank Act; in sections 2 and 3 of the act of June 20, 1874; and in sections 1 and 2 of the act of March 3, 1887. All of these will be found in the "National-bank

Act," compiled under direction of the Comptroller of the Currency.

The cash resources which the law requires a bank to lay aside at all times in this way constitute the sheet-anchor of safety in stormy financial weather, and as a matter of policy alone, apart from other considerations, too great stress can not be laid upon the importance of a faithful and uniform compliance with the law in this particular, in spirit as well as in letter.

Striking proof that this view of the subject is held and practiced by bank managers as a body is found in the fact that although the law requires National banks located outside of reserve cities (over 3,700 in number) to maintain a reserve of 15 per cent. only, their reports show that these banks habitually carry a reserve equal to an average on the whole of *over 28 per cent.*

That the framers of the law evidently realized the importance of this feature also, is apparent from the fact that the law prescribes for habitual violations of the statute, in this particular, the summary and severe penalty applying in only a few other places, viz., the appointment of a receiver to wind up the bank's affairs. (See section 5191.)

Required on Deposits only.

Attention is here called to the fact that previous to the passage of the act of June 20, 1874, the law required National banks to maintain a reserve ~~no~~ on their "circulation" outstanding as well as on their "deposits," but this requirement was repealed by the act named, and since then a reserve has been required on "deposits" only. The act of 1874 also provides that each bank shall keep on deposit with the Treasurer of the United States an amount of lawful money equal to 5 per cent. of its "circulation," for the redemption of which at the United States Treasury this act provides, but the bank is at the same time permitted to count this "5 per cent. redemption fund" as a part of its reserve on "deposits."

List of Reserve Cities.

There are at present twenty-six "reserve cities," as per following list, sixteen of which were designated in section 5191, while others have been added under the operation of the act of March 3, 1887.

Chicago and St. Louis, which had been "reserve cities" previously, became "central reserve cities" under the provisions of the act of March 3, 1887.

Central Reserve Cities:

New York City, N. Y.

Chicago, Ill. St. Louis, Mo.

Reserve Cities:

Albany, N. Y.	Milwaukee, Wis.
Baltimore, Md.	Minneapolis, Minn.
Boston, Mass.	New Orleans, La.
Brooklyn, N. Y.	Omaha, Nebr.
Cincinnati, Ohio.	Philadelphia, Pa.
Cleveland, Ohio.	Pittsburgh, Pa.
Des Moines, Ia.	Savannah, Ga.
Detroit, Mich.	San Francisco, Cal.
Houston, Texas.	St. Joseph, Mo.
Kansas City, Mo.	St. Paul, Minn.
Lincoln, Nebr.	Washington, D. C.
Louisville, Ky.	

Classification of Banks with regard to Percentage of Reserve required.

It will be found, from the portions of the law quoted, that in the matter of reserve requirements the National banks are divided into three distinct classes, according to location, viz.:

1. Those located in the "central reserve cities," which are required to maintain a reserve equal to 25 per cent. of their "deposits," and to keep the entire amount on hand *in bank*.

2. Those located in the other "reserve cities," which must also maintain a reserve of 25 per cent. on "deposits," but are required to keep only *one-half* of same on hand *in bank*, while they may keep the remainder on deposit with any National bank, or banks, located in any of the "central reserve cities."

3. Those located outside of the "reserve cities," which are required to maintain a reserve of only 15 per cent. on "deposits," and to keep on hand *in bank* only *two-fifths* of

this, while the remainder may be kept on deposit with any National bank, or banks, located in any of the "reserve cities."

Of course, if any bank of the second or third class does not avail itself of the privilege of keeping a portion of its reserve with "reserve agents," it *must keep the entire required amount on hand in bank.*

It will be observed that while section 5192 included banks located in Richmond and Charleston among those privileged to act as "reserve agents" for the 15 per cent. banks, section 5191 did not impose upon them the necessity for keeping a reserve equal to 25 per cent. of their "deposits," as was required of banks located in the other cities named in section 5192, and for this reason the privilege of acting as "reserve agents" has never been accorded by the Comptroller's office to National banks in those two cities.

Various forms of Lawful Money available for Reserve.

As the law prescribes that the reserve of a bank must be in "lawful money of the United States," the term "lawful money" is defined as follows:

Previous to the resumption of specie payments, on the 1st of January, 1879, "lawful money" virtually meant United States "legal-tender" notes,

gold and silver coin being, until then, at a premium, and not in general circulation, but since then the term has embraced various forms of currency, which it is important for every bank to know, in order that it may intelligently carry out the requirements of the law in the matter of reserve. The following list of the various forms of "lawful money" available for reserve purposes existing at present is, therefore, given:

1. Gold coin of the United States.
2. "Standard" silver dollars of the United States.
3. Fractional silver coin of the United States.
4. Certificates for gold coin deposited with the Treasurer of the United States.
5. Certificates for silver dollars deposited with the Treasurer of the United States.
6. United States "legal-tender" notes.
7. Certificates for "legal-tender" notes deposited with the Treasurer of the United States.
8. Gold clearing-house certificates.
9. Treasury Notes, Act July 14, 1890.

In order that reserve may readily be computed at any time, and that the information required for reports of condition (which are always called for past dates) may be fully and accurately stated, it is absolutely necessary that a daily and exact record of the amount of each kind of the various kinds of currency should be kept for this purpose. That this may be done, it will of course be necessary to

assort the cash on hand at close of business each day, and in doing this, National-bank currency should be separated from other forms of paper currency, and in case a bank has any notes of its own issue on hand, these should in turn be separated from those issued by other banks.

Deposits, and Sundry Items which are allowed to Offset Deposits.

The term "deposits," used in those portions of the law which bear on the subject of reserve, embraces not only all classes of what are known as "individual deposits" held by a bank, but deposits made by the United States Government and by its disbursing officers also.

Balances due *to* other National banks and to State and private banks and bankers, being, as a rule, payable on demand, have always been regarded as "deposits" also, and any bank holding these has been required to maintain a reserve upon such balances, balances due *from* other banks and bankers being allowed to "offset" the balances due *to* them; but when in any case the amount due *from* banks and bankers exceeds the amount due *to* them, such excess can not be applied in reduction of liability on other "deposits," and amounts due *from* and *to* banks and bankers are then excluded from both

sides of the calculation necessary for determining "deposits" and reserve required thereon.

The other items of a bank's "resources" which, under the various rulings of the Comptroller's office, are admitted to offset or reduce its liability on "deposits" are as follows:

1. "Exchanges for clearing-house," viz.: checks on other banks in same place, which are members of a clearing-house.
2. "Checks on other banks in same place."
3. "Bills of other National banks" held by the bank. Bills of the bank's own issue are, of course, not admitted to offset its liabilities on "deposits."

Reciprocal Accounts with Reserve Agents.

It is the custom with some banks to keep *reciprocal* accounts with their "reserve agents," and in such cases the question arises as to how these items should be treated.

As the law provides that a portion of a bank's "reserve may consist of balances due to" it "from associations approved by the Comptroller of the Currency," such items should, as a rule, be treated as follows in computing reserve:

1. If the *balance* of any such "reciprocal account" is an amount due *from* the "reserve agent" bank, such *balance* may be treated as available for reserve.
2. But, if such *balance* represents an amount due *to* the "reserve agent," then it should be regarded as "due *to* other National banks," and so treated.

Examples showing how Reserve should be computed in Ordinary Cases.

To clearly illustrate how the reserve of a bank should be computed in any ordinary case, two examples are given here; the first (Form A) of a bank which should have 25 per cent. on hand; the second (Form B) of a bank which should have 15 per cent. on hand. Each of these examples is computed on a form identical in every respect with the printed blanks now used in the Comptroller's office for this purpose.

The great advantage of this form consists in the fact that down to the point of finding the amount of "deposits" upon which reserve is to be maintained, the process is the same for *all banks regardless of location.* Beyond this point it is only necessary to apply the proper *proportion* required by each case (viz., 25 per cent. or 15 per cent.), and the proper *distribution* of the reserve *in bank* and *in hands of agents* required in such case.

In *exceptional* cases, which are defined and illustrated on pages 12 to 20, all that is needed is to extend the ordinary computation a little further by a very short and simple calculation. Concise rules for this calculation are given on page 12.

With a copy of this general printed form, and the few rules referred to, the computation of reserve in the case of *any* bank, under *any* circumstances, becomes an easy and simple matter.

Form A.—Calculation of the Lawful-Money Reserve of National Banks Located in Reserve Cities and Central Reserve Cities.

Items on Which Reserve is to be Computed.

LIABILITIES.		
Due to National Banks*	$235,866	
Due to State banks and bankers	25,559	
		$261,425
LESS		
Due from other National banks	125,335	
Due from State banks and bankers	100,000	
	225,335	
		$36,090
Dividends unpaid		3,867
Individual deposits		2,857,628
United States deposits		705,000
Deposits of U. S. dis. officers		. . .
Gross amount		$3,602,585
DEDUCTIONS ALLOWED.		
Exchanges for clearing-house	$107,950	
Checks on other banks in the same place	513	
National-bank notes	17,340	
		125,803
Twenty-five per cent. of this total amount ☞		$3,476,782
is the entire reserve required, which is		869,195
Deduct 5 % redemption fund with Treasurer U. S.		2,250
Net reserve to be held		$866,945

*Should the aggregate "Due from" exceed the aggregate "Due to" banks, both items must be omitted from the calculation

Items Composing Net Reserve and Distribution of Same.

One-half of the net reserve is*	$433,472	One-half of net reserve is	$433,473
		Items in bank's possession to make up the same, viz.:	
		Fractional silver	$29,885
		Silver dollars	1,090
		Silver Treas. cert.	22,060
		Gold coin	300,050
		Gold Treas. cert.	50,000
		Legal-ten'r notes	12,000
		U. S. cert. of deposit for legal-tenders	20,000
Balances with approved reserve agents amount to	440,067	Gold C. H. cert's	435,085
Excess with reserve agents	6,595	Excess in items held by the bank	$1,612

*If reciprocal accounts are kept with reserve agents, only he *net* amount due from such gents is available for reserve.

Form B.—Calculation of the Lawful-Money Reserve of National Banks Not Located in Reserve Cities or Central Reserve Cities.

Items on Which Reserve is to be Computed.

LIABILITIES.			
Due to National banks*	$82,946		
Due to State banks and bankers	16,735		
		$99,681	
LESS			
Due from other National banks	$25,043		
Due from State banks and bankers	5,695		
		30,738	
			$68,943
Dividends unpaid			621
Individual deposits			728,423
United States deposits			55,000
Deposits of U. S. dis. officers			36,098
Gross amount			$889,085
DEDUCTIONS ALLOWED.			
Exchanges for clearing-house			
Checks on other banks in the same place	$3,894		
National-bank notes	1,650		
			5,544
Fifteen per cent. of this amount ☞			$883,541
is the entire reserve required, which is			$132,531
Deduct 5 % redemption fund with Treasurer U. S.			1,125
Net reserve to be held			$131,406

*Should the aggregate "Due from" exceed the aggregate "Due to" banks, both items must be omitted from the calculation.

Items Composing Net Reserve and Distribution of Same.

Three-fifths of the net reserve is*	$78,844	Two-fifths of net reserve is	$52,562
		Items in bank which may lawfully make up the same, viz.:	
		Fractional silver	$2,094
		Silver dollars	4,450
		Silver Treas. cert.	8,575
		Gold coin	51,896
		Gold Treas. Cert.	3,000
		Legal-ten'r notes	15,025
		U. S. cert. of deposit for legal-tenders	
Balances with approved reserve agents amount to	50,796	Gold C. H. cert's	85,040
Deficiency with reserve agents	$28,048	*Excess* in the two-fifths reserve held	$32,478

*If reciprocal accounts are kept with reserve agents, only the *net* amount due from such agents is available for reserve.

RECAPITULATION

Excess in the entire reserve held . . . $4.430

Exceptional Cases.

It sometimes happens that, while the "aggregate" reserve of a bank located outside of a "central reserve city" is more than sufficient, it has not a sufficient amount on hand *in bank;* in other words, it has more than is necessary in the hands of "reserve agents." In such a case, while the law does not permit such excess with "agents" to offset a deficiency in the reserve needed *in bank*, such "excess" may be regarded as "due from other banks," and, as such, applied in the same way to reduce liability on "deposits," with the result sometimes of so reducing the amount of reserve needed in bank as to show that the "lawful money" on hand is sufficient.

In order to find and apply the *exact* excess in the hands of "reserve agents" use the following:

Rules for finding Exact Excess with Reserve Agents and for applying it to Reduction of Liability on "Deposits."

From the amount *actually* in hands of "reserve agents," deduct the amount which by the ordinary method of computation it *seems* should be there; the remainder will be the "apparent excess."

I. In the case of a "reserve city" bank, add *one-seventh* of the "apparent excess" to such "apparent excess" and

their sum will be the "exact excess" which may be applied to reduction of liability on "deposits."

II. In the case of a 15 per cent. bank, add *nine-ninety-firsts* of the "apparent excess" to such "apparent excess," and their sum will be the "exact excess."

Having ascertained the "exact excess" in this way proceed to apply it to reduction of liability on "deposits" and to the consequent decrease of reserve *apparently* required to be *in bank* as follows:

I. Where the "exact excess" *equals* or *exceeds* the *balance* due *to* other banks and bankers, as shown by ordinary method of computation, the amount by which the reserve *apparently* required *in bank* may be decreased will be—

(*a*) In the case of a "reserve city" bank, *one-eighth* of the *balance* due *to* other banks and bankers.

(*b*) In the case of a 15 per cent. bank, *6 per cent.* of the *balance* due *to* other banks and bankers.

NOTE.—The reason for this is, that in such a case the treatment of the "excess" with "agents" as an amount due *from* banks and bankers causes the amount due *from* to offset the amount due *to* other banks and bankers and so eliminates the *balance* due *to* them from the computation, and therefore renders it unnecessary to provide for a reserve on such *balance*.

II. Where the "exact excess" is *less than* the *balance* due *to* other banks and bankers, the amount by which the reserve *apparently* required *in bank* may be decreased will be—

(*a*) In the case of a "reserve city" bank, *one-seventh* ($\frac{1}{7}$) of the "*apparent excess*."

(*b*) In the case of a 15 per cent. bank, *six-ninety-firsts* ($\frac{6}{91}$) of the "*apparent excess.*"

As $\frac{6}{91}$ of any amount is a little less than *one-fifteenth* ($\frac{6}{90}$) of such amount, it will involve less labor to find $\frac{1}{15}$ of the "apparent excess" and this portion will be nearly enough correct, unless the "excess" is a large amount.

NOTE.—The reason for this is that in such a case the treatment of the "excess" with "agents" as an amount due *from* other banks has the effect of reducing the liability on the *balance* due *to* other banks, and therefore renders it unnecessary to provide for a "reserve" on the amount of such "excess."

To illustrate the application of these rules for "exceptional" cases, two examples are given: the first (Form A) illustrating the case of a 25 per cent. bank; the second (Form B) illustrating the case of a 15 per cent. bank, each of which has an amount with "agents" in excess of legal requirements.

NOTE.—In all computations for ascertaining reserve it should be distinctly understood that any *excess* in the hands of agents can not be counted as reserve for the reason that the law (Secs. 5192 and 5195) fixes a limit to the amount in the hands of agents which may so be counted, and any amount over and above the designated limit or proportion has not the legal status of reserve and can not so be regarded.

Form A.— Calculation of the Lawful-Money Reserve of National Banks Located in Reserve Cities and Central Reserve Cities.

Items on Which Reserve is to be Computed.

LIABILITIES.		
Due to National Banks*	$159,387	
Due to State banks and bankers	6,041	
	$165,428	
LESS		
Due from other National banks	89,072	
Due from State banks and bankers	20,861	
	109,933	
		$55,495
Dividends unpaid		5,488
Individual deposits		618,978
United States deposits . . .		110,000
Deposits of U. S. dis. officers		. . .
Gross amount		$789,961
DEDUCTIONS ALLOWED.		
Exchanges for clearing-house	$80,696	
Checks on other banks in the same place	1,020	
National-bank notes	8,326	
		90,042
Twenty-five per cent. of this total amount is . .		$699,919
is the entire reserve required, which is		174,979
Deduct 5 % redemption fund with Treasurer U. S. .		4,500
Net reserve to be held		$170,479

*Should the aggregate "Due from" exceed the aggregate "Due to" banks, both items must be omitted from the calculation

Items Composing the Net Reserve and Distribution of Same.

One-half of the net reserve is*	$85,239	One-half of net reserve is	$85,240
		Items in bank's possession to make up the same, viz.:	
		Fractional silver	$4,209
		Silver dollars . .	2,006
		Silver Treas. cert.	4,500
		Gold coin	41,695
		Gold Treas. cert.	12,050
Balances with approved reserve agents amount to	144,936	Legal-ten'r notes	14,280
			78,740
"Apparent excess" with reserve agents	$59,697	Apparent deficiency of reserve in bank	$6,500
To find "exact excess" add one-seventh of this =	8,528	As "exact excess" exceeds *balance* due banks ($55,495), take one-eighth of such *balance*	6,937
"Exact excess" with reserve agents is	$68,225	Showing actual excess of reserve in bank of . .	$437

*If reciprocal accounts are kept with reserve agents, only the *net* amount due from such agents is available for reserve.

RECAPITULATION.

Excess in the entire reserve held . . . $437.

Form B.—Calculation of the Lawful-Money Reserve of National Banks Not Located in Reserve Cities or Central Reserve Cities.

Items on Which Reserve is to be Computed.

LIABILITIES.

Due to National banks*	$39,873	
Due to State banks and bankers	4,261	
		$44,134
LESS		
Due from other National banks	$7,382	
Due from State banks and bankers	2,543	
	9,925	
		$34,209
Dividends unpaid		410
Individual deposits		241,444
United States deposits		110,000
Deposits of U. S. dis. officers		. . .
Gross amount		$386,063

*Should the aggregate "Due from" exceed the aggregate "Due to" banks, both items must be omitted from the calculation.

DEDUCTIONS ALLOWED.

Exchanges for clearing-house	. .	
Checks on other banks in the same place	$2,263	
National-bank notes	5,330	
		7,593
Fifteen per cent. of this amount ☞		$378,470
is the entire reserve required, which is		$56,770
Deduct 5 % redemption fund with Treasurer U. S.		2,250
Net reserve to be held		$54,520

Items Composing the Net Reserve and Distribution of Same.

