BANKING PRINCIPLES AND PRACTICE

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CHAPTER XXVII

BANK ADMINISTRATION—SHAREHOLDERS AND DIRECTORS

The Management of a Bank

With the exception of certain private banks, banks in general are corporate institutions and as such have a representative form of government. The source of authority and control is the owners —the shareholders; they elect a board of directors to conduct the operations of the bank, and the board of directors delegates authority to certain officers, appointed and controlled by them, to execute their will and policy. Certain powers are inherent and inalienable with the shareholders, certain ones with the directors, and certain others with the individual officers.

The officers common to all commercial banks are the president, one or more vice-presidents, the cashier, and one or more assistant cashiers. But with the expansion of business a number of the larger banks have found it necessary to have additional officers. Ordinarily the president is the chairman of the board of directors, but in certain large banks these offices have been distinguished from one another. A bank finding the number of its vice-presidents unduly expanding may designate several of its senior vice-presidents "executive managers," over whom one may be appointed "general executive manager." The duties devolving upon the president may be so great as to require an assistant to the president, and the duties devolving upon the vice-presidents may require assistant vice-presidents. The cashier has an increasing number of assistant cashiers, some of whom may directly assist certain vice-presidents, and others may specialize in certain lines of activities and may also continue to manage the department from which they were elevated to assistant cashierships. Another officer appearing in bank administration is the comptroller. Although his position is not yet standardized, he generally divides the executive work of the bank with the cashier, handling the personnel, auditing, planning, etc.

The above officers constitute the management of the bank. Except the inherent and inalienable powers and liabilities of certain officers, the powers and liabilities of the officers in general are determined by delegation by the board of directors. The great object in view is to concentrate authority and responsibility and at the same time empower the subordinates with enough authority to execute business expeditiously. The larger the bank, the more persons have to be given authority to sign for and bind the bank, and the more difficult become the delegation and supervision of this authority. In the pages following are given the legal and other qualifications of the shareholders, directors, president, and cashier, together with their legal authorities and liabilities, as recognized in courts of law. The powers and liabilities of the other employees are comprised within those of these officers, and it is not necessary or possible to state them in detail.

The Shareholders of National Banks

The shares of national banks, with a few exceptions, are of $100 par value, and the minimum capitalization is based upon the population of the domiciling city or town. There is no limit to the number of shares owned except as results indirectly from limitations on the number of incorporators. On March 5, 1917, there were 7,581 national banks, with a combined capital of $1,073,875,000, and a total number of shareholders of 459,619, of whom 138,204 were women. This is an average capitalization of $141,654, and an average ownership of about 24 shares to a stockholder. Bank shares are widely held, particularly those of country banks, which are owned by local capitalists. The growth of capitalization of national banks in its relation to certain principal items is indicated on the following chart for quinquennial periods:

Growth of Capitalization of National Banks

(Amounts, except for the number of banks, in thousands)

Date	Number of Banks	Capital Paid In	Capital per Bank	Surplus & Undivided Profits	Total Deposits	Ratio of Total Deposits to Capital	Total Resources
Oct. 5, 1897	3,610	$ 631,488	$175	$ 334,752	$ 2,516,982	399%	$ 3,705,134
Sept. 15, 1902	4,601	705,535	154	495,610	4,534,527	643	6,113,929
Aug. 22, 1907	6,544	896,451	137	734,858	6,076,650	678	8,390,328
Sept. 4, 1912	7,397	1,046,013	141	943,757	8,129,685	777	10,963,401
Nov. 20, 1917	7,656	1,092,207	143	1,144,376	14,798,336	1,355	18,553,197

The fall in capitalization per bank after 1900 was due to the Act of 1900, which permitted national banks to organize with smaller capital; but this act also tended to cause a wider ownership of bank stocks. The average capitalization of state banks is smaller than of national banks. Their shares, however, are also widely held.

Women may be shareholders of national bank stock if permitted by state law and under the limitations imposed by state law. All national and state banks may become stockholders of their own stocks for the purpose of securing a debt, and some states allow their banks to purchase their own shares. When a state becomes a subscriber it lays down its sovereignty so far as respects the transactions of the bank and is on an equality with other subscribers as to liability, powers, and privileges.