Three-fifths of the net reserve is*	$32,712	Two-fifths of net reserve is	$21,808
		Items in bank which may lawfully make up the same, viz.:	
		Fractional silver	$2,012
		Silver dollars	540
		Silver Treas. cert.	3,165
		Gold coin	3,946
		Gold Treas. Cert.	2,780
Balances with approved reserve agents amount to	61,832	Legal-ten'r notes	8,000
			20,443
"Apparent excess" with reserve agents	$29,120	Apparent deficiency of reserve in bank	$1,365
To find "exact excess" add $\frac{9}{91}$ of this =	2,880	As "exact excess" is less than *balance* due banks ($34,209), take $\frac{6}{91}$ of "apparent excess"	1,920
Exact excess with reserve agents is	$32,000	Showing actual excess of	$555

*If reciprocal accounts are kept with reserve agents, only the *net* amount due from such agents is available for reserve.

RECAPITULATION

Excess in entire reserve held . . . . . $555.

CHAPTER II.

LAWFUL-MONEY RESERVE.

Explanation of Rules applying in Exceptional Cases.

As some readers will naturally wish to know the *reasons* for applying the rules for "exceptional" cases given in the preceding chapter, the following explanation in each of the two cases therein illustrated is given here.

Explanation of Case of 25 Per Cent. Reserve Bank.

It is evident, at a glance, that when the "apparent excess" of $59,697 is considered as "due from other banks," and is applied to reduction of liability on "deposits," it will have the effect of making a proportionate reduction in the amount of reserve required. The reserve allowed with "agents" being one-half of one-fourth, or *one-eighth* of the amount of "net deposits," the reduction here will be in the proportion of *one* dollar of reserve to every *eight* dollars applied in reduction of "deposits."

This being the established ratio, we know that the "additional excess" with "agents" must be *one-eighth* of the "exact excess" to be applied in reduction. We also know that this "exact excess"

will consist of the "apparent excess" ($59,697), *increased by* the "additional excess," and knowing so much, we can readily ascertain the amount of "additional excess."

To simplify the illustration, let us assume that X represents the unknown "additional excess," and, from what has just been stated, we obtain the following equation:

Eight times X is equal to $59,697 *increased by* X; or, taking the amount X from each side of the equation, seven times X is equal to $59,697, and dividing each side by seven we find that X, or the "additional" amount, is equal to $8,528; and that $68,225 (eight times X) is the exact amount that can be applied to reduction of liability on "deposits."

As this "exact excess" ($68,225) *exceeds* the *balance* due *to* banks and bankers ($55,495) it will have the effect of eliminating the latter item from the computation, and of converting the "apparent deficiency of reserve in bank" ($6,500) into an actual *excess* of $437 instead. (See Rule I, clause (*a*), page 13.)

As the "apparent excess" in this example was of itself greater than the *balance* due to banks,

it was not necessary to carry out the computation to find "exact excess," but this has been done simply to show how it should be done when circumstances require.

Explanation of Case of 15 Per Cent. Reserve Bank.

In the case of this 15 per cent. reserve bank, the excess with reserve agents can be applied in the same way to reduction of liability on "deposits," the *proportion*, of course, being changed.

With such a bank the law allows a portion of its reserve equal to 9 per cent. of net deposits to be kept with "agents;" therefore, the proportion that "reserve with agents" should bear to "deposits" is as 9 to 100.

Applying the same line of reasoning as in the case of the 25 per cent. bank, we find that the "apparent excess" is $29,120, and assuming that X represents the whole "excess" that can be applied, we know that 9 per cent. of X, or $\frac{9}{100}$ of X, will be the "additional" excess which can be released from its function as reserve and applied to reduction of liability, and also that the "exact excess" will be the "apparent excess" increased by this "additional excess."

We have, therefore, from this the following equation: X equals $29,120, *increased by 9 per cent. of X;* and, deducting 9 per cent. of X from each side of the equation, we have X less $\frac{9}{100}$ of X, or $\frac{91}{100}$ of X equals $29,120; and from this, $\frac{1}{100}$ of X, or 1 per cent. of X, equals $320; and 9 per cent. of X equals $2,880, which is the "additional" excess to be added to $29,120 to make $32,000, the "exact excess" which can be applied to reduction of liability.

As the ratio of "reserve in bank" to "deposits" is 6 per cent., when the "deposits" are reduced by $32,000, $1,920 less "reserve" will be needed *in bank.* But, $1,920 is just $\frac{6}{91}$ of $29,120, the "apparent excess," so that the amount by which the reserve *apparently* required *in bank* may be decreased will be $\frac{6}{91}$ of the "apparent excess" with agents. (See Rule II, clause (*b*), page 14.)

Simple Method of keeping the 5 Per Cent. Redemption Fund Account.

As it appears to be the custom with many banks to credit their circulation account with all of their notes, both "fit" and "unfit," which have been redeemed and returned by the United States Treasurer, and to charge this account with all amounts remitted to the Treasurer to reimburse their 5 per cent. fund, it is suggested that all such redemption

transactions should be entered in the 5 per cent. fund account on the books of the bank, and not in the circulation account, which should show a fixed balance, representing the circulation issued to the bank on its bonds, and should not be altered at any time, except to be increased by the amount of circulation issued to it on deposit of additional bonds, or to be decreased by the deposit of lawful money with the United States Treasurer for the purpose of reducing circulation and withdrawing bonds.

To illustrate how entries should be made in the 5 per cent. fund account, let us assume that the Treasurer has on deposit for the bank a fund of $2,250, and that he redeems for the bank $1,000 of its notes, of which $500 are "fit" and $500 are "unfit." Upon receipt of the $500 "fit" notes the bank should debit "Cash" and credit its 5 per cent. fund account, and make a similar entry when it receives the $500 incomplete currency from the Comptroller's office in replacement of the "unfit" redeemed by the Treasurer and destroyed. These entries would reduce the 5 per cent. fund account to $1,250 debit balance, and it would be restored to its proper amount, $2,250, when the bank remits $1,000 to reimburse its account with the Treasurer,

for then the account would be debited with $1,000, and "Cash" credited with the same amount.

This method of treatment would be very simple; the account would always exhibit the exact balance in hands of the Treasurer, and, in fact, would be practically the counterpart of the account as kept on the books of the Treasurer.

How to Compute Average Reserve.

In each report of condition a bank is required to state its *average* reserve on deposits for the preceding 30 days. To obtain this, take the percentage of reserve for each business day during the 30 days preceding date of report and add these percentages together. Divide the aggregate so obtained by the number of business days and the result will represent the average ratio desired. (See note, page 14, as to *excess* with reserve agents in computing reserve.)

Form of Application for Comptroller's Approval of Reserve Agent.

To THE COMPTROLLER OF THE CURRENCY,
WASHINGTON, D. C.

SIR: Application is hereby made for your approval of the ——— National Bank ——— as an association with which a portion of the lawful money reserve of this bank may be kept in accordance with law.

Respectfully yours,

——— ———.

(To be signed by Cashier or other officer of bank making application.)

NOTE.—National banks in reserve cities may select any National bank or banks in any of the "central" reserve cities only. Those located outside of reserve cities may select any National bank or banks in any reserve city or cities "central" or other. All selections are subject to approval of the Comptroller.

PART TWO.

CHAPTER I.

ORGANIZATION AND POWERS OF NATIONAL BANKS.

SEC. 5133. Associations for carrying on the business of banking under this Title may be formed by any number of natural persons, not less in any case than five. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be signed by the persons uniting to form the association, and a copy of them shall be forwarded to the Comptroller of the Currency, to be filed and preserved in his office.

SEC. 5134. The persons uniting to form such an association shall, under their hands, make an organization certificate, which shall specifically state:

First. The name assumed by such association; which name shall be subject to the approval of the Comptroller of the Currency.

Second. The place where its operations of discount and deposit are to be carried on, designating the State, Territory, or district, and the particular county and city, town, or village.

Third. The amount of capital stock and the number of shares into which the same is to be divided.

Fourth. The names and places of residence of the shareholders and the number of shares held by each of them.

Fifth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this Title.

SEC. 5135. The organization certificate shall be acknowledged before a judge of some court of record, or notary public, and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall record and carefully preserve the same in his office.

These sections which provide for the taking of the first steps in the organization of a National banking association prescribe that not less than *five* persons may unite to form it, and that those who do so unite must be "natural" persons. This term means that they must be individuals (as distinguished from associated *groups* of individuals, such as firms, companies, or corporations), and such individuals as have the legal right, under the laws of the State where the bank is to be located, to hold property in their own names. Whether a married woman may be one of the organizers of a National bank will depend, therefore, upon her legal status as a "natural" person under the laws of the State where the bank is organized. The right of a married woman to hold stock in the bank after it has been organized will also depend upon the same circumstances.

All the information necessary for procedure under these sections may be obtained by applying in person or by letter to the Comptroller of the Currency, at

Washington D. C., who will also furnish printed blanks for the "articles of association" and "organization certificate" herein required.

SEC. 5136. Upon duly making and filing articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law and [or] equity, as fully as natural persons.

Fifth. To elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the busi-

ness of banking ; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt ; by receiving deposits ; by buying and selling exchange, coin, and bullion ; by loaning money on personal security ; and by obtaining, issuing, and circulating notes according to the provisions of this Title.

But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking.

This section defines in general terms the powers conferred by law upon a National banking association, and the duration of its existence, unless sooner terminated by the voluntary action of its shareholders or by some violation of the law which would cause it to forfeit its franchise.

The powers granted under the fifth and sixth paragraphs are specially and fully defined in the chapter on "Qualifications, Duties, and Liabilities of Directors," and those conferred under the seventh in chapter on "General Banking Powers."

Sec. 5137 is treated at length in chapter on "Transactions in Real Estate."

SEC. 5138. No association shall be organized under this Title with less capital than one hundred thousand dollars ; except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants. No association shall be organized in a city the population of which exceeds

fifty thousand persons with a less capital than two hundred thousand dollars.

From this it will be seen that the *minimum* capital stock required of each National bank is based upon the *population* of the place in which it is located at date of its organization, as follows:

1. $50,000 for a bank organized in a place having 6,000 inhabitants *or less*.

2. $100,000 for a bank organized in a city having *over* 6,000 but *not more than* 50,000 inhabitants.

3. $200,000 for a bank organized in a city having *over* 50,000 inhabitants.

As related to this subject, also, the *minimum* bond-deposit requirements for these banks under existing law are as follows:

1. Banks with capital ranging from $50,000 to $150,000, inclusive, must deposit U. S. bonds equal in *par value* to *one-fourth* of their capital. (See sec. 8, act July 12, 1882.)

2. Banks having more than $150,000 each need not deposit more than $50,000 (par value) of U. S. bonds. (See sec. 4, act June 20, 1874.)

SEC. 5139. The capital stock of each association shall be divided into shares of one hundred dollars each, and be deemed personal property, and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his

shares, succeed to all the rights and liabilities of the prior holder of such shares; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired.

By this section shares of stock in National banks are distinctly given the legal status of "personal property," and this being the case the owner of any such shares has the same right to dispose of his shares as he has to dispose of other personal property, provided he does so in good faith, and not for the purpose of fraudulently evading the liability which attaches to the stock.

When disposed of in good faith it is necessary that he should see that his shares are transferred on the books of the bank "in such manner as may be prescribed in the by-laws or articles of association." The courts have decided that the purpose of this requirement is the translation of the title from one owner to another, and is for the protection of all parties concerned, and also to enable the bank to know who are its actual shareholders. It has also been decided that this section does not give the association any preferred lien on the shares of a stockholder indebted to it; that the association has no right to refuse to transfer the shares of a stockholder who is indebted to it, and that any restriction of this kind attached to any certificate of stock is void and without effect. In other words, as between the bank and the shareholder, the bank in a proceeding to recover a debt from its

shareholder has the same rights in respect to his stock as any other party under the same circumstances, but no more. See the following decisions on these points: Johnson *vs.* Laflin, 103 U. S., 800; Bullard *vs.* Nat. Bank, 18 Wall., 589; Bank *vs.* Lanier, 11 Wall., 369.

SEC. 5140. At least fifty per centum of the capital stock of every association shall be paid in before it shall be authorized to commence business; and the remainder of the capital stock of such association shall be paid in installments of at least ten per centum each, on the whole amount of the capital, as frequently as one installment at the end of each succeeding month from the time it shall be authorized by the Comptroller of the Currency to commence business; and the payment of each installment shall be certified to the Comptroller, under oath, by the president or cashier of the Association.

This section provides how the capital stock must be paid in when the bank is organized, and section 5141 prescribes the course to be pursued by the directors when shareholders fail to pay in their installments at the proper time. It may be noted that while the letter of the law requires only that installments equal *in the aggregate* to the proportions required should be paid in at the appointed periods (which may be accomplished if the prepayments of some shareholders offset the arrears of others), the *intent* of the law appears to be that each shareholder should pay in at least the minimum proportion of his subscription at the periods stated.

It is evident from the use of the words "paid in," in section 5140, that it was contemplated by the framers of the law that the capital stock should be paid in money, and the law in this respect is violated when the promissory notes of shareholders are accepted from them in payment of their subscriptions to stock.

Sections 5168, 5169, and 5170 provide how and when the Comptroller is to determine that an association is entitled to commence business; that the officers and directors shall certify certain facts to the Comptroller, who shall thereupon issue a certificate authorizing the bank to commence business, or may withhold same if the bank has been formed "for any other than the legitimate objects contemplated" by the National Bank Act, and also for the publication of the certificate. Full information with regard to this may be had by application to the Comptroller's office at Washington.

SEC. 5142. Any Association formed under this title may, by its articles of association, provide for an increase of its capital from time to time, as may be deemed expedient, subject to the limitations of this Title. But the maximum of such increase to be provided in the articles of association shall be determined by the Comptroller of the Currency; and no increase of capital shall be valid until the whole amount of such increase is paid in, and notice thereof has been transmitted to the Comptroller of the Currency, and his certificate obtained, specifying the amount of such increase of capital stock, with his approval thereof, and that it has been duly paid in as part of the capital of such association.

Sections 1 and 2 of an Act to enable National banking associations to increase their capital stock and to change their names or location, approved May 1, 1886.

SEC. 1. That any National banking association may, with the approval of the Comptroller of the Currency, by the vote of shareholders owning two-thirds of the stock of such association, increase its capital stock, in accordance with existing laws, to any sum approved by the said Comptroller, notwithstanding the limit fixed in its original articles of association and determined by said Comptroller; and no increase of the capital stock of any National banking association, either within or beyond the limit fixed in its original articles of association, shall be made except in the manner herein provided.

SEC. 2. That any National banking association may change its name or the place where its operations of discount and deposit are to be carried on, to any other place within the same State, not more than thirty miles distant, with the approval of the Comptroller of the Currency, by the vote of shareholders owning two-thirds of the stock of such association. A duly authenticated notice of the vote and of the new name or location selected shall be sent to the office of the Comptroller of the Currency; but no change of name or location shall be valid until the Comptroller shall have issued his certificate of approval of the same.

Section 5142 originally provided that any contemplated increase of capital stock should be provided for in the bank's original articles of association, the maximum of such increase being determined by the Comptroller at the time of its organization. This provision was amended, however, by section 1, act May 1, 1886, quoted above, which provides instead that a National

bank may at any time determine by a vote of the shareholders owning two-thirds of the shares to increase its capital to any amount of which the Comptroller would approve.

No increase of capital is valid until the bank, having notified the Comptroller that the entire amount has been paid in, obtains his certificate of approval thereof. In other words, the increase has not the legal status of "capital stock" for the purposes of taxation, etc., until the Comptroller's certificate is issued.

It will be noted, here and elsewhere, where a vote of shareholders is required on any question, that the National Bank Act is silent on the subject of requiring *notice* to be given to shareholders, except in cases where the annual election of directors is postponed beyond the regular date. (See section 5149.) With regard to notice of meetings, the "articles of association" usually provide for the change or amendment of the articles as follows:

"The board of directors, or any three shareholders, may call a meeting of the shareholders for this or any other purpose, not inconsistent with law, by publishing notice thereof for thirty days in a newspaper published in the town, city, or county where the bank is located, or by mailing to each shareholder notice in writing *thirty days* before the time fixed for the meeting.

In case, however, the "articles of association" of the bank do not contain the provision quoted, it has been

held that as a common-law right shareholders are entitled to receive such notice of meetings, and, as a bank frequently has non-resident shareholders who would not probably observe an advertisement in the local newspaper, it is better to send all the shareholders notice in writing, also, either by mail or other proper means. The notice given in such cases should invariably state the *place* where, and the exact *time* when, the meeting is to be held, and the *purpose* or *purposes* for which it is called. The articles of association usually provide that each shareholder has the privilege of subscribing to any increase of capital in the proportion that his holding bears to the total capital before the increase is made, but in the absence of any such provision in the articles of association, the shareholders would probably be entitled to this privilege under common-law requirements applying to other corporations.

Section 2, act May 1, 1886, above quoted, also provides that a change of the name of the bank or of its location, within certain limitations, may, with the approval of the Comptroller, be determined by a vote of shareholders owning two-thirds of the stock.

SEC. 5143. Any Association formed under this Title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this Title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any such

reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and his approval thereof obtained.

Any reduction in capital stock, like any increase, is subject to the approval of the Comptroller, and requires a vote of shareholders owning two-thirds of the stock, shareholders being entitled to proper notice. (See remarks under section 5142, on page 32, with regard to notice.) It has been decided that any reduction in capital stock belongs to the shareholders, *pro rata*, and must be returned to them, and can not be retained by the association.

SEC. 5144. In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller or book keeper of such association shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

At all meetings of shareholders each share of stock counts as one vote. As the National Bank Act makes no provision for *cumulative* voting, this method of electing directors is not regarded as lawful. The prohibition that no "officer" shall act as proxy for an absent shareholder applies not only to any president, vice president, cashier, or assistant cashier, but also to directors, as it is clear from the concluding paragraph of section 5240 that a director is an "officer" within the meaning of the National Bank Act.

Form of Proxy.

Know all men by these presents, that I —— ——— do hereby constitute and appoint ——— ——— attorney and agent for me, and in my name, place, and stead, to vote as my proxy at any and all elections of directors of —— —— according to the number of votes I should be entitled to vote if there personally present.

In witness whereof, I have hereunto set my hand and seal this —— day of ——, one thousand eight hundred and——.

———— ————.

Sealed and delivered in the presence of—
———— ————.
———— ————-.

The "liability" of the shareholder referred to in this section has been held to apply to his liability for unpaid subscriptions of stock only. (See United States *ex rel. vs.* Barry, 36 Fed. Rep., 346.)

The law does not in terms define what number of shares constitutes a *quorum* at meetings called to elect directors or to decide questions other than those requiring the assent of two-thirds of the whole number of shares, but it may be safely held that if a bare majority of the whole number of shares is present—one more than half, for instance—such majority is legally competent to transact business at such meetings. Some of the courts have decided that at meetings of this kind a *minority* of the whole number of shares may lawfully transact business, but the presence of a majority would leave no doubt on this point.

Sections 5145, 5146, 5147, 5148, 5149, and 5150 are referred to at length in chapter on "Qualifications, Duties, and Liabilities of Directors."

Section 5153 provides for the designation of National banks as depositories of public money by the Secretary of the Treasury, and defines the duties and liabilities of banks so designated.

Section 5154 provides the mode of procedure for banks organized under the laws of a State, desiring to organize under the National Bank Act, and defines their powers, rights, liabilities, etc., after such conversion.

Section 5155 provides that any State bank having branches may become a national banking association and as such retain and operate such branches.

CHAPTER II.

SHAREHOLDER'S LIABILITY.

SEC. 5151. The shareholders of every National banking association shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association, to the extent of the amount of their stock therein, at the par value thereof, in addition to the amount invested in such shares; except that shareholders of any banking association now existing under State laws, having not less than five millions of dollars of capital actually paid in, and a surplus of twenty per centum on hand, both to be determined by the Comptroller of the Currency, shall be liable only to the amount invested in their shares; and such surplus of twenty per centum shall

be kept undiminished, and be in addition to the surplus provided for in this Title; and if at any time there is a deficiency in such surplus of twenty per centum, such association shall not pay any dividends to its shareholders until the deficiency is made good; and in case of such deficiency, the Comptroller of the Currency may compel the association to close its business and wind up its affairs under the provisions of chapter four of this Title.

SEC. 5152. Persons holding stock as executors, administrators, guardians, or trustees, shall not be personally subject to any liabilities as stockholders; but the estates and funds in their hands shall be liable in like manner and to the same extent as the testator, intestate, ward, or person interested in such trust-funds would be, if living and competent to act and hold the stock in his own name.

The *extent* of liability under these sections is measured in this way: If a shareholder owns one share of stock (par value $100) and the bank becomes insolvent, he is liable to lose the $100 invested in the share, and in addition to this to be assessed for a further amount up to $100 in case so much more may be needed to pay the creditors of the bank. In case of insolvency of the bank, this is the limit of his liability, and in no case can a shareholder be assessed for an amount greater than his proportion of the impairment caused by loss, even though other shareholders fail to pay their due proportion of same. But where a bank continues in active operation and by reason of successive losses from time to time its capital becomes impaired, this liability is held to be a continuing liability, and the

shareholders may be called upon from time to time to pay assessments to restore the capital not exceeding at any time the par value of their holding but greater than this in the aggregate of the several assessments. The "contracts, debts, and engagements" of an association for which shareholders are liable are held to be those only which have been contracted by the bank in the ordinary course of its business.

The liability which attaches to shares in National banks should cause the owners of such shares to be very careful to see that their liability is legally terminated by the proper transfer of such shares, when sold, to the purchaser, on the books of the bank "in such manner as may be prescribed in the by-laws or articles of association," for unless this is done the liability may still attach to the original holder, and, in case disaster afterwards overtakes the bank, may involve him in loss, or his estate after his death. (See remarks under section 5139, page 28.) The courts have decided that the real owner of stock is liable on same, though it may stand in the name of some other person on the books of the bank; and where a shareholder, aware of the insolvency of the bank, transfers his shares for the purpose of avoiding liability, such transfer is void though made "out and out" or without consideration to an irresponsible person. Executors, administrators, guardians, or trustees should be careful to see that the names of the estates, persons or trusts for which they subscribe

are fully disclosed to the bank, for unless this is done they may, under certain circumstances, incur personal liability.

See the following U. S. Supreme Court decisions: United States *vs.* Knox, 102, U. S., 422; Richmond *vs.* Irons, 121 U. S., 27; National Bank *vs.* Case, 99 U. S., 628; Bowden *vs.* Johnson, 107 U. S., 251.

CHAPTER III.

QUALIFICATIONS, DUTIES, AND LIABILITIES OF DIRECTORS.

SEC. 5145. The affairs of each association shall be managed by not less than five directors, who shall be elected by the shareholders at a meeting to be held at any time before the association is authorized by the Comptroller of the Currency to commence the business of banking; and afterward at meetings to be held on such day in January of each year as is specified therefor in the articles of association. The directors shall hold office for one year, and until their successors are elected and have qualified.

SEC. 5146. Every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or district in which the association is located for at least one year immediately preceding their election and must be residents therein during their continuance in office. Every director must own, in his own right, at least ten shares of the capital stock of the Association of which he is a director. Any director who ceases to be the owner of ten shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place.

It is plainly evident from these sections the law contemplates that the management of the bank's affairs should be vested in the board of directors, and this intent is emphasized in the oath which each director is required by section 5147 to take. The number of directors must at no time be less than five. They should be elected annually, on some day in January specified in the articles of association, and shall hold office for one year, and if their successors are not then elected they continue to hold office until their successors are elected and have qualified.

The qualifications as to citizenship and residence are plainly defined, and should be rigidly observed in the formation of a board. Where the board consists of five members, four must be residents of the State, Territory, or District in which the bank is located; a board of six must have five resident members, one of seven must have six, as, also, one of eight.

Each director must own in his own right ten shares of stock, which is "not hypothecated or in any way pledged as security for any loan or debt," and the moment a director hypothecates or sells his stock, or in any other manner disqualifies himself, his place immediately becomes vacant.

SEC. 5147. Each director, when appointed or elected, shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association, and will not knowingly violate, or willingly permit

to be violated, any of the provisions of this title, and that he is the owner in good faith, and in his own right, of the number of shares of stock required by this Title, subscribed by him, or standing in his name on the books of the association, and that the same is not hypothecated or in any way pledged as security for any loan or debt. Such oath, subscribed by the director making it, and certified by the officer before whom it is taken, shall be immediately transmitted to the Comptroller of the Currency, and shall be filed and preserved in his office.

This section prescribes the oath of office to be taken by every director, and that it shall be promptly remitted to the Comptroller when executed. The qualifications recited in the oath are chiefly those prescribed in section 5146, but its chief obligation is that the director subscribing to it "will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association, and will not knowingly violate, or willingly permit to be violated any of the provisions of" the national banking laws. It emphasizes the plain provision of section 5145, that "the affairs of each association shall be managed by" its directors, and imposes this obligation upon each director in his individual capacity. Every director should therefore inform himself as to the requirements of the law governing the bank so that he will not "knowingly" violate any of its provisions, and unless he does this it will be impossible "diligently and honestly" to administer its affairs. No person should, therefore, subscribe to so binding an

obligation without a full understanding of its plain meaning.

To enable the directors to administer the bank's affairs the law specifically invests them with power to do certain things, which are mainly defined in paragraphs 5, 6, and 7 of section 5136 (see page 25). Here they are empowered to appoint all the executive officers and employés, define their duties, fix their compensation, dismiss them at pleasure, and appoint others in their place, and also to require bonds of them, fixing the penalty of same.

In addition to this they are empowered to prescribe by-laws not inconsistent with law, regulating the manner in which all the business of the bank in all its details is to be conducted, and further than this, how all the statutory and incidental powers conferred by law upon the bank in its corporate capacity are to be exercised.

It is very plain, therefore, that the success of a bank will depend largely upon the character and capacity of the men who are selected to exercise the ample powers vested by law in a board of directors. They should not only be men of good business training, but have a special knowledge of the fundamental principles of the business of banking.

In cities the board should meet once a week at least, and the legal quorum to do business—a majority—should always be present. In small places the board should

meet once a month at least. In all cases the board should appoint a committee of their number, easily accessible at all times, to make loans and discounts between regular meetings, and all accommodations made by such committee should be approved or acted on by the full board at its next regular meeting. A committee should also be appointed to make examinations of the bank, of the same character and thoroughness as those made by the Government, and these examinations, to have any value, should always be made unexpectedly, and without notice to the officers and employés.

Amongst other things, directors are empowered by section 5199 to declare dividends (see chapter on "Earnings, Surplus, and Dividends"); are required to attest reports of condition of bank made to the Comptroller, and to do and avoid doing other things, a list of which may be found in the Index to National Bank Act under topic, "Directors." The digest of court decisions in National bank cases which is contained in each Comptroller's Report, and is added to from year to year, will be found very valuable by way of showing how the courts have defined the duties and liabilities of directors, especially their liability under the provisions of section 5239, which, under certain circumstances, makes the directors individually liable for loss or damage sustained by the bank, its shareholders, or any other person.

Surety bonds made by corporations organized for the purpose of furnishing these are much to be preferred

to personal bonds, which place the bonded officer or employé under obligations to friends, who for this service may expect some favor or privilege from the bank in return. The premiums on corporate bonds are usually paid by the bank, on the same principle as that which induces it to pay a premium for fire insurance on the banking house or other property owned by the bank.

The directors are also charged with the duty of providing a suitable and convenient office, properly furnished and equipped with a good fire-proof and burglar-proof vault and safe in which the cash and other valuables, books, papers, etc., may be securely kept.

Section 5148 provides that any vacancy in the board occurring between annual elections shall be filled by the appointment or election by the remaining members of the board, of some shareholder duly qualified to act as director. In any case where an entire reorganization of the board is necessary between annual elections, this may be accomplished by the resignation of the old board one by one, and the election of a new director to fill each vacancy so created.

Section 5149 provides that in case the annual election for directors is not held on the regular day fixed by the articles of association, the old board holds over until their successors are elected and have qualified ; but after thirty days' notice has been published as prescribed, an election may be held. In case no day for the regular

annual election is fixed by the articles of association, and the directors fail to fix a day, shareholders representing two-thirds of the shares may do this.

Section 5150 provides that the president of the board, and presumably of the bank, must be a director elected by the board. (See special chapter on "The President, his Powers and Duties.")

CHAPTER IV.

GENERAL BANKING POWERS CONFERRED BY SECTION 5136, PAR. 7.

To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this Title.

Court Decisions Construing These.

As it is very important to know what powers are granted to a National bank under its charter, the following extracts from two decisions are quoted, as throwing some light on this subject, and as showing what a bank may safely and prudently do without exceeding the powers clearly granted by its charter.

From the decision of the Supreme Court of Pennsylvania, in Fowler *vs.* Scully, in 1873 (Thompson's National Bank Cases, p. 856), we quote, as follows, on this point:

In view of the rule of interpretation of such charters given to us by the Federal courts, and the maxim *expressio unius est exclusio alterius*, the argument might close with the terms of the power to loan money on *personal* security; for agreeably to this rule and maxim no other security than personal can be taken for money lent. This is the law of the bank's capacity and of its control. It accords also with the nature of banking as a business, which is precisely described in the language of the law itself; the *discounting* and *negotiating* of promissory notes, drafts, bills, and other evidences of debt (meaning, of course, debts *ejusdem generis*, such as checks, certificates of deposit, etc.); the buying and selling of bills of exchange, bullion, and lending of money on personal security. The reasons are manifest. The business of a bank is commercial, not that of dealing in real estate, brokerage, etc. It, therefore, does not buy and sell real estate, ground-rents, mortgages, stocks, produce, etc.

And, further, from United States Supreme Court decision (First National Bank of Charlotte *vs.* National Exchange Bank of Baltimore, Thompson's National Bank Cases, p. 128), as follows:

Authority is thus given to transact such a banking business as is specified, and all incidental powers necessary to carry it on are granted. These powers are such as are required to meet all the legitimate demands of the authorized business, and to enable a bank to conduct its affairs within the general scope of its charter safely and prudently. This necessarily implies the right of a bank to incur liabilities in the regular course of its business, as well as to become the creditor of others. Its own obligations must be met, and

debts due to it collected or secured. The power to adopt reasonable and appropriate measures for these purposes is an incident to the power to incur the liability or become the creditor. Obligations may be assumed that result unfortunately. Loans or discounts may be made that can not be met at maturity. Compromises to avoid or reduce losses are oftentimes the necessary results of this condition of things. These compromises come within the general scope of the powers committed to the board of directors and the officers and agents of the bank, and are submitted to their judgment and discretion, except to the extent that they are restrained by the charter or by-laws. Banks may do, in this behalf, whatever natural persons could do under like circumstances.

To some extent it has been thought expedient in the National banking act to limit this power. Thus, as to real estate, it is provided (Revised Statutes, sec. 5137; 13 Stat., 107, sec. 28) that it may be accepted in good faith as security for, or in payment of, debts previously contracted; but, if accepted in payment, it must not be retained more than five years. So, while a bank is expressly prohibited (sec. 5201; 13 Stat., 110, sec. 35) from loaning money upon or purchasing its own stock, special authority is given for the acceptance of its shares as security for, and in payment of, debts previously contracted in good faith; but all shares purchased under this power must be again sold or disposed of at private or public sale within six months from the time they are acquired.

Quotations from this decision will also be found in paragraph on dealing in stocks and bonds (p. 50).

Power to Borrow Money; Power to issue Time Certificates of Deposit.

As the question whether a National bank has the power to borrow money involves the question as to its right to issue time certificates of deposit, the following extracts from third edition of "Morse on Banks and Banking," by Parsons, to which we are indebted for quotations made on other topics in this work, are given as a summary of judicial decisions bearing on this subject.

Business Powers. Par. 51, sec. 5. As involved in the power to receive deposits, a bank may issue certificates of deposit, which in Massachusetts and Pennsylvania are not regarded as negotiable paper; but in other States they are considered promissory notes (which seems clear upon any definition of a note to be found in the authorities), negotiable under the same limitations as notes.

They are used to save carrying money; but as they do not pass by delivery, but only by indorsement, they are not intended to circulate as money in the sense of a banking law, such as the National or New York law; and, therefore, the prohibition in those acts of issuing *notes to circulate as money*, other than those provided for or named in said acts, does not interfere with the power of a bank to issue certificates of deposit.

They may be payable on demand or on time, if the circumstances justify the bank in borrowing on time (see par. 63), unless there is a restriction in the organic law or by statute. If a bank can not issue its negotiable promissory note on time, neither can it issue a negotiable certificate of deposit of

this description. If the note would be void, so, likewise, is the certificate. If, however, the bank is empowered to issue promissory notes, subject only to the restriction that it shall issue none which are designed to pass into circulation as currency, but only such as become necessary in the ordinary course and conduct of its affairs, and are strictly business paper, then it may issue certificates of deposit, whether payable on demand or otherwise, subject only to the same restriction. By reason of the ease with which such instruments may be used for circulation, the courts have often been rigid in scrutinizing them, and applying the strict letter of the law to them; but they have never, that we have found, substantially modified or departed from the general principles above laid down.

Business Powers. Par. 63, sec. 9. So far as it is involved in receiving deposits, borrowing is a part of banking, but borrowing *stricto sensu*, taking a loan for a *definite time*, instead of one payable on demand, as ordinary deposits are, is not a part of the business of banking, nor a necessary incident thereof as a *continuous practice;* but (like every other corporation in the United States) a bank has an inherent right to borrow money whenever it is reasonably necessary in the proper conduct of its business, unless specially restricted. The privilege is the child of necessity, and is limited by the same necessity or intrinsic propriety which gives it birth. The borrowing must be incidental to the legitimate banking business of the association, otherwise the act is *ultra vires;* as if the money is obtained for speculation. Aside from the theory of law, as no one but the bank can well judge whether a loan is reasonably necessary or not, the practical fact is that a bank can borrow money whenever it wishes to, and, if the money is used in its proper business, no fault will be found, and even if wrongly applied, it will not affect the validity of the loan as between the parties ordinarily. * * *

The right to borrow money is also clearly implied in section 5202, which fixes the limit for such borrowing as follows:

> No association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:
>
> First. Notes of circulation.
>
> Second. Moneys deposited with or collected by the association.
>
> Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.
>
> Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

From these it will appear that a bank has undoubted right to borrow money whenever it becomes necessary to do so in the regular course of business, but that it should not make a practice of doing so continuously. Whenever it becomes necessary for a bank to borrow money habitually, in order that it may be able to supply its regular customers with accommodations, it is evident either that its resources are locked up in inconvertible forms, or that its capital is insufficient.

In the former case, every effort should be made to convert its assets into available funds, and in

the latter it should seek to increase its capital stock to the extent of its regular needs, for it is neither safe nor prudent to allow its customers to depend for accommodation upon funds procured frequently from a distance, which may at any time be withdrawn by the lenders; and, further, if a bank can make a profit by regularly lending money for the use of which it has to pay interest, it would seem that it has the ability to make the investment of additional capital stock profitable to those by whom it may be contributed.

In conclusion, this power of a bank to borrow money is one that should be exercised only by the board of directors, or by the managers of the bank with the special sanction and approval of the board. It is a power intended for use in cases of emergency only, and should be carefully held in reserve for such occasions.

Bills Payable Defined.

It is a question with a bank sometimes to determine what items, if any, of its liabilities should be included under the head of "bills payable" on its books, and in its reports of condition. Strictly speaking, all deposits with a bank are loans to it, and the marked distinction between a "deposit"

with a bank and money loaned to, or borrowed by, it seems to consist in the circumstance that a "deposit" usually voluntarily seeks the bank, while a loan to it is money which the bank seeks to borrow for a longer or shorter period. But money may be borrowed by a bank either on the condition that it is returnable to the lender *on demand*, or at some fixed future date. It would seem that this then should be the dividing line between "deposits," or amounts "due to other banks," and "bills payable," namely, that if the amount borrowed is payable to the lender only at some fixed future date, it should be entered as "bills payable," but if payable *on demand*, as "deposits" or "due to other banks or bankers." In the latter case it is necessary that reserve should be maintained on the amount borrowed, as is required on all liabilities payable on demand, but no reserve is required on "bills payable." It matters not whether money is borrowed by a bank on promissory note, certificate of deposit, open account, or otherwise; if it is not returnable *on demand* it should be classed as "bills payable."

Post-Notes Defined.