Shareholders' Meetings

The charter and by-laws provide usually for the calling of shareholders' meetings, either by notice published for 30 days in advance or by written notice to the individual shareholders; the latter is the more common method. When any act is to be done which requires the consent of the shareholders, their assent, unless unanimous, must be given at a duly convened meeting. It does not suffice, except by specific provision of statute or charter, to get the assent in writing of shareholders owning enough stock to pass the action; no majority can bind a minority, however large the majority or small the minority, unless the action is taken in a duly called meeting. At such meeting the shareholder has a right to be present in person or by proxy and express his assent or dissent. It is provided in the case of national banks, and the example is followed largely by state law, that shareholders who have due and unpaid subscriptions for stock are disqualified from voting. Each shareholder is 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 bookkeeper of the bank may act as proxy; the Comptroller of the Currency has ruled that directors may not act as proxies within the intent of this law. A majority of the shareholders present in person or proxy constitutes a quorum. In some states the law permits cumulative voting and also voting trusts, but federal law denies such action to national banks.

Shareholders' Rights and Liabilities

It is common to impose upon bank shareholders a double liability; national bank shareholders are held individually responsible for all contracts, debts, and engagements of the bank, each to the amount of his stock, at the par value in addition to the amount invested in such stock. If a shareholder transfers his shares within 60 days next before the failure of the bank, or with a knowledge of such impending failure, he is liable to the same extent as if no such transfer had been made. This liability rests, with few exceptions, upon the stockholders of record. The liability is for the benefit of all creditors, not any particular ones. The assessment and collection of this liability devolve upon the Comptroller of the Currency (or, if it be a state bank, upon the state superintendent of banks) and are executed by the receiver appointed by him; in some states the creditors have the right to sue. The Comptroller's decision that it is necessary to enforce the liability is conclusive and may not be questioned by a stockholder, nor does the right to sue arise until the Comptroller has so ruled. The Comptroller may levy successive assessments where the aggregate of assessments does not exceed the total liability. The contingent liability is really a trust or reserve fund which can be drawn to satisfy creditors. After all creditors have been satisfied, the Comptroller calls a meeting of the shareholders, who vote on the question whether the receiver is to be continued or an agent appointed to wind up the affairs of the bank.

Any surplus which may remain after the payment of the bank's debts by the receiver or other person liquidating a bank belongs to the shareholders in proportion to the shares held. When the capital of a bank is legally reduced, the excess above the final par value as reduced belongs, and should be distributed proportionately, to the shareholders. If the capitalization is increased and new shares are issued, those who hold shares at the time of the increase have the first right to subscribe, in proportion to the shares held, for the new ones, before they are offered on the market. When a dividend is declared, it is held in trust for the shareholders, who have a right to its proportionate distribution.

A shareholder has the common law right of a shareholder to inspect, for proper purposes and under proper regulations as to time and place, the books, records, and documents of the bank. State courts may compel national bank officers to permit a stockholder to inspect its records and documents for a proper purpose.

Shareholders may transfer their shares to competent parties, and they have the right to demand that the bank execute the transfer on its books and issue to them the proper stock certificate. Refusal to do so gives the purchaser the right of action for damages. The state laws differ somewhat as to how and where transfers may be made.

Election of Board of Directors

Among the most important powers of the shareholders is the election of the board of directors who manage the affairs of the bank. These are elected annually at what is commonly called the "annual" meeting. The annual meeting of national banks must be held on some day in January, but the Comptroller favors the second Tuesday. At this meeting no other business but the election of directors may be transacted without due notice having been given that other business will be transacted. If the bank fails to effect an election at the time appointed, an election may be held on any subsequent day, 30 days' notice having been given in the local newspaper. The date of election is fixed in the charter, or by the directors in the by-laws or otherwise, or by two-thirds of the shareholders. The directors cannot, therefore, continue themselves in office by failing to hold an election, for the shareholders can get together and fix an election date. Ultimate control of the management of the bank is thus vested in the stockholders. Unless two-thirds of them were dissatisfied with the incumbent board, the directors might retain office indefinitely by mere default of the shareholders to force an election.

The shareholders have a right by statute or common law to sue directors for malfeasance in office. Errors of judgment, unless so gross as to resemble fraud, do not give a right of action. Really fraudulent acts or breaches of statutory or charter provisions, entailing loss on the bank, give a right to the shareholders severally to recover the loss or damage sustained by them. The action is against the directors as private individuals and not as officials. The suit could not be brought by the bank corporation. The receiver of an insolvent bank has the same rights to recover from directors who waste the bank's property or let it be wasted; but if the receiver himself is one of the faulty directors, the suit may be brought by one or more shareholders.