It has at times been questioned whether the restriction as to issuing "post-notes" contained in

section 5183 did not extend to the issuing of time drafts, time certificates of deposit, and other obligations of the bank conditioned for payment at some future time, but a recent court decision (Riddle *vs.* National Bank, Butler, Pa., 27 Fed. Rep., 503) has declared that time certificates of deposit are not to be regarded as "post-notes." This decision, considered in connection with the well-settled principle that a bank has the right to borrow money when necessary, would make it appear that the term "post-notes" used in the statutes was intended only to prevent the issue of such notes to circulate as money.

Right to Deal in Stocks and Bonds Denied by the Courts.

With regard to the right of a bank to deal in *stocks*, the Supreme Court (First National Bank of Charlotte *vs.* National Exchange Bank of Baltimore, 92 U. S., 122) expressed the following opinion:

> Dealing in stocks is not expressly prohibited; but such a prohibition is implied from the failure to grant the power. In the honest exercise of the power to compromise a doubtful debt owing to a bank, it can hardly be doubted that stocks may be accepted in payment and satisfaction, with a view to their subsequent sale or conversion into money, so as to make good or reduce an anticipated loss. Such a transaction would not amount to a dealing in stocks.

In support of this decision we find in the National-bank Act itself internal evidence to the same effect. Section 5154, in providing for the conversion of State banks to National banking associations, makes an exception in the matter of the par value of the shares of such State banks, and another exception with regard to their holding stock in other banks as follows:

> And any State bank which is a stockholder in any other bank, by authority of State laws, may continue to hold its stock, although either bank, or both, may be organized under and have accepted the provisions of this Title.

The only reasonable inference to be drawn from this special provision of the law, in favor of State banks converting to the National system, is that it was not intended that National banking associations—originally organized as such—should have the power to purchase and hold such stocks as investments.

And so with regard to the right of a bank to deal in *bonds*. We quote, as follows, from the decision of a Maryland court (Weckler *v.* First National Bank, 42 Md., 581):

> To the usual attributes of banking, consisting of the right to issue notes for circulation, to discount commercial paper, and to receive deposits, this law adds the special power to

buy and sell exchange, coin, and bullion; but we look in vain for any grant of power to engage in the business charged in this declaration. It is not embraced in the power to "discount and negotiate" promissory notes, drafts, bills of exchange, and other evidences of debt. The ordinary meaning of the term "to discount" is to take interest in advance, and in banking it is a mode of loaning money. It is the advance of money not due until some future period, less the interest which would be due thereon when payable. The power to "negotiate" a bill or note is the power to indorse and deliver it to another, so that the right of action thereon shall pass to the indorsee or holder. No construction can be given to these terms, as used in this statute, so broad as to comprehend the authority to sell bonds for third parties on commission, or to engage in business of that character. The appropriate place for the grant of such a power would be in the clause conferring authority to "buy and sell;" but we find that limited to specific things, among which bonds are not mentioned, and upon the maxim *expressio unius est exclusio alterius*, and in view of the rule of interpretation of corporate powers before stated, the carrying on of such a business is prohibited to these associations. Nor can we perceive it is anywise necessary to the purpose of their existence, or in any sense incidental to the business they are empowered to conduct, that they should become bond-brokers, or be allowed to traffic in every species of obligation issued by the innumerable corporations, private or municipal, of the country. The more carefully they confine themselves to the legitimate business of banking, as defined in this law, the more effectually will they subserve the purposes of their creation. By a strict adherence to that they will best accommodate the commercial community, as well as protect their shareholders. Such is our construction of this statute, and it is supported by the

best considered authorities and the decided preponderance of judicial opinion in other States.

From these decisions it would appear that, while it is lawful for a bank to acquire stocks or bonds in good faith *for the purpose of securing debts previously contracted*, the power to "traffic" in them—that is, to buy them with a view of selling them at a profit—or to hold them as investments, is not among the incidental powers enumerated in section 5136, and is, therefore, a power which it has no legal right to exercise.

From the general tenor of the law, and the restrictions therein imposed, and the construction placed upon the law by numerous court decisions, it would appear that the framers of the law intended to prevent the banks, as far as possible, from getting their assets into any inconvertible form, and for this reason the restrictions as to real estate transactions are imposed.

If the investment of their resources in stocks or bonds, *except to save debts previously contracted*, would have the same effect of locking up their funds as do investments in real estate, and experience proves that frequently it does, then it would seem that such investments should be avoided by

all bank managers who desire to be on the safe side of the law.

The accumulation of a large fund of surplus and undivided profits in a bank which it is unable to invest profitably in such loans and discounts as are permitted by law, make it apparently necessary for the bank to purchase stocks, bonds, and other securities as investments for these "surplus funds" as they are sometimes termed, in order that the stockholders may realize dividends on these funds, and this will account mainly for the large holdings of some banks.

It would seem, however, that the same ends could be attained if these surplus funds or accumulated profits were distributed in dividends to the stockholders and invested by them in the same securities, either as individuals, or by trustees acting for them in groups or as a whole, and such a course would certainly remove any question as to the legality of such investments when made by the bank in its corporate capacity.

Purchasing Commercial Paper.

It is the custom of some banks to purchase commercial or business paper, either from brokers or from the actual owners of such paper without re-

course to such brokers or owners, or in other words, without their guarantee or indorsement. Whether or not the power to do this is granted by law to a National bank, has never been decided by the United States Supreme Court, and the decisions rendered by various State courts have been both favorable and adverse to this view. (See "Morse on Banks and Banking," third edition, by Parsons, pars. 72 and 73.)

The whole question appears to hinge upon the proper definition of the word "negotiating" occurring in par. 7, section 5136. On this point, as on some others, the National-bank Act appears to contain some internal evidence as to the intended meaning of this term, for in section 5200 we find that "the discount of commercial or business paper actually owned by the person *negotiating* the same" is excepted from the limit as to amount which is applied to direct loans, or "money borrowed." As used in this section it is clear beyond question that the word "negotiating" means simply "offering for discount," and, as elsewhere suggested in this work, the evident reason for the exception of such discounted paper from the limit applying to "money borrowed," was that it was

of course presumed that the person actually owning and negotiating such paper would indorse it, or guarantee its payment by the maker. If this view is incorrect we look in vain for any valid reason for the exception made in its favor.

It seems not unreasonable to assume, therefore, that the word "negotiating," as used in par. 7, section 5136, and following so closely after the word "discounting" in the same clause, has the same significance as that implied in section 5200, and that it was intended to confer upon a bank only the power to "offer for discount" or to "rediscount" paper which, under the power granted in the same paragraph, it had already "discounted."

At all events, so long as this point is not definitely adjudicated by the Supreme Court, it would seem to be the safer course for such National banks as claim the right to exercise this power to purchase paper without indorsement or guarantee, that they should consider money invested under such circumstances practically as "money borrowed" by the makers of the paper or as direct loans to them; and, therefore, should limit such purchases in each and every case to an amount not exceeding one-tenth part of their capital stock as prescribed by section 5200.

CHAPTER V.

TRANSACTIONS IN REAL ESTATE.

SEC. 5137. A National banking association may purchase, hold, and convey real estate for the following purposes, and for no others:

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgments, decrees, or mortgages held by the association, or shall purchase to secure debts due to it.

But no such association shall hold the possession of any real estate under mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

Restrictions Imposed by Law.

It will be clearly perceived from the language of this section that the *only* purpose for which a National bank may lawfully "purchase, hold, and convey real estate" (other than its "banking house") is by way of security for "debts previously contracted." This is emphasized by the use of the

words "and for no others" in the first paragraph of the section, and altogether the intent of the statute is as explicitly expressed as plain language can do this, yet in case any doubt arises as to this *intent*, we have further the plain construction placed upon it by the Supreme Court in the decision already quoted on page 44 in the following language:

> Thus, as to real estate, it is provided (section 5137) that it may be accepted in good faith as security for, or in payment of, debts previously contracted; but if accepted in payment, it must not be retained more than five years.

This limit of five years was probably fixed by the framers of the law as affording ample time for disposing of such real estate.

It is presumed in some cases where a bank is either unable or unwilling to dispose of real estate at the end of the five-year limit, that it conforms to the legal requirement when it charges the value of the real estate off its books, but this is a mistaken view of the law, which requires that the title to, or mortgage on, real estate should be disposed of, and makes no reference to the appearance of its value among the assets of the bank.

In some cases the law on this particular point of

holding possession is construed as referring to the actual occupancy by the bank of the real estate for which the bank holds title or mortgage. It is scarcely necessary to state that the word "possession" refers to the holding of the written legal instrument by the bank, and not to the actual occupancy by the bank of the property over which the title or mortgage gives it legal control.

Securities Based on Real Estate Values.

Besides titles and mortgages, however, there are so many other forms under which an interest in real estate may be acquired, to which the *letter* of the law does not apply, and with regard to the holding of which the question of legality will arise, that the language of the opinion of the United States Supreme Court, in its decision in the case of Union National Bank *vs.* Matthews (98 U. S., 658), is quoted below as bearing directly on this question.

The court, with regard to section 5136, which permits a bank to loan money "on personal security," said:

> Section 5136 does not, in terms, prohibit a loan on real estate, but the implication to that effect is clear. What is so implied is as effectual as if it were expressed.

Passing on to the restrictions imposed by section 5137, it defined the object of these as follows:

The object of the restrictions (in section 5137) was obviously threefold. It was to keep the capital of the banks flowing in the daily channels of commerce, to deter them from embarking in hazardous real estate speculations, and to prevent the accumulation of large masses of such property in their hands to be held, as it were "in mortmain." The intent, not the letter of the statute, constitutes the law.

With this language in view, it would appear that the holding of real estate *in any form* except for the purposes clearly stated in section 5137 should be carefully avoided by all bank managers who desire to conform to the "intent of the statute."

For this reason, the holding, *as investments*, of any and all stocks, bonds, or other securities, the value of which rests directly upon real estate, *except to save debts previously contracted*, should be regarded by such managers as violations of the *spirit* of the law, if not of its *letter*.

Some of the forms, other than deeds and mortgages, in which real estate values present themselves, are the following: land debenture bonds; the stocks and bonds of land improvement companies, mortgage and trust companies, building and loan associations; of companies whose capital is

wholly invested in theatres, opera-houses, hotels, elevators, cotton-presses, warehouses, and the stocks or bonds of any similar enterprises where the capital is invested mainly, or entirely, in real estate.

In connection with this subject of holding or dealing in real estate securities, what is said elsewhere with regard to dealing in stocks and bonds generally (page 51) should also be taken into consideration.

As such stocks, bonds, and other securities of like nature, though depending largely or entirely upon real estate for their value, are *personal security*, the holding of them as *collateral security* for loans appears to be warranted by law, which permits "the loaning of money on personal security." (Section 5136.)

Supreme Court Decisions.

With regard to making loans, secured by pledge of notes or bonds secured by liens on real estate (such as mortgages, deeds of trust, and the like) as *collateral* security for such loans, the Supreme Court, in the case of *Union National Bank* vs. *Matthews*, already referred to, decided that the taking of such collateral security is not unlawful, inasmuch as the mortgage or its equiva-

lent in such cases does not run directly *to* the bank, but to the borrower.

In the Matthews case, the court was asked to decide as to the legality of the following transaction:

A National bank loaned a mercantile firm $15,000 on its promissory note. The firm assigned to the bank, as collateral security for this loan, a note for a like amount made by two persons in favor of the firm, which note was secured by a deed of trust on real estate, executed by one of the makers of the collateral note. The firm failed to repay their loan at maturity, and the bank proceeded to realize upon the real estate, whereupon the maker of the deed attempted to enjoin the bank from doing this, "upon the ground that the loan was made upon real security, which was forbidden by the statute."

The court decided that the loan was not unlawful, and the grounds upon which it reached its decision on this point are given in the following passage from its decision in the case of *National Bank* vs. *Whitney* (103 U. S., 99), in which the court clearly restated the Matthews case, and used the following language:

In coming to this conclusion this court considered the transaction in two aspects: first, as not being within the let-

ter of the statute, because the deed of trust was not executed *to* the bank. * * *

Viewed in the first aspect, the court held that, as a mortgage, the deed of trust was merely an incident to the note, and a right to its benefit, whether it was delivered or not with the note, passed with the transfer of the latter. If the loan had been made upon the note alone, the benefit of the deed as a mortgage would have inured to the bank by operation of law. Of course, that which the law would give independently of a direct transfer by the mortgagee, the statute did not intend to defeat, because such transfer was made.

The decision appears to have been based upon the view, first, that the collateral note, even though secured by the deed of trust, was *personal security;* and, secondly, that the deed of trust (which it regarded as the equivalent of a mortgage) was not executed directly *to* the bank.

In making loans on such collateral security, however, the *object* of the restrictions contained in section 5137, and the "intent of the statute," as defined by the Supreme Court in the Matthews decision, should always be held in mind; and the decision of the court in this case is not to be construed as warranting loans on such security, which do not in reality, as well as in appearance, fully conform to the actual conditions of the case upon which the decision was rendered.

CHAPTER VI.

RESTRICTIONS AS TO LOANS IMPOSED BY SECTION 5200.

SEC. 5200. The total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including, in the liabilities of a company or firm, the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such association actually paid in. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed.

Examples Illustrating Excessive Loans and Such as are Not Excessive.

There is probably no section of the National-bank Act that leaves more doubt as to its true and exact application than this which prescribes a limit to loans.

As far as the *intent* of the framers of this section can be divined it appears to make a distinction between "loans" and "discounts." The restriction is limited to "money borrowed" by any "person," "company," "corporation," or "firm," including in the liabilities of a company or firm for money bor-

rowed, the liabilities of the several members thereof, and in order to determine whether a "loan" is excessive or not, it is important to know who gets the benefit of the "money borrowed" from the bank.

The paper upon which loans are made varies so much in form that nothing but the knowledge of the actual facts connected with each transaction can enable the officers of a bank to determine whether or not they are violating this section of the law.

The number of phases in which the question presents itself to a bank is almost limitless, but a few examples are given, by way of illustration, which, it is hoped, will make the general meaning more clear than it appears from the text.

1. Taking a bank with a capital of $100,000 actually "paid in," and assuming that the firm or company of John Smith & Co. wishes to "borrow money" from the bank, up to the limit, it would not be lawful to loan them more than $10,000 (one-tenth of the "capital stock"); and the fact that John Smith & Co. were able to give the strongest and best indorsers for an amount greater than $10,000, or to put up collateral security of ample and undoubted market value, would not entitle them

lawfully to borrow one dollar more than $10,000, as the law makes no exception in such cases, the limit applying solely to the *amount* of the loan *without reference to its security.*

2. If, before the firm applied for a loan, John Smith or any one partner had borrowed $10,000 *for his individual benefit*, then it would not be lawful to loan anything to the firm, for their limit for "money borrowed" would have already been exhausted by the loan to such member of the firm.

3. It is questionable whether it would be lawful in such a case for the bank to loan any money on the paper of any person, firm, or corporation, with John Smith & Co., as *indorsers* of such paper, if it were known that John Smith & Co. were directly to get the benefit of the money so borrowed, for this would appear to be an evasion of the law; but if any person, firm, or corporation, whose paper was indorsed by John Smith & Co., wanted to borrow money on such paper for his or its individual benefit, the fact that it was indorsed by John Smith & Co. would not make a loan to such person, firm, or corporation unlawful.

4. In case John Smith & Co., as a firm, had borrowed no money of the bank it would be lawful to

loan to each member of the firm, upon his individual credit and responsibility, an amount equal to the limit, provided the money so borrowed by each partner was for his individual benefit, and not for the benefit of the firm.

5. Again, if John Smith & Co. had "borrowed money" up to the limit, and any other person, firm, or corporation should choose to borrow money of the bank upon his or its own responsibility and credit, it would be lawful for any such person, firm, or corporation, to let John Smith & Co. have the benefit of the money so borrowed. It is no affair of the bank to know what disposal is made by the borrower of the money borrowed.

6. It sometimes happens that several different firms have one or more partners in common, and the question will arise whether it is lawful to loan each one of the firms an amount equal to the limit. In such a case it would seem that if such firms are doing business entirely upon the capital owned solely by such common partner, or partners, they should be regarded virtually as one firm, and the total of loans to them should not exceed the limit; but if each of the different firms really represents separate and distinct capital invested in its business,

it appears that loans up to the limit may lawfully be made to each firm.

Deposits with Banks and Bankers regarded as Loans.

Amounts on deposit with State and private banks and bankers in excess of one-tenth of the capital stock, have always been held by the Comptroller's office to be violations of this section also, for the following reasons:

In the decision of Bank *vs.* Lanier (11 Wallace, 369), which was on some other point of law, the Supreme Court pronounced the following opinion as to "deposits," viz.:

> But a deposit is nothing but a loan of money. * * * It is well known that country banks keep on deposit in New York with bankers and merchants a considerable amount of money for their own convenience, for which they receive more or less of interest. But whether interest be obtained or not, these deposits are, equally with paper discounted over the counter of the bank, loans of money, and the reason of the rule is equally applicable to them. The banker is accountable for the deposits he receives as a debtor, and the individual borrower of money from the bank sustains no other relation to it. In both cases money is borrowed, to be returned in a greater or less period of time, according to the contract of the parties.

In this view of the case, deposits are loans, and as a State bank, a private bank, or a banker is

either a person, a company, a corporation, or a firm, any deposit with any such person, company, corporation, or firm is regarded as a loan, or "money borrowed," and is subject to the restriction as to amount, which is prescribed by section 5200. It may be that the courts would not hold that amounts in excess of the limit sent to such banks or bankers for collection are to be regarded as in violation of law, but measures should be taken to reduce such amounts within the limit as soon as it is ascertained that the collections have been made by the bank or banker receiving the same.

Exceptions as to Discounts and Examples Illustrating These.

Coming, then, to the case of "discounts," which are excepted from the restriction as to amount, two exceptions are made, as follows:

"1. The discount of bills of exchange drawn in good faith against actually existing values;" and,

"2. The discount of commercial or business paper actually owned by the person negotiating the same."

Such paper as is clearly embraced in these two classes, the law says, "shall not be considered as money borrowed," and is, therefore, to be excepted from the restriction as to amount.

As an illustration under the first exception, if the firm of John Smith & Co., who had already "borrowed money" to the extent of the limit, should offer the same bank bills of exchange drawn against shipments of cotton, wheat, corn, iron, or any other merchandise which is readily convertible into money, it would be lawful for the bank to discount such paper to any limit which it considered safe. Such bills or drafts are generally secured by the attachment of bills of lading for the shipments against which the bills are drawn, but if the bank is satisfied of the actual existence of the values and with the good faith of the parties to the transaction, the security of bills of lading, though desirable, is not absolutely essential.

With regard to the scope of the second exception, it will be assumed, for the sake of example, that the firm of John Smith & Co., who have already "borrowed money" up to the legal limit, offer to the same bank for discount paper which they have taken from their customers either for merchandise sold, money loaned, or other valuable consideration. In such a case, if John Smith & Co. are the bona fide owners of such paper, the

bank may discount it for John Smith & Co. as "commercial or business paper actually owned by the person negotiating the same" to any limit which, in the judgment of the directors of the bank, it may be considered safe to do so.

Again, if the business paper of John Smith & Co. were offered to the bank for discount by any person, firm, company, or corporation actually owning such paper, it would be lawful for the bank to discount the same, although John Smith & Co. had already "borrowed money" of the bank to the legal limit.

It would seem that the intent of the framers of this section was, using a homely phrase, to prevent a bank from putting "all its eggs into one basket" by making direct loans to any one person, firm, or corporation, for even if the borrower were abundantly good, or could lodge with the bank ample, undoubted security for the "money borrowed," the loan of a large amount to any one party able to offer such security might operate to deprive others of their due share of the benefits afforded by a bank, which is established for the accommodation of the public at large.

The exceptions noted were probably made because the transactions covered by them were not only regarded as being generally better secured by reason of the guarantee of both parties to such transactions, but also because in this way the benefits of the bank's resources would be better distributed to the public for whose accommodation it is established.

Overdrafts are Loans.

Overdrafts are temporary direct loans to the parties making them, or "money borrowed" in the least desirable form, and, as such, should be so regarded and treated in computing the total liabilities to the bank of any person, firm, company or corporation for "money borrowed."

CHAPTER VII.

RESTRICTIONS WITH REGARD TO A BANK'S ACQUIRING AND HOLDING ITS OWN STOCK.

SEC. 5201. No association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale; or, in default thereof, a receiver may be appointed to close up the business of the association, according to section 5234.

Penalty for Holding beyond Time Limit.

It will be observed that the law provides a penalty which may be summarily applied by the Comptroller to any violation of the law in this respect, and the reason for this it is not difficult to find.

Whenever a bank uses any portion of its capital to make a loan on its own shares, or to purchase them, it reduces or impairs its capital stock by such an amount, and, in addition, deprives its creditors of the additional security afforded by the contingent

liability attaching to the shares, if held by a solvent shareholder.

Violations of the *spirit* of this section, if not of the letter, not infrequently occur upon the organization of a bank, where shareholders are allowed to give their notes for a portion or the whole of their holdings, without being required to lodge their stock with the bank as security, in *direct* violation of the letter of the law.

Such evasions of law by officers, on the threshold of a bank's career, do not augur well for its future success, which must depend largely upon honest and fair dealing with all parties having intercourse with it.

The term of six months, during which a bank is allowed to hold its own stock taken for debt, was probably fixed because regarded as ample time in which to arrange for its disposal.

CHAPTER VIII.

EARNINGS, SURPLUS, AND DIVIDENDS.

SEC. 5199. The directors of any association may, semi-annually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend, carry one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall amount to twenty per centum of its capital stock.

SEC. 5204. No association, or any member thereof, shall, during the time it shall continue its banking operations, withdraw, or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. If losses have at any time been sustained by any such association, equal to or exceeding its undivided profits then on hand, no dividend shall be made; and no dividend shall ever be made by any association, while it continues its banking operations, to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due to any associations, on which interest is past due and unpaid for a period of six months, unless the same are well secured, and in process of collection, shall be considered bad debts within the meaning of this section. But nothing in this section shall prevent the reduction of the capital stock of the association under section fifty-one hundred and forty-three.

SEC. 5212. In addition to the reports required by the preceding section, each association shall report to the Comptroller of the Currency, within ten days after declaring any

dividend, the amount of such dividend, and the amount of net earnings in excess of such dividend. Such reports shall be attested by the oath of the president or cashier of the association.

Legal Requirements regarding Net Profits and Surplus; "Bad Debts" Defined.

Section 5199 empowers the directors to declare a dividend semi-annually, if the "net profits" of the bank will admit; and, as there appears to be no prohibition in the law against their declaring dividends oftener than this, or less frequently, they are permitted to do so, provided they comply with all the requirements of the law in respect to surplus, dividends, and earnings. Before declaring a dividend it is necessary, of course, to know whether the "net profits" will admit of this, and section 5204 requires that "net profits" must be arrived at by deducting from gross earnings, or "undivided profits" from all sources, the following items:

1. Expenses and taxes paid.
2. Losses which have been sustained from any cause.
3. The amount of "bad debts" as these are clearly defined by section 5204. It will be observed here that these debts, which are technically "bad," are not to be confused with those which are known to be *actually* bad, for these latter should be classed with "losses sustained;" but, at the same time, section 5204 requires that debts which are "bad" technically should always be taken into account in comput-

ing net profits before declaring a dividend, whether they are charged off the books of the bank or not.

Having arrived at the "net profits" in this way, it is necessary that every bank whose "surplus fund" is less than 20 per cent. of its capital stock should, before declaring a dividend, carry at least 10 per cent. of these profits to this fund as required by section 5199. The bank may, if it so desires, carry to the fund an amount greater than the required 10 per cent. of its "net profits," but, once this is done, the law makes no provision for withdrawing the excess so carried for the purpose of declaring a dividend so long as the surplus is less than the required 20 per cent. While the law is entirely silent as to the purposes for which the surplus is created and may be used, the presumption is that the object of its accumulation is to provide a fund for meeting unexpected or unusual losses without resorting to an assessment of the stockholders, in case such losses exceed the "undivided profits" on hand at the time; and, in this view of the subject, a bank whose surplus is 20 per cent. or less is allowed to use the whole or a portion of it to make good such losses, but only then after it has first exhausted all of its "undi-

vided profits" on hand. In such a case, a bank having to use all of its undivided profits for making losses good, has, of course, nothing wherewith to declare a dividend, and must perforce pass its dividend for such a period. As soon thereafter, however, as its "net profits" will admit, it may declare a dividend, but before doing this it will be necessary to carry one-tenth of such profits to the surplus fund, which has been reduced below 20 per cent., and to continue to do this at the end of each dividend period until this fund again reaches the required limit of 20 per cent.

Whenever the surplus of a bank exceeds 20 per cent. of its capital, it is lawful for the directors to use the *excess* for declaring a dividend or for making losses good, and in this latter case it will not be necessary to pass any dividend, provided the excess over 20 per cent. in the surplus is sufficient to provide for such losses.

Legal Requirements with regard to Reports of Dividends and Earnings; How to Make These Up.

As section 5212 prescribes that "each association shall report to the Comptroller of the Currency within ten days after declaring *any* dividend, the amount of such dividend, and the

amount of net earnings in excess of such dividend," and further, that "such reports shall be attested by the oath of the president or cashier of the association," it is necessary that banks should make reports to the Comptroller, not only at their regular semi-annual dividend periods, but also of any quarterly or special dividends they may declare between those periods; and, in order to comply with the requirements of the law, reports of any such special dividends should be made in the same form as reports of earnings and dividends made at the regular semi-annual periods, so as to show not only the net profits on hand at date of previous report, but also the gross earnings from all sources since, as well as deductions for all expenses and taxes paid, losses incurred, and "bad debts," as defined by section 5204. Otherwise its "net earnings, in excess of such dividend," can not be truly shown by the report.

In making such special dividend reports, it is not necessary that a bank should close the accounts on its books, if it does not desire to do so, but it is essential that all items showing profit and loss for the period covered by the report should be fully entered in the report.

Capitalization of Surplus.

While a bank having a surplus equal to, or less than, the required 20 per cent. may not be permitted by the Comptroller to capitalize such surplus in case of any increase of its capital, any bank having a surplus exceeding this limit is, of course, permitted to convert the amount in excess of the 20 per cent. into capital if it so desires, for such excess practically represents "undivided profits."

Where the surplus is equal to, or less than, 20 per cent., the original shareholders may, however, utilize a portion of this surplus in the following manner:

The capital being $50,000, the surplus $10,000, and the proposed increase $50,000, the ratio of the surplus ($10,000) to the increased capital ($100,000) will be 10 per cent. If the new stock be placed at 110 (its true value) a premium of $5,000 will be realized on the increase when sold, which premium should properly go to the original shareholders (the owners of the surplus) who in place of the premium so collected relinquish to the new shareholders a corresponding interest in the surplus fund.

The *rate* of premium in any given case may be obtained by dividing the amount of surplus by the amount representing the total capital stock after the proposed increase is added.

CHAPTER IX.

REPORTS OF CONDITION REQUIRED BY SECTION 5211.

SEC. 5211. Every association shall make to the Comptroller of the Currency not less than five reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president or cashier of such association, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the associations at the close of business on any past day by him specified; and shall be transmitted to the Comptroller within five days after the receipt of a request or requisition therefor from him, and in the same form in which it is made to the Comptroller shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the Comptroller. The Comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to a full and complete knowledge of its condition.

SEC. 5213. Every association which fails to make and transmit any report required under either of the two preceding sections shall be subject to a penalty of one hundred dollars for each day after the periods, respectively, therein men-

tioned, that it delays to make and transmit its report. Whenever any association delays or refuses to pay the penalty herein imposed, after it has been assessed by the Comptroller of the Currency, the amount thereof may be retained by the Treasurer of the United States, upon the order of the Comptroller of the Currency, out of the interest, as it may become due to the association, on the bonds deposited with him to secure circulation. All sums of money collected for penalties under this section shall be paid into the Treasury of the United States.

AN ACT

Defining the Verification of Returns of National Banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the oath or affirmation required by section fifty-two hundred and eleven of the Revised Statutes, verifying the returns made by National banks to the Comptroller of the Currency, when taken before a notary public properly authorized and commissioned by the State in which such notary resides and the bank is located, or any other officer having an official seal, authorized in such State to administer oaths, shall be a sufficient verification as contemplated by said section fifty-two hundred and eleven: *Provided*, That the officer administering the oath is not an officer of the bank.

Approved February 26, 1881.

Information with regard to Same; Filling Out Schedules.

The examination of five reports of condition a year from each of over 3,300 banks necessarily involves a large amount of correspondence between

the Comptroller's office and the banks. Much of this correspondence relates to violations of law, such as excessive loans, loans on, and investments in, real estate, deficient reserve, etc., but a very large proportion is made necessary by omissions on the part of those who make up the reports to fully fill out *schedules* on the back of the report, and a little more care in this respect would relieve the banks from the trouble and annoyance of replying to the thousands of letters which are addressed to them for the purpose of obtaining information which should be given in the report when rendered.

The law requires the banks to make these reports to the Comptroller "five times a year," "according to the form which may be prescribed by him," and, under this authority, he calls for certain information in the schedules on the back, which it is important to have in order to know the true condition of each bank, and whether its operations are conducted in conformity to law or not.

When it is remembered that, as a rule, the examiner visits each bank only once a year, it is very important that these sworn statements of condition should be full and complete in every respect. In very many cases violations of law and

incorrect practices, which occur through ignorance or inexperience, are developed by these reports, and timely warning and suggestion from the Comptroller's office are all that is necessary to prevent recurrence.

The items which are most frequently omitted from the schedules are the following:

Bad debts, as defined by section 5204, Revised Statutes.
Other suspended and overdue paper.
Liabilities of directors (individual and firm) as payers.

Under the first of these three the bank is required to state, not debts that are actually worthless, but all such as are technically "bad debts" as clearly defined by section 5204. The amount of "bad debts" on the books of a bank has a very important bearing on its condition, for if this exceeds the sum of its surplus fund and net undivided profits, it is an indication that its capital may be impaired.

The schedule of "stocks, securities, judgments, claims, etc.," should clearly show the different items composing the total of these, and is intended to embrace only such items as are *owned* by the bank. Any such items held as *collateral* for loans should not be entered here, but in the

appropriate place in schedule of "loans and discounts." No real estate items should be entered here, but in the schedule for "loans and discounts," if held as collaterals, and in schedule for "other real estate and mortgages owned," if owned by the bank. In this latter schedule, as also in the schedules provided for listing "loans and discounts, secured by mortgages or other real estate security," it is important to state *how* and *when* such investments or collaterals were acquired, in order to show whether they were acquired in conformity to provisions of section 5137, and whether they have been held longer than five years.

In a great many cases replies from the banks show that no entries are to be made in the schedules left blank, but as it is impossible to infer this from the face of the report in the case of *bad debts*, *overdue paper*, *liabilities of directors*, and *excessive loans*, it is necessary to address a letter of inquiry to the bank in each case. For this reason a note in red ink is printed conspicuously on the back of the report, requesting the bank to "fill all schedules, writing in the word 'none' wherever no amount is to be entered."

Verification and Attestation.

After seeing that a report of condition has been properly filled out, both with regard to the items of "resources" and "liabilities" on its face and the schedules on the back, it is necessary to see that it is signed, sworn to, and attested as required by law. It must be signed either by the president or cashier, *as no other officer is empowered by section 5211 to do this*, and attested by three directors, as required by the same action. The officer signing the report, if a director, should not sign in attestation of his own signature, as it is hardly to be supposed that this was contemplated by the law; and finally the officer signing should swear to it before a notary public, or other officer having an official seal, and authorized to administer oaths, as required by the act approved February 26, 1881. As this act provides that the officer administering the oath should not be "an officer of the bank," the oath should not be administered by a director acting in that capacity, for the reason that in section 5497, enacted prior to the act of February 26, 1881, a director is evidently regarded as an *officer*, inasmuch as the following language is used: "Every presi-

dent, cashier, teller, director, or *other* officer of any bank or banking association."

How to Proceed in Absence of Three Directors, or of both President and Cashier.

Should it ever happen that the signatures of three attesting directors required by law can not be procured within five days after receipt of report blanks, or should it be impossible to obtain the signature of either the president or the cashier in time, through the absence or disability of both these officers, all that can be done is to make up a temporary report signed by some other officer, attested by the signatures of as many directors (not over three), as it is possible to obtain, and promptly forward this to the Comptroller within the five days allowed. In such cases, a letter explaining the circumstances should always accompany the report, and a complete report, made up in all respects as required by law, should be forwarded to him at the earliest possible day thereafter

Penalty for Delay in Forwarding Reports.

It will be observed that section 5213 prescribes a penalty of $100 a day for each day's delay beyond the period named for forwarding reports of condition,

and for this reason particular care should be taken to forward these reports to the Comptroller's office "within five days after the receipt of a request or requisition therefor from him;" that is, within five days after the date upon which the "call" and report blanks are received by the bank.

CHAPTER X.

REGULATION OF THE BANKING BUSINESS.

Section 5190 provides that the usual business of each National bank "shall be transacted at *an* office or banking house located in the place named in its organization certificate," and this appears to mean *one* office or banking house, and to prohibit a National bank from having *branch* offices in the place where it is located or elsewhere.

Legal requirements as to "lawful money reserve," rules and forms for computation, etc., will be found fully treated in the first part of this work.

Section 5196 has an important bearing, inasmuch as it requires every National bank to take and receive at par "for any debt or liability to it, any and all notes or bills issued by any lawfully organized National banking association." This in effect makes National bank currency a "legal tender" to any National bank for any debt or liability due to the bank, but does not make it a legal tender for any debt or liability of the bank to any depositor or other creditor.

Section 5197 fixes the rate of interest which a National bank may charge and receive at the same rate as that allowed by the law of the State, Territory, or District where it is located, and gives it the advantage of any special rate allowed to any bank organized under State law, where this is the case. Where no regular rate is fixed by local legislation the rate is limited to seven per cent. The purchase, discount, or sale of bona-fide bills of exchange is exempted from

the limitation as to interest rate on ordinary loans and discounts, and the rate for this is fixed at not more than the current rate of exchange for sight drafts, in addition to the interest.

Section 5198 forbids the charging or taking of a greater rate of interest than that fixed by section 5197, and prescribes as a penalty the forfeiture of the entire amount of interest so charged. It also gives the party paying such usurious interest the right to recover at law an amount equal to twice the amount of the interest paid, provided the action is commenced within two years from the time the usurious transaction occurred.

Section 5199 is dealt with in chapter on Earnings, Surplus, and Dividends, and section 5200 in a special chapter on Restrictions as to Loans, etc.

Section 5201 forbids a bank to make any loan or discount on the security of shares of its own stock, or to purchase or hold any such shares except to save loss on a debt previously contracted in good faith, and further, that when shares have been so taken they must be sold or disposed of at public or private sale within six months from time of acquirement. Unless this is done a receiver may be appointed to close up the business of the bank violating the law. It is clear from the meaning of this section that a National bank has no lien on the stock of any shareholder for any debt to the bank prior to that of any other creditor, and it is equally contrary to the spirit of this section to take the note of any shareholder in payment for any shares of stock in the bank, either at time of organization or afterwards. In this respect the law clearly takes all proper precautions to require that the capital

shall be paid in money, and at all times thereafter kept intact and unimpaired.

Section 5202 clearly implies that at times when this is necessary for the well-being of a bank, it may borrow money in any form it prefers, but limits the amount it may borrow to the amount of its capital stock actually paid in and unimpaired. (See chapter on General Banking Powers.) In this connection it is of great importance to parties lending money to a bank to know that the Supreme Court has decided in the case of Western National Bank *vs.* Armstrong, 152 U. S., 346, that the Vice President and Executive Officer of a bank has no power to borrow money for the bank in the absence of special authority from the board of directors, and persons dealing with him are presumed to know the extent of his powers in this regard.

All parties lending money to banks should, therefore, take means to assure themselves that the directors of the borrowing bank have formally authorized the officers to borrow on its behalf.

Section 5203 forbids a bank to pledge its circulating notes for any purpose, directly or indirectly, or to use them in any manner or form to create or increase its capital stock.

Section 5204 is treated in chapter on Earnings, Surplus, and Dividends.

A National bank, the capital of which is impaired, is here required, upon receiving proper notice from the Comptroller, to levy an assessment upon its shareholders for such an amount as he may decide to be necessary to make good the impairment. If at the end of three months from the time he receives notice from

the bank any shareholder fails to pay in his assessment, the law makes it the duty of the board of directors to sell so much of his stock as may be necessary to satisfy the assessment, and prescribes how the stock should be sold.

Where stock has to be sold for the assessment thereon the directors should see that the amount for which it sells is not less than the assessment, and in case a lesser amount is bid for the stock it should not be sold. Neither should stock sold for assessment be bid in by the bank, for this would be contrary to law, unless acquired for the purpose of saving a debt.

For what is prescribed in section 5208 as to false certification of checks, see chapter on "The Cashier."

SEC. 5210. The president and cashier of every National banking association shall cause to be kept at all times a full and correct list of the names and residences of all the shareholders in the association, and the number of shares held by each, in the office where its business is transacted. Such list shall be subject to the inspection of all the shareholders and creditors of the association, and the officers authorized to assess taxes under State authority, during business hours of each day in which business may be legally transacted. A copy of such list, on the first Monday of July of each year, verified by the oath of such president or cashier, shall be transmitted to the Comptroller of the Currency.

It will be observed that the list of shareholders herein required to be kept by the bank is subject to the inspection of any shareholder during the business hours of any legal business day. This provision of law is manifestly in the interest of the bank's creditors and of the shareholders also, who are thus enabled to inform themselves as to the character and responsibility of their associates, whom

they would be able to reach through this channel, if under certain circumstances organized action by the shareholders became necessary.

The provisions of section 5211 with regard to making and publishing reports of condition, and of Act of February 26, 1881, as to verifying these reports, are fully treated in chapter on Reports of Condition.

Treatment of sections 5212 and 5213 will be found in chapter on Earnings, Surplus, and Dividends.

SEC. 5219. Nothing herein shall prevent all the shares in any association from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the State within which the association is located ; but the legislature of each State may determine and direct the manner and place of taxing all the shares of National banking associations located within the State, subject only to the two restrictions, that the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such State, and that the shares of any National banking association owned by non-residents of any State shall be taxed in the city or town where the bank is located, and not elsewhere. Nothing herein shall be construed to exempt the real property of associations from either State, county, or municipal taxes, to the same extent, according to its value, as other real property is taxed.

By this section it is distinctly declared that, for purposes of State taxation, shares of stock in National banks shall be treated as personal property, subject to be taxed in such manner and place as the legislature of each State may determine and direct ; with these restrictions, however, " that the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such State, and that the shares of any National banking association

owned by non-residents of any State shall be taxed in the city or town where the bank is located, and not elsewhere." The aim of this section, while it clearly concedes to each State the right to tax the shares of National banks located therein, is to protect shareholders from any discrimination against these banks and in favor of moneyed capital invested in State banks or other enterprises located in the same State. It has been decided that, while the shares in these banks may be taxed by each State, the banks themselves can not be subjected to a license or privilege tax.

On this subject of taxation each annual report of the Comptroller contains a very full and interesting digest of legal decisions.

Section 5240 is that under which the Comptroller is empowered to appoint National bank examiners, and which fixes their compensation. It leaves the question how often a bank should be examined entirely to the discretion of the Comptroller, and provides that no "director or other officer" of a bank shall be appointed to examine the affairs of a bank with which he is officially connected.

Section 5214 prescribes that no bank shall be subject to visitorial powers other than those authorized by the National Bank Act, or those vested in the courts of justice.

Section 5243 prohibits the use of the word "National" as part of the title under which any persons or corporations may do business as bankers, brokers, or savings institutions, except savings banks authorized by Congress to do this, and fixes a penalty of $50 a day for each day this provision of law is violated.

CHAPTER XII.

THE PRESIDENT.

His Powers and Duties.

Section 5150 prescribes that "one of the directors, to be chosen by the board, shall be the president of the board," and, although the law does not in terms so prescribe, this director, in practice, is the president of the bank also.

In the index of the National-bank Act, edition of 1888, will be found reference to all portions of this act which specifically define what the president should do and should not do; and these statutory requirements apply also in nearly every particular to the cashier of a National bank.

Besides these statutory requirements, the by-laws of National banks, prescribed by the directors, generally make the president "responsible for all such sums of money and property of every kind as may be intrusted to his care or placed in his hands by the board of directors, or by the cashier, or otherwise come into his hands as president," and prescribe further that "all contracts, checks, drafts, etc., and all receipts for circulating notes received

from the Comptroller of the Currency shall be signed by the president or cashier."

In this connection it may be noted that the general form of by-laws for National banks usually provides as to the "conveyance of *real estate*," as follows:

> All transfers and conveyances shall be made by the bank and under the seal thereof, in accordance with the orders of the board, and shall be signed by the president or cashier.

From this, it is clear that neither the president nor the cashier is competent to transfer or convey *real estate*, which is the property of the bank, to any other party unless specially authorized to do so by order of the board of directors.

It is customary for the president to sign the minutes of all business meetings (which should also be attested by the cashier) and also (with the cashier) to sign all certificates of stock issued.

Beyond the duties here enumerated, and such others as may be specially delegated to him by the board, the authority of the president does not generally exceed that of any other director, although, as he usually receives a regular salary for his services, he is expected to devote more of his time to the supervision of the business of the bank.

The Vice-President—Powers and Duties.

As to the powers and duties of the *vice-president*, the articles of association usually prescribe that the board of directors "shall have power to elect a vice-president, who shall also be a member of the board of directors, and who shall be authorized, in the absence or inability of the president from any cause, to perform all acts and duties pertaining to the office of president, except such as the president only is authorized by law to perform."

The signing of circulating notes is the only act that the vice-president is specially authorized by law to perform, and he is not therefore legally qualified to act in the place of the president in performing any other act prescribed by statutes for the president.

CHAPTER XIII.

THE CASHIER.

His Powers and Duties.

By long-established usage the cashier of a bank is regarded by all concerned as its chief *executive* officer, whose duty it is to see that the policy and plans formulated by the directors—who are the responsible managers—are properly carried into execution.

As the success and welfare of every banking institution necessarily depends in large measure upon the ability, integrity, and skill of its cashier, it is important that this officer should have a clear comprehension of the responsibilities devolving on him and the powers with which he is invested for the proper discharge of his duties.

Much of what is contained in this chapter will apply to the cashier of any commercial bank, but the duties of the cashier of a *National* bank, which are here specially considered, may properly be divided into two classes, as follows:

1. Those which are distinctly defined by the National-bank Act.

2. Those which are inherent in his office, whether prescribed by law or delegated to him by the directors, who appoint him; being such as by well-established usage he is expected to perform by virtue of his office.

As to the duties of the first class above named, reference to all of these may be found in the index of the National-bank Act, edition of 1888, on page 91. The duties which he is by law required to perform consist, chiefly, of the verification of various reports and certificates under oath, and the signing of circulating notes, and certain statutory restrictions also prohibit his performing acts which would be either dishonest or injurious to the interests of all concerned.

In this connection it is to be noted that wherever the statute specifically prescribes that an instrument is to be signed by the cashier or the president, no other officer of the bank is legally qualified to sign in the place of either of these officers.

Particular attention is directed to the requirement with regard to the *certification of checks.* Section 5208 makes it "unlawful for any officer, clerk or agent of any National banking association to certify any check drawn upon the association

unless the person or company drawing the check has on deposit with the association at the time such check is certified an amount of money equal to the amount specified in such check," and further prescribes that while "any check so certified by duly authorized officers shall be a good and valid obligation against the association," its certification by any officer, clerk, or agent would subject the *association* to the penalty of being placed in the hands of a receiver by the Comptroller.

Apparently to correct abuses in this respect, Section 13, act July 12, 1882, was afterwards enacted, which makes the officer, clerk, or agent wilfully *over*-certifying a check *personally* liable, on conviction, to severe penalties of fine and imprisonment. This section is more explicit in its terms than Section 5208, and prescribes penalties for any officer, clerk, or agent who shall wilfully violate Section 5208, "or who shall resort to any device, or receive any fictitious obligation, direct or collateral, in order to evade the provisions thereof, or who shall certify checks before the amount thereof shall have been regularly entered to the credit of the dealer upon the books of the banking association."

The *second* class embraces a wide range of duties,

the chief of which perhaps are embodied in the following extracts from a general form for by-laws usually adopted by the directors of associations at time of organization, viz.:

Under the caption of "Officers" section 7 of this form prescribes that "the cashier * * * shall be responsible for all the moneys, funds, and valuables of the bank"; and under the caption "Contracts" section 21 prescribes that "all contracts, checks, drafts, etc., and all receipts for circulating notes received from the Comptroller of the Currency shall be signed by the (president or) cashier."

These practically commit to the cashier's safe keeping and control all the negotiable *personal* property of the bank and confer upon him certain included powers necessary to the proper discharge of the responsible functions of his office.

Such, for instance, are the giving of certificates of deposit, cashier's checks and other vouchers for money or valuables intrusted to the safe keeping of the bank; the certification of checks; the signing of checks and drafts for the purpose of transferring the funds of the bank from one place to another, or for paying its current expenses or other obligations; the buying and selling of exchange, coin and

bullion where this is a part of the bank's regular business. The cashier also has the power to indorse paper intrusted to the bank for collection, and upon receipt of money in payment of contracts to indorse and deliver paper and collateral security representing the same; but he has no inherent right to indorse non-negotiable paper, or to compromise a debt to the bank, or change the terms of an original contract without express authority from the board of directors. Of course he has no right in his official capacity to indorse his own individual paper.

In cases of emergency he may, for the purpose of meeting the obligations of the bank, rediscount negotiable paper or pledge negotiable securities in order to borrow money, and even execute a promissory note for this purpose; but he is not empowered to borrow money continuously and habitually for the purpose of providing additional capital in this way. As a rule, however, it is better that all borrowings by the bank should be made with the knowledge and under the express instructions of the board of directors.

It is within the power of the directors to limit these powers of the cashier; but in case he exercised them in spite of such restrictions his acts

would bind the bank to outside parties who were without notice of such limitations to powers ordinarily inherent in the cashier.

In this connection, the following extract from the decision of the U. S. Supreme Court in Merchants' Bank *vs.* State Bank (10 Wall., 649), defining in general terms the authority of the cashier, will be found valuable and interesting:

> The question we are now considering is the authority of the cashier. It is his duty to receive all the funds which come into the bank, and to enter them upon its books. The authority to receive implies and carries with it authority to give certificates of deposit and other proper vouchers. Where the money is in the bank he has the same authority to certify a check to be good, charge the amount to the drawer, appropriate it to the payment of the check, and make the proper entry on the books of the bank. This he is authorized to do *virtute officii*. The power is inherent in the office.
>
> The cashier is the executive officer, through whom the whole financial operations of the bank are conducted. He receives and pays out its moneys, collects and pays its debts, and receives and transfers its commercial securities. Tellers and other subordinate officers may be appointed, but they are under his direction, and are, as it were, the arms by which designated portions of his various functions are discharged A teller may be clothed with the power to certify checks, but this in itself would not affect the right of the cashier to do the same thing. The directors may limit his authority as they deem proper, but this would not affect those to whom the limitation was unknown.

CHAPTER XIV.

OBTAINING AND ISSUING CIRCULATING NOTES.

Section 5158 defines the term "United States bonds" as meaning "registered bonds of the United States," when referring to bonds deposited as security for circulating notes issued by National banks.

Section 5159 originally required National banks, before being authorized to commence business, to deposit with the Treasurer of the United States, United States interest-bearing registered bonds to an amount not less than $30,000, and not less than one-third of the capital stock paid in, but this requirement has been modified and amended by sections of two subsequent acts, as follows:

Section 4, act June 20, 1874, provides "that the amount of the bonds on deposit for circulation shall not be reduced below $50,000," and section 8, act July 12, 1882, makes the following provisions with regard to the deposit of bonds to secure circulation and the percentage of circulation allowed to be issued against same:

That National banks now organized, or hereafter organized, having a capital of one hundred and fifty thousand dollars or less, shall not be required to keep on deposit with

the Treasurer of the United States United States bonds in excess of one-fourth of their capital stock as security for their circulating notes, but such banks shall keep on deposit or deposit with the Treasurer of the United States the amount of bonds as herein required; and such of those banks having on deposit bonds in excess of that amount are authorized to reduce their circulation by the deposit of lawful money as provided by law: *Provided*, That the amount of such circulating notes shall not exceed in any case ninety per centum of the par value of the bonds deposited as herein provided.

The construction placed upon these sections is as follows:

1. That banks having capital amounting to $150,000 or less must deposit bonds equal at least to one-fourth of such capital.

2. That banks having capital amounting to more than $150,000 must deposit bonds to an amount of $50,000 at least.

Other sections of the law provide that the maximum amount of bonds at their par value, or current market value if below par, which any bank may deposit for circulation, is the amount of its capital stock, and further, that the maximum amount of circulation which a bank may receive is 90 per cent. of the par value of the bonds deposited by it, or 90 per cent. of the current market value of such bonds if this is below par.

No bank is permitted by law to issue any note of a smaller denomination than $5, and the notes furnished

them at present are of the denominations of $5, $10, $20, $50, and $100. These are printed from three different "plates" of the following combinations, one printing four $5 notes, one printing three $10's and one $20, and one printing a $50 note and a $100 note. A bank may have its circulation printed from any one of these plates or from all, as it prefers, but is required to pay for the cost of preparing the first plate, which is $50 for the 50–100 plate and $75 for each of the other two. These plates are engraved, and the currency printed therefrom, at the Bureau of Engraving and Printing of the Treasury Department at Washington, and about six weeks' time is required in which to prepare the plate or plates and print the currency therefrom when a bank commences business. To print additional supplies, after the plate has been prepared, it takes about one month. A supply of "incomplete currency" is always kept on hand in the Comptroller's Office from which to replace currency which has been destroyed because worn or mutilated.

When a bank is authorized to commence business it receives "incomplete currency" from the Comptroller equal in amount to 90 per cent. of bonds deposited, and must deposit with the Treasurer of the United States at Washington lawful money equal in amount to five (5) per cent. of the currency issued to it, as required by provision of act of June 20, 1874, section 3, to provide for the redemption of its circulating notes when presented at the

Treasury. Under the provisions of this act any bank or other party holding the notes of National banks may forward them to the U. S. Treasury at Washington in sums of not less than $1,000, or multiples thereof, for redemption in lawful money. All notes so redeemed are assorted, those in good condition, or "fit" for circulation, being returned by express to the bank issuing same, and those worn and mutilated, or "unfit" for circulation, are turned over by the Treasurer to the Comptroller of the Currency, by whom they are destroyed by "maceration" in a machine for this purpose. The notes so destroyed are then replaced by new "incomplete currency" of equal amount, which is forwarded from the Comptroller's office by express to the bank. Section 5184 provides that the destruction of all National bank notes must be witnessed by four persons — one appointed by the Secretary of the Treasury, one by the Comptroller of the Currency, one by the Treasurer of the United States, and one by the association which issued the notes—known as the bank's "agent." These witnesses are required to sign a certificate of the destruction in duplicate, one of which is forwarded to the bank.

Whenever the Treasurer redeems any of a bank's circulation the law requires the bank promptly to reimburse the Treasurer for the amount disbursed by him, upon receipt of notice from him to this effect. In addition to maintaining its 5 per cent. redemption fund each bank is required to reimburse the Treasurer for its proportion

of the charges for transportation and the costs for assorting its notes which have been redeemed, for which the Treasurer assesses the bank each year.

The law allows the 5 per cent. fund in the Treasurer's hand to be counted as part of the bank's lawful money reserve against deposits.

Sections 5160 to 5165, inclusive, provide that bonds must be deposited in "proportion to any increase" of capital, and may be withdrawn when capital is decreased, and for their exchange, transfer, and registration on the books of the Comptroller and of the Treasurer.

Section 5166 requires every bank to examine and compare the bonds it has on deposit with the Treasurer at least once a year, and to certify to the correctness of same, and this may be done either by an officer of the bank, or by an agent appointed by it.

Section 5182 prescribes that after the circulating notes of a bank have been signed by the president, *or* vice-president, *and* the cashier, they may be issued by the bank and circulated as money. Also, that they "shall be received at par in all parts of the United States in payment of taxes, excises, public lands, and all other dues to the United States, except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt, and in redemption of the National currency."

Section 5196 provides further, "that every National banking association formed or existing under this Title (the National Bank Act) shall take and receive at par, for any debt or liability to it, any and all notes or bills issued by any lawfully organized National banking association."

Section 5183 prohibits a National bank to issue "post notes or any other notes to circulate as money than such as are authorized by the provisions" of the National Bank Act.

In this connection sections 3412 and 3413 impose upon every National bank, State bank, banker or association a tax of ten (10) per centum on the amount of notes of any person, State bank or State banking association or of any town, city or municipal corporation used for circulation or paid out by them, and sections 19 and 20 of act of February 8, 1875, go further, and impose upon every person, firm, association, other than national banking associations, and every corporation, State bank or State banking association a tax of ten (10) per cent. on the amount of any of their own notes used for circulation and paid out by them, or the notes of any other person, firm, association (other than National), or of any other corporation, State bank or State banking association, or of any town, city or municipal corporation used for circulation and paid out by them.

In other places the law requires a National bank reducing its circulation, or retiring it altogether, as in case of voluntary liquidation, to deposit lawful money

with the United States Treasurer to redeem same before the bonds securing same are released, or to surrender its own notes instead of depositing the lawful money.

It also prohibits a bank reducing its circulation to increase it again for six months after said reduction, and prescribes that not more than $3,000,000 of lawful money to retire National bank currency shall be deposited in any one month by National banks unless this is made necessary by the withdrawal of bonds securing same called for redemption by the United States.

By act of July 28, 1892, it was provided that a National bank must provide for the redemption of all currency issued to it, regardless of the fact that currency may have been lost by, or stolen from, the bank before it had been signed by the proper officers as required by law.

Sections 5214 to 5218 provide for a tax of one-half of one per centum each half year (equal to one per cent. per annum), on the *average* amount of the notes of a National bank in circulation, for making returns of and payment of same to Treasurer United States, and also for enforcing collection of this tax when a bank neglects or refuses to make returns of and pay same.

This is the only tax now imposed by the United States upon National banks, except that imposed for issuing or circulating unlawful circulation already referred to in this chapter.

CHAPTER XV.

LIQUIDATION AND RECEIVERSHIP.

SEC. 5220. Any association may go into liquidation and be closed by the vote of its shareholders owning two-thirds of its stock.

This section, in prescribing the mode of procedure for placing an association in voluntary liquidation, requires, as in the case of an increase or reduction of capital stock, a "vote of its shareholders owning two-thirds of its stock." In the absence of any statutory requirements as to notice, shareholders are entitled to receive the usual thirty days' notice required for other meetings of shareholders (see page 32), and directors should always see that this notice is properly given. Although the formal approval of the Comptroller is not prescribed here, as in the case of reduction or increase of capital stock, it is customary to obtain this, and should liquidation proceedings be undertaken by the shareholders of an insolvent bank without his approval, he would have the power to estop such proceedings under section 1, act June 30, 1876, which prescribes that when the Comptroller shall become satisfied of the insolvency of any association he may, after due examination of its affairs, appoint a receiver to close up its affairs.

Other sections in chapter on Liquidation and Receivership in recent editions of the National Bank Act, provide how public notice of voluntary liquidation should be given, how the circulation of liquidating banks should be retired and bonds withdrawn, and how a bank may go into voluntary liquidation at expiration of its corporate existence.

The course of procedure by which the liability of the shareholders of an association which has gone into voluntary liquidation may be enforced in the courts by any creditor of such association is provided by section 2, act June 30, 1876 ; and section 3 of this act, amended by act August 3, 1892, also provides for the election of an agent for shareholders—in the case of a bank which has been in the hands of receiver and paid all of its creditors—to receive from the Comptroller and receiver such assets as still remain, and distribute same to the shareholders.

This chapter provides for the appointment of receivers of insolvent banks and prescribes their duties, and prescribes that a receiver may also be appointed for violations of the law contained in the following sections, viz., 5141, 5191, 5201, 5205, and 5208. Also how the assets of insolvent banks should be distributed and the receivership expenses paid.

Section 5239 provides that the franchises of an association may be forfeited for violations of law which the directors may knowingly commit, or knowingly permit the officers, agents, or servants of the bank to commit.

These violations, however, must be determined by the proper courts in a suit brought by the Comptroller, in his own name, before the franchises are forfeited.

By this section, also, where such violations of law are proven, every director who participated in or assented to same is made personally and individually liable for all damages sustained by the shareholders, or any other persons, as the result of such violations.

Section 5242 prescribes that certain acts undertaken to prevent the legal application of the assets of an insolvent bank, or with a view to the preference of one creditor to another, shall be utterly null and void.

CHAPTER XVI.

EXTENSION OF CORPORATE EXISTENCE OF BANK.

Section 2 of act of July 12, 1882, provides that the amendment of the articles of association necessary to enable a bank to extend its corporate existence must be authorized *by the consent in writing* of shareholders owning not less than two-thirds of its capital stock. This provision was probably intended to obviate the necessity for holding a meeting of shareholders to amend the "articles of association" in the usual way. The form upon which this "consent in writing" is

given is furnished by the Comptroller. Shareholders residing at or near the place where the bank is located may sign this paper in person; those living at a distance are usually furnished with a "power of attorney," which they must execute and forward to some person at the place where the bank is located—other than an officer of the bank—who is then empowered to sign in their stead.

Sections 3 and 4 of this act also provide that the Comptroller shall cause a special examination of a bank to be made before approving of the extension of its existence, and that the legal status of the bank is not changed by such extension, but that it continues to enjoy all rights and privileges, and to be subject to all liabilities, duties and restrictions as before extension.

Section 5 makes special provision for the appraisement of and payment for the stock of any shareholders desiring to withdraw from the bank at time of extension, and also for an appeal to the Comptroller for an appraisement of value of stock in case first appraisement is unsatisfactory to any shareholder.

Section 6 requires a bank whose corporate existence has been extended to replace all circulating notes issued under its original charter with notes of a different design. A bank extending must therefore have a supply of these notes prepared by the Comptroller, from a new plate, or plates (for which the bank pays), and after date of extension all notes of its old issue which are redeemed are

destroyed and replaced with those of the new design. At the end of three years from date of extension all old issue notes outstanding must be redeemed by deposit of lawful money, in place of which notes of new design are immediately issued to the bank.

CHAPTER XVII.

CRIMES, JURISDICTION, ETC.

In this chapter of the National Bank Act will be found the penalties prescribed for improperly issuing, pledging, counterfeiting, imitating, or mutilating National bank circulation, or any obligations of the United States which are defined by the terms of section 5413. Also penalties for counterfeiting any plates or other material from which this circulation or obligations are engraved or printed.

The section which is of the greatest and most vital importance to bank officers, however, is the following:

SEC. 5209. Every president, director, cashier, teller, clerk, or agent of any association who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of the association, or who, without authority from the directors, issues or puts in circulation any of the notes of the

association; or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment or decree; or who maks any false entry in any book, report, or statement of the association, with intent, in either case, to injure or defraud the association, or any other company, body politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association; and every person who with like intent aids or abets any officer, clerk, or agent in any violation of this section shall be deemed guilty of a misdemeanor, and shall be imprisoned not less than five years nor more than ten.

The attention of bank officers and employés should be most pointedly called to this section, as it imposes a penalty of imprisonment for not less than five years nor more than ten upon any one found guilty of the violation of its provisons.

Section 5208, amended by section 13, act July 12, 1882, also prescribes a penalty of fine and imprisonment for any one found guilty of falsely certifying to checks drawn on a National bank by any person not having a sufficient balance to his credit on the books of the bank.

This chapter also provides for general jurisdiction of National bank cases, what papers shall constitute evidence, and how suits against United States officers or agents shall be brought.

CHAPTER XVIII.

MISCELLANEOUS.

The National Bank Act and the Statutes at Large provide for the designation and duties of public depositaries of public moneys, the deposit and withdrawal of same, for deposits of public funds by certain postmasters, and penalties for misapplication of money-order funds, for unauthorized deposit of public money and unauthorized receipt or use of public money, for text of which provisions, see chapter on Government Depositaries (National Bank Act).

The following statement with regard to "legal tender and lawful money," made in a recent compilation of the National Bank Act, will be found valuable by bank officers:

"The following statement concerning the legal tender properties of money of the United States is based upon United States Revised Statutes, sections 3585, 3586, 3587, 3588, 3589, and 3590, and the acts amendatory thereof and additional thereto.

"Gold coin, standard silver dollars, subsidiary silver, minor coins, United States notes, and Treasury notes of 1890 have the legal-tender quality as follows: Gold coin is legal tender for its nominal value when not below the limit of tolerance in weight; when below that limit it is legal tender in proportion to its weight; standard silver dollars and

Treasury notes of 1890 are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract; subsidiary silver is legal tender to the extent of $10, minor coins to the extent of 25 cents, and United States notes for all debts, public and private, except duties on imports and interest on the public debt. Gold certificates, silver certificates, and National bank notes are non-legal-tender money. Both kinds of certificates, however, are receivable for all public dues, and National bank notes are receivable for all public dues, except duties on imports, and may be paid out for all public dues, except interest on the public debt.

"The term 'lawful money' is understood to apply to every form of money which is endowed by law with the legal-tender quality. (See Opinions of Attorney-General, vol. 17, 123.)"

PART THIRD.

INTERNAL ADMINISTRATION AND BOOKKEEPING.

In every line of business good administration and bookkeeping is of the utmost importance, and in the banking business it is especially necessary not only that all transactions should be recorded in a clear, simple, and systematic manner, but also that every precaution be taken to guard against the possibility of fraud or dishonesty on the part of any officer or employé who has anything to do with the bookkeeping of the bank or any department of its business.

Again, as competition in the banking business compels a bank to do a great many things for its customers involving clerical labor and expense for which it receives no direct profit, it is absolutely necessary that the very best and simplest devices be used to minimize such labor and expense to the greatest degree.

The outline of a system of bank administration and bookkeeping, including some of the best printed forms and devices, is embraced in the following suggestions:

Receiving Teller's Work.

When a deposit is made by a customer the teller receiving it should see that the deposit slip clearly shows the amount deposited and the details of coin, notes, checks, etc., composing same; and after satisfying himself as to the correctness of this, and the genu-

ineness of the money and checks, he should enter the amount deposited in the pass-book which the depositor should have with him. He should then, or as soon as able, enter the name of the depositor and the amount in a blank book suited to the purpose, placing the deposit ticket on file for further use by the individual ledger bookkeeper, who should enter the amount of the deposit to the credit of the depositor on his ledger from this deposit ticket. During the day as he has leisure, or with assistance, the teller should assort the deposits received, doing up the paper currency in packages—fifty notes in each is most convenient—assorting the various kinds in different packages. Around each package should be placed a paper strap, ready gummed, and having the proper amounts, $50, $100, $250, $500, $1,000, etc., printed on them. Money put up in gummed paper straps, which may be moved without unpinning, is easier to count and, besides, the use of pins injures the notes to some extent. Checks on various banks should also be assorted and listed, each bank to itself, ready for exchange through the clearing house, or by messenger or mail where they are on outside banks. The gold, silver, and minor coins should also be properly assorted and done up into bags or paper packages, ready for convenient counting. At close of business the figures showing the deposits in the blank book referred to should be added up and a count of the cash actually on hand made, and the total of each should of course agree after proper deductions are made. The total of entries on the book should also agree with the total of the deposit tickets, which should be summed up by the individual bookkeeper or bookkeepers. Where

there are two individual ledgers the accounts in each are usually divided alphabetically, those in one being comprised between the letters A to K, and in the other between L to Z, and further subdivided if more than two ledgers are necessary. When, therefore, there are two or more ledgers the tickets and entries on the teller's memorandum book should be divided alphabetically, so that the tickets may be passed on to the respective bookkeepers for entry on the ledgers, and the total entries in each ledger compared with the total of deposits shown by the teller's book. One advantage of such a book kept by the teller is that it is a check upon the bookkeeper's work.

Upon each check received by the receiving teller he should stamp the letters R. T. with a rubber stamp bearing the proper date also, to indicate how and when it came into possession of the bank, and to prevent improper use. In addition to this, checks on the bank itself deposited should be properly cancelled by a punching or perforating machine.

All checks on banks outside of the place where the receiving bank is located, called "foreign" checks, should be turned over by the receiving teller to the correspondence or mail clerk to be forwarded by mail to other banks for payment or collection. Of these "foreign" checks the teller should keep a separate list in a memorandum book. The same course should be pursued by the "paying" teller with regard to any foreign checks coming into his possession.

When the receiving teller's cash is made up at the close of the day, the result of his day's work should be summarized, and the amount of money, checks, and

other items remaining on hand entered in ink on a book, in printed form something like this:

RECEIVING TELLER'S BALANCE BOOK

Monday, March 30, 1896.

Receipts:		
Deposits, ledger A to K		$23 215 62
Deposits, ledger L to Z		30 642 81
Amount from note clerk		5 063 92
Amount from mail clerk		4 091 73
Amount from exchange clerk		10 041 63
Total receipts		73 345 71
Less:		
Checks on bank, charged up	$41 263 52	
Foreign checks mailed for collection	6 082 25	47 345 77
Cash turned over to paying teller, as follows	...	$25 709 94
Exchanges for clearing house	$15 062 75	
Checks and cash items	3 041 96	
Nickels and cents	25 73	
National bank notes	250 00	
Silver—dollars, $30; fractional, $40.50	70 50	
Silver certificates	4 299 00	
Gold—coin, $560; certificates, $500	1 060 00	
Gold—clearing house certificates	...	
Legal tender notes	1 900 00	
U. S. certificates for legal tender notes	...	
Total	$25 709 94	

After proving and balancing his cash the receiving teller should turn over the amount he has on hand to the paying teller, who should carefully verify or count the amount received by him.

Paying Teller's Work.

While the receiving teller commences the day without any money on hand, the paying teller must be provided with a sufficient amount to meet the ordinary demands of the day at least, and should see before the opening for business that his cash is properly and conveniently

done up in packages or arranged loose so that it may be readily paid out to customers. As a rule, a bank pays at its counter only checks drawn upon itself, although sometimes, as an accommodation to good customers, it "cashes" checks drawn on other banks.

When a check drawn on the bank is presented for payment, the teller should carefully examine it to assure himself of the genuineness of the signature and as to the amount called for. If the amount written in the body of the check does not agree with the amount shown in figures, then the written amount should determine the amount to be paid. If the teller has any doubt whether the drawer of the check has a sufficient amount to his credit, he should inquire of the bookkeeper keeping the depositor's account before paying the check, and be governed accordingly. If necessary to refuse payment of a check, he should simply say the account is not good for amount of the check, and the bank is under no obligation to inform the person presenting the check how much, if anything, the drawer of the check has to his credit in the bank, unless the check is presented by the drawer or his proper representative. If the teller has any doubt as to the genuineness of the signature he should carefully compare it with the signature of the drawer on file in the bank. In case a bank pays a check on a forged signature it must bear the loss so incurred. If a check is payable to the order of a certain person and is presented by that person, the teller, if he does

not personally know him, should require him to identify himself as the right person through some other person known to the teller, and to endorse the check before it is paid. If a check drawn to order and endorsed is presented by some person other than the endorser, the teller should satisfy himself that the endorsement is genuine, that the check is in proper hands, and further, require the person presenting it to endorse it also. Especial care should be exercised by the teller in cashing checks drawn on other banks for customers to see that they are apparently good; and all such checks cashed, whether or not payable to order, should be endorsed by the person receiving the money for them. As the teller pays a check he should enter the name of drawer and amount in a memorandum book, separating checks on other banks from checks on his own bank, and should stamp it "paid," with a rubber stamp bearing also the name of the bank and the date of payment. Before leaving his custody all checks on his own bank should be cancelled so as to prevent improper use of them in dishonest hands. During the day checks paid should be charged up to the accounts of depositors on the individual ledger by the bookkeeper, who should make his entries from the checks themselves. At the close of business the teller should foot up his memorandum of all checks, etc., paid or cashed during the day and deduct the amount of same from the amount of cash on hand at the beginning of business; the balance remaining should be

represented by actual cash, checks, or memoranda on hand, which he should verify by actual count. After receiving all cash, checks on other banks, post-office orders, etc., from the receiving teller, he should make a final statement of the day's transactions and of all cash, checks, etc., in his custody, in a book, in printed form something like the following:

PAYING TELLER'S BALANCE BOOK.

Monday, March 30, 1896.

Balance—cash on hand close business, March 28		$150422 73
Am't rec'd from recv'g teller, close of business, Mar. 30		25709 94
Total		$176132 67
Deduct:		
Checks on bank, paid and charged up	$50475 42	
Exchange on foreign banks, remitted for coll.	10563 94	61039 36
Cash bal. on hand, close Mar. 30, as follows		$115093 31
Exchanges for clearing house	16571 55	
Checks and cash items	4592 41	
Nickels and cents	105 85	
National bank notes	1045 00	
Silver—dollars, $325; fractional, $642.50	967 50	
Silver certificates	20715 00	
Gold—Coin. $5,075; certificates, 10,500	15575 00	
Gold—clearing house certificates	5000 00	
Legal tender notes	40521 00	
U. S certificates for legal tender notes	10000 00	
Total	$115093 31	

The teller should not be allowed to pay the check of any depositor not having the amount to his credit on the ledger, or to pay any money to any employé or officer of the bank on account of salary without express or special permission of the managing officer of the

bank, and his cash should be kept clear of all overdue notes, dishonored checks, and other memoranda which are not immediately convertible into money.

The totals of transactions in his cash, showing checks paid, balance of cash on hand, and checks turned over to correspondence clerk, if any, should be reported directly by the paying teller to the general bookkeeper, who should compare the figures so reported with similar totals reported by the individual bookkeepers, receiving teller, correspondence clerk, and any other clerk reporting transactions connected with the cash.

Exchanges for Clearing House.

Wherever there is a group of banks located, the usual custom is to form what is known as a "clearing house association," for the convenience of exchanging checks on each other received during the previous day's business, and paying the balances to or from such banks resulting from such exchange, and such checks are called "exchanges for clearing house." Each bank assorts such checks at the close of business, makes a list of same, and sends the checks and lists at some stated hour the next morning, by a representative, to the "clearing house," where such an exchange of checks between the different representatives is made that each receives all the checks drawn on his bank. These are then footed up by each representative and the amount is given to the "manager" of the clearing house, who tabulates the results. If any bank receives

its own checks to an amount greater than the total of checks on other banks it has brought to the clearing house, then it owes a balance, or is said to be debtor to the clearing house. If the amount of checks received is less than those delivered, then a balance is due to the bank, or it is creditor at the clearing house. The total of the balances due *from* the "debtor" banks will always be equal to the total of balances due *to* the "creditor" banks. As soon as these balances are determined each bank representative takes its checks back to the bank for examination as to their genuineness and goodness. If any prove to be forged, or improperly endorsed, or drawn for an amount exceeding the balance to credit of the drawer, they should be sent back to the clearing house at a later hour agreed upon for paying and receiving balances, called "settling," to be returned to the banks from which they were received. After changes in the balances made necessary by such returns, if any are made, the debtor banks pay the manager the balances due by them, and he immediately uses the money so received to pay the balances due to the creditor banks. The kind of money in which balances are settled at the clearing house is usually such as is agreed upon by the banks forming it. Sometimes settlements are made in what are called "clearing house certificates," representing gold coin or some other form of money specially deposited by the banks receiving same with some bank or banking institution which undertakes the

safe keeping of such money and the issue and redemption of certificates for same. The advantage of such certificates, where transactions are large, is that they save both the expense and risk which would be incurred in carrying the actual coin or money represented by them, and this also is the chief advantage of the clearing house system. Where a bank is not a member of the clearing house, the other banks are under the necessity of sending a messenger to the bank to exchange checks and settle balances, with all the labor and risk resulting therefrom.

Individual Ledgers.

The ledgers in which accounts with depositors are kept are called "individual ledgers," and in the keeping of these the greatest accuracy, simplicity, and clearness should be attained. They should be so kept that the balance of each depositor's account may at any time be readily seen, and they should be frequently balanced to verify their correctness. The only evidence of the bank's liability to him held by the depositor of money on open account in the ordinary way, are the figures entered by the teller in his pass-book when a deposit is made, and the best and most conclusive proof of the correctness of the depositor's account on the individual ledger is the actual comparison of the amounts entered in his pass-book with the amounts credited to him on the ledger. All pass-books should therefore be fre-

quently called in by the bank, and after the checks paid by the bank are entered therein, the difference between the total of checks paid and deposits received should agree exactly with the balance to the credit of the depositor's account on the ledger. To make this test of correctness most valuable, the comparison of the pass-book with the ledger should be made by some person who is not the keeper of the ledger. As serious defalcations have occurred through lack of this precaution, it is very essential that it be taken in every banking institution.

One good form of individual ledger is what is called the three column or balance column ledger, because it has a column for checks paid or other debit entries, one for deposits or other items credited, and a third for showing the balance after each entry or the day's entries are made in the account.

The following is a specimen of an account in such a ledger, showing debits, credits, and balances.

FORM BALANCE COLUMN INDIVIDUAL LEDGER.

HENRY BROWN.

Date.		Items.	Debits	Credits.	Balance.
1896					
Mar..	10	By deposit.....	.....	235	.....
		To checks 10			
		15			
		20.....	45	.....	190
	11	To checks 20			
		30.32.....	50 32	.....	139 68
	13	By deposit.....	.....	500	640 18
	15	By deposit.....	.....	400	1 040 18
		To checks 50. 60			
		40. 30			
		10.50 19	209 50	.....	830 68

The advantages of this ledger are that a transcript of any account, when needed, as when the items of checks paid have to be entered in the depositor's pass-book, is more readily made, and it is more convenient for comparing the credit entries in the pass-book. While it shows the balance of each account whenever it changes, still, proof of the totals of all balances can be made only by taking them off on a sheet or in a book and adding these together A ledger of this kind should be proved in this way at least once a month. The aggregate of these balances should, if there is no error in the ledger, equal the balance of individual deposits on what is known as the general ledger, described further on.

Another form of ledger is called the "Boston," "skeleton," or "daily balance." This also has three columns, viz., debit, credit, and balance columns, but instead of showing the entries in any account below each other, running from top to bottom of the page, the names of the depositors are arranged one under another from top to bottom of the page, and the account of each depositor is carried horizontally across the page, the entries in each account for any stated date being made in a column bearing such date at the head. The following is a specimen of such a ledger :

FORM DAILY BALANCE LEDGER.

Names.	Mar 9.	March 10, 1896.			March 11, 1896.		
	Balances.	Debits.	Credits.	Balances.	Debits.	Credits.	Balances.
J. Adams	203 50	50 20	400	533 50	321 40 52		171 98
H. Brown	420 92	400 50 22	300	270 70	150 21	65	164 70
T. Smith	2 03	200	533 45	335 45	400 62	326	199 45
Totals	626 45			1 139 65			536 13

The chief advantage of this ledger is that it affords opportunity for making a daily proof of the balances shown on it, and of comparing same with balance of individual deposits shown by the general ledger. In this way the correctness of each day's work is tested by itself, and errors made in the postings are more readily found than when a ledger is proved but once a month. It is not as convenient for writing up and comparing pass-books, and involves more labor than the balance column ledger, because the balance of each and every account, whether it has changed or not, has to be carried forward to the next day's column before the ledger can be proved.

A form of ledger recently patented, known as the "Rand's patented Individual Ledger and Index Book," manufactured by the Rand Ledger Co., North Tona-

wanda, N. Y., appears to combine the best features both of the "balance column" and "daily balance" ledgers, as it is substantially the balance column ledger divided into sections of twenty or more leaves by a leaf of stiff cardboard, the margin of which projects beyond the leaves, upon which margin are metal slides, into which slips of paper bearing the names of depositors are first inserted, space being left at the outer end of each slide sufficient to contain a slip of paper upon which the balance of the depositor is written. Every time any balance changes the slip is removed and a new slip showing the changed balance is inserted instead. The device admits of making a daily proof of all balances and still saves the labor of carrying forward those balances which have undergone no change during the day. Full informatiou can be obtained from the company making these ledgers.

Whatever kind of individual ledger is used, deposits or other entries should be made by the bookkeepers from the "deposit tickets" furnished by the receiving teller, and debits should be made from checks paid by the paying teller or deposited with the receiving teller. All entries when made should be checked, if possible, by some other person than the keeper of the ledger, and the bookkeeper should aggregate the credits and debits entered for the day and compare his aggregates with the receiving and paying tellers' totals of deposits received and checks paid, respectively. Where there

are two or more individual ledgers, the bookkeepers should be made to change ledgers from time to time, or be "rotated," as a further check to possible fraud or dishonesty. When the balance column ledger is used, some additional safeguard is afforded by having some person other than the bookkeeper take off a trial balance unexpectedly and without previous notice; but the most efficient check is the frequent and constant comparison of depositors' pass-books with their accounts on the ledger by some person other than the bookkeeper, as already recommended.

Discount Clerk's Work.

All paper representing loans and discounts made by a bank, after having been authorized by the directors, or the discount committee, should be numbered sequentially, so as to give each piece an individuality by which it might afterwards be known and traced, if necessary. If possible, this numbering should be done with an automatic stamping machine. After this, each loan or discount should be entered, in the order of its number, in a book which will show a record of its number, date of execution, the name of maker or makers, the name of endorser, acceptor or guarantor, date of maturity, amount of face of note or draft, amount of discount deducted or of interest added, with a blank space after this data for making any additional remarks found necessary.

For collateral paper a separate record should be kept, including a description of the collateral described in each note, in addition to other data ; and still another separate record for all demand paper, whether or not secured by collateral.

After this is done the demand paper should be kept in a separate package, arranged alphabetically, and the time paper, whether secured by collateral or not, in a package or packages arranged in the order of date of maturity.

The certificates of stock, bonds, etc., held as collateral for each loan should be placed in a separate envelope of stout manilla paper, large enough to hold the collateral easily, and the envelope should have a printed form on one end for noting the necessary data with regard to the collateral placed in the envelope and the note secured by same.

These envelopes should be arranged either in alphabetical or numerical order for easy reference, and placed under lock in the custody of one person, who should be responsible for their safe keeping. They should be verified by actual examination from time to time, and great care should be taken to replace each certificate, bond, etc., in its proper envelope after examining same. Whenever any change is made in the collateral lodged for any loan, the change should be noted in the collateral note and on the envelope, and the

maker of the note, or his representative, should receipt to the bank on the discount register for any collateral surrendered by the bank, as well as upon the note itself. At the time of making the loan care should be taken to see that any certificate of stock or registered bond is properly assigned in blank on the certificate or bond by the signature of the owner, attested by that of a witness, or on a separate printed blank used for this purpose.

All entries of loans and discounts made in the discount register should be verified by some person other than the clerk keeping this, as well as all computations of interest or discount thereon ; and where interest is not credited until the payment of the note, particular care should be taken to see that the proper and full amount paid is credited on the books of the bank, as the lack of this precaution leaves open a door for dishonesty.

All time paper should also be entered according to date of maturity in a " discount tickler " showing day by day the number of the note or draft, the maker or payer, and the amount, including interest when not included in face of note.

Notice of maturity should be made up from this tickler, and mailed to the maker or payer of each note or draft at least a week or ten days before maturity, after the following form :

Maturity Notice.

Mr. JAMES BROWN.

Your note for.....	$100 00
With interest.....	3 00
	$103 00

Will be due April 20, 1896,
at
First National Bank,
Albany, N. Y.

Checks offered in payment must be duly certified.

Where a bank has customers to which it grants a line of loans or discounts, it should also keep a "credit ledger," with an account for each maker, payer, and endorser, to which is to be posted the number, date, name of maker, payer, endorser, amount, and other data respecting any paper loaned on or discounted by the bank. The value of such a record is to show at all times the total amount the bank has at risk to any maker, acceptor, or endorser of paper held by it.

If the discount clerk receives payment for loans and discount paid, he should keep a memorandum of each piece of paper paid, including interest, if any, and at the close of the day make a statement of total amount received, report same to the general bookkeeper, and turn over all money, checks, etc., to the paying teller. No check should be received in payment of any maturing paper, unless it is duly certified, except from a de-

positor in the bank having the money to his credit. Any paper owned by the bank, or held by it for collection, which is not paid on day of maturity, should be turned over at close of business hours by the discount clerk to a notary public to be protested, whenever this is necessary. An examination and verification of all loans and discounts on hand should be made at least once a month, to prove whether the amount on hand agrees with balance shown by general ledger.

Mail Clerk's Work.

As a bank usually receives by mail a large number of checks, drafts, etc., for collection or in payment for items forwarded to other banks for collection, the opening of the mail is an important matter and should have careful attention. As each letter is opened its contents should be carefully examined and checked off on the letter of advice. This done, the contents should be disposed of as follows: all checks on the bank itself should be turned over to the receiving teller to be entered on his books, and by him turned over to the individual bookkeepers to be charged up against depositors' accounts; checks on clearing-house banks should also be turned over to the receiving teller to be sent through the day's clearings; checks and drafts on other banks or parties in same place should be presented, by messenger, for collection or acceptance on same day, and checks and other cash items on out-

of-town banks or parties forwarded promptly by mail the same day for collection. Time items for collection should be turned over to the discount clerk to be properly entered in a separate book, like the discount register, kept for this purpose, and to be treated with the same care and attention as paper owned by the bank, but kept entirely separate and apart from same. The letters containing the necessary data with regard to all items received by mail should be turned over to the general bookkeeper, and the mail clerk should furnish to each employé to whom he delivers the items a memorandum giving the necessary data with regard to the various items, and the disposition of same, so that "credit" or "charge" slips may agree with the data contained in the letters of advice. At the close of the day's business each bank or party from whom either remittances or collections are received should be advised by mail of such receipt, and where items have been collected with instructions to remit, remittances for same by mail or express, as requested, should be made also. Prompt attention to this feature of business adds to the business and reputation of a bank, while a lack of promtness is apt to discredit it with parties entrusting it with collections.

Great care should be exercised to see that each letter of advice or remittance is carefully addressed, and that proper contents are enclosed in each letter. In the case of a regular correspondent, stamped envelopes bearing

its printed address and the imprint of the sending bank save time and secure accuracy.

Copies of all such letters of remittance should be retained, from which the proper entries may be made by the general bookkeeper.

Exchange Clerk's Work.

As an important branch of a bank's business is to sell drafts or checks, on foreign points, in a large bank this occupies the time of one or perhaps more clerks, whose business it is to fill out the drafts or checks on other banks or bankers, have them signed by the proper officer (usually the cashier or assistant cashier), and receive and turn over to the proper teller the money or checks received in payment.

If the drafts or checks are bound in book form with stubs, the exchange clerk, before drawing the draft, should enter the necessary data in the stub, from which the general bookkeeper may make his entries during the day or at its close.

At present, however, some banks prefer to have the drafts numbered sequentially, put up in pads of 50 or 100 each, and to use in connection with this a book printed in the following form, in which to enter the necessary data instead of in the stub.

DRAFTS ON CITIZENS' NATIONAL BANK, JONESVILLE, OHIO.

Date.		To order of	Amount.	Number.
Mar.	20	Henry Jones & Co	1 051 20	1,000
	21	J. Smith	22 25	1,001
	22	S. Brown	500	1,002
		J. Smith	4 500	1,003
		Henry Jones & Co	2 500	1,004

The advantages of such a record is that it is much more compact than a book with stubs and is much more convenient for making up an account current for the correspondent bank on which the drafts are drawn, or for comparing an account received from such a bank.

Stock Ledger.

When all the capital stock of a bank has been paid in, and the stock certificates issued to the shareholders, the record of such certificates and all future transfers of same should be recorded in a book called the "stock ledger," which, when properly posted, will show in a separate account for each shareholder the exact number of shares issued to him and standing in his name. The data for the entries in this ledger should be taken from the "stub" of every certificate of stock issued from the "stock certificate book." Before any certificate is issued entries should be made on this stub to show its number, the date of issue, the number of shares, the name of the shareholder, and his receipt for the certificate; and when it represents a transfer of stock the stub

should also show the number of the old certificate replaced by the new, the name of the shareholder who owned it, and the number of shares represented by it. From these data entries should be made in the stock ledger in the following manner:

STOCK LEDGER FORM.

JOHN JONES.

1896 Feb.			To Cert. No. 1.	No. Shares. 10	Amount. 1,000
		1896 Feb.	By Cert. No. 1.	1 10	
			" " 49.	No. Shares. 5	Amount. 500

ROBERT SMITH.

		1896 Feb.	By Cert. No. 50.	10	
				No. Shares. 4	Amount. 500

These entries mean that John Jones, as one of the original shareholders of the bank, on February 1 paid $1,000 for 10 shares, for which stock certificate No. 1 was issued to him, and that on February 10 he surrendered certificate No. 1 for transfer on the books of the bank, in the place of which the bank issued two certificates, one, No. 49, for 5 shares in his own name, and the other, No. 50, for 5 shares in the name of Robert Smith, to whom they had been sold by Jones. The figures entered in the column headed "amount" should always represent the par value of the stock.

The aggregate of the number of shares standing to the credit of each shareholder, and the par value or "amount" of same should always be equal to the total number of shares issued and the total capital stock of the bank, and the correctness of the entries in this ledger should be tested by balancing the accounts in it once a month unless no transfers have been made during this period.

General Bookkeeper's Work.

This should be entrusted to a reliable and competent accountant, for it is on the "general ledger" of a bank that its business should be simply and faithfully recorded, and this is the common center to which the condensed results of all transactions on auxiliary books should converge. The business of a commercial or national bank is usually embraced within the following "general" accounts, showing its resources and liabili-

ties, which, if the books are correctly kept, should always balance each other in amount.

Resources.	Dollars.	Cts	Liabilities.	Dollars.	Cts.
Loans and discounts...			Capital stock paid in ..		
Overdrafts			Surplus fund		
U. S. Bonds to secure circulation			Undivided profits, less current expenses and taxes paid.		
U. S. Bonds to secure deposits			National Bank notes outstanding.....		
U. S. Bonds on hand...			State bank notes outstanding		
Premiums on U. S. bonds			Due to other national banks		
Stocks, securities, etc..			Due to State banks and bankers		
Banking house, furniture and fixtures.			Dividends unpaid.....		
Other real estate and mortgages owned.			Individual deposits		
Due from other national banks.....			United States deposits.		
Due from Statebanks and banks			Deposits of U. S. disbursing officers		
Due from approved reserve agents.....			Notes and bills rediscounted		
Cash.....			Bills payable.....		
Redemption fund with Treasurer U.S.			Liabilities otherthan those above stated		
Due from Treasurer U. S.....					
Total			Total.....		

In addition to these accounts, an account should of course be opened for every correspondent bank with which business is done, and where there are many of such banks, their accounts should be kept in a separate ledger, known as a "bank ledger." If the number of such is not great, then accounts may be kept in the same ledger as the "general" accounts. At the close of the day the entries should be made in these accounts by the general bookkeeper from memoranda in letters or on "credit" and "charge" slips furnished him by the individual bookkeepers, the tellers, the mail clerk, the note or discount clerk, exchange clerk and other employés; and before making his entries he should see that the various credits and debits agree with and offset each other. The entries in most active accounts usually are simply the totals representing the transactions in each account during the day, such as loans and discounts, cash, individual deposits, etc., but the bank accounts should be posted so as to show the nature of the various entries during each day, whether drafts paid or drawn, remittances received or made, collections forwarded or received, interest charged or credited, and the like. If drafts on banks are drawn from stubs, then the number and amount of each draft should be entered in the bank's account on the ledger for convenience of making or checking accounts current with the bank.

The "profit and loss" account, into which all subordinate profit, loss, and expense accounts should be covered

at the end of each dividend period, should be kept by periods so as to show the balance on hand at end of the previous period on the credit side with the profits from various sources on the same side, and on the debit side, the losses charged off (if any), expenses, taxes, dividends paid (if any), and the balance remaining on hand carried down to the beginning of the next period on the credit side, after the following form :

PROFIT AND LOSS.

1896					1895						
June. 30	To Salaries..	10	536	75	Dec..	31	By balance.....	10	020	32
	" Expenses.....	6	931	56	1896					
	" Taxes	1	050	75	June.	30	" Discount...	20	131	62
	" Losses		754	60			" Interest.....	5	041	75
	" Dividend No. 5..	5	000	00			" Exchange .		503	65
	" Balance..... ...	12	195	64			" Premiums .		100	54
							" Rents		671	42
		36	469	30				36	469	30
					1896					
					June.	30	By Balance....	12	195	64

General Statement.

In order to prove the correctness of the general ledger, and at the same time make an exhibit of the condition of the bank's affairs, a trial balance of each and every account on this ledger should be frequently made.

If these accounts are kept in a daily balance ledger, already described, then this balance will be made every day ; but if kept in the "three column" or "balance column ledger," then a "general statement" book should be provided for showing these balances.

This book should show the resources and liabilities in printed form, like that given on page 143, and in addition the balance due to or from each correspondent bank or banker with which business is done, the sum of which balances will represent the amount due from other banks or bankers, or due to them, as the case may be. With the name of each general account, and of each bank and banker, printed in such a book, the figures representing the balance of each account on the general ledger can be written in opposite the printed title, and much labor is thereby saved.

Other Suggestions.

As competition in banking compels the doing of many things involving clerical labor and expense, for which no direct charge can be made, much economy can be effected by adopting simple methods of bookkeeping, and by a liberal use of printed forms, in addition to those recommended or suggested in this outline of bank bookkeeping and administration.

One very important principle which should be applied systematically and universally to all the work done in a bank, is that of having the entries and work of each officer or employé examined, checked, and verified each day by some other officer or employé, for this will go very far towards insuring greater accuracy and preventing dishonesty. On this line the writing up of passbooks by a clerk who does not keep the individual

ledger, and the verifying or reconciling accounts current received from correspondent banks, by some one not filling out or signing the drafts, or conducting the correspondence, are very important, and a teller should never be allowed to keep the individual ledger.

One device which has effected a great saving of labor in bank work, is the Burrough's Registering Accountant, sold by American Arithmometer Company, St. Louis, Mo., which, by the operation of a keyboard like that of a typewriter, prints the figures in a column, on a roll of paper, and at any desired point, by the turn of a crank, shows the sum resulting from the addition of the figures, with absolute accuracy. Experience shows this machine to be especially valuable and useful in making out lists of checks for clearing house, writing up checks for balancing pass books, taking off balances from "three column ledgers," and whenever similar work is to be done.

A great improvement on the old system of having depositors write their signatures in a book is to take each signature on a card and to arrange these cards alphabetically so that each signature is easily referred to. For this there are several patented devices.

In conclusion, it should be understood that the information and suggestions contained in this chapter are given only as a bare outline of what is regarded as a good and safe system, the details of which must be worked out and adapted to the varying needs of each particular case.

Coffin

Hand-book for bank officers