The affairs of a bank are managed by a board of directors. The national banks are required to have a board of not less than five members, but no maximum number is fixed; banks, especially the ones in larger cities, have many more than five, the purpose being to get a more representative board and secure a larger good-will in the community. The directors are elected at the annual meeting for a term of one year and until their successors are elected and have qualified.

Legal Qualifications of Directors—Clayton Act

Every director of a national bank must, during his whole term of office, 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 bank is situated, or within fifty miles of the location of the bank, for at least one year immediately preceding their election, and must be residents of such state, territory, or district during their continuance in office. These residence and citizenship requirements give local control to the bank, assure a better adaptation of policy and conduct to the needs of the community, and guard against adverse interests. Every director must own, in his own right, at least 10 shares of stock of the bank, unless the capital of the bank does not exceed $25,000, in which case he must own 5 shares. Any director who ceases to be the owner of the required shares, or who becomes in any other manner disqualified, vacates his directorship thereby. No person who holds stock in a merely representative capacity, as trustee, executor, administrator, or guardian, can be a director. These property requirements aim at giving the directors a personal interest in the successful conduct of the bank.

The Clayton Act provides that no person shall at the same time be a director or other officer or employee of more than one bank, banking association, or trust company organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000; and no private banker or person who is a director in any bank or trust company organized and operating under the laws of a state, having deposits, capital, surplus, and undivided profits aggregating more than $5,000,000 is eligible to be a director in any bank or banking association organized or operating under the laws of the United States. A state bank or trust company which has become a member of the federal reserve system is considered as "organized and operating under the laws of the United States" within the intent and meaning of the Clayton Act.

No bank, banking association, or trust company organized or operating under the laws of the United States, in a city of more than 200,000 inhabitants, may have as director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association, or trust company located in the same place, with the following exceptions: (1) A director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank or trust company organized under the laws of the United States or any state where the entire capital stock of the one is owned by stockholders in the other; (2) a director of class A of the federal reserve bank may be an officer or director, or both, in but one member bank; (3) the prohibition does not apply to mutual savings banks which have no capital stock.

Amendments to Clayton Act

The Clayton Act was amended in 1916 by the Kern Amendment, which permits any officer, director, or employee of any member bank or class A director of a federal reserve bank, who first procures the consent of the Federal Reserve Board, to be an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any state, if such other bank, banking association, or trust company is not in substantial competition with such member bank. The board is authorized, at its discretion, to grant, withhold, or revoke such consent, and the authority requires it to define what constitutes substantial competition.

Another amendment permits any director or other officer, agent, or employee of any member bank, with the approval of the Federal Reserve Board, to be a director or other officer, agent, or employee of any bank or corporation chartered under federal or state law and principally engaged in international or foreign banking or banking in any dependency or insular possession of the United States, in the capital stock of which the member bank has invested as allowed by law.

The law was further amended in 1917 to the effect that a state bank becoming a member bank may continue to exercise its full charter and statutory rights as a state bank or trust company, which amendment exempts it from certain provisions of the above laws. In the Edge Corporation Act of 1920 the provisions of the Clayton Act, as amended above, were made to apply to the directors, and other officers, agents, and employees of the Edge corporations, provided, however, that any director, or other officer, agent, or employee of a member bank, having obtained the approval of the Federal Reserve Board, may serve at the same time as a director or other officer, agent, or employee of an Edge corporation in the capital stock of which such member bank may have made investment.

The purpose of the Clayton Act and amendments was to prevent unlawful restraints and monopolies, to prevent common control of member banks and private or state banks or trust companies engaged in the same activities as member banks, and to maintain competition both as between large banks in different large cities and between banks in the same large city. It is opposed to centralized bank control, and possibly results incidentally in getting on some boards of directors men of smaller caliber than might otherwise be obtained if such limitations were not imposed.

Selection and Services of Directors

The directors are put under oath to administer diligently and honestly the affairs of the bank and to be qualified. These oaths are sent to the Comptroller of the Currency and filed.

A director is not an agent of the bank; he cannot act separately and independently of his fellow-members. Only when the board of directors is duly convened and acting as a unit does it represent the bank. A majority of the board usually constitutes a quorum, but this is determined by the charter provisions. The board is presumed to meet and counsel together and determine upon action. Of course, the board may appoint one of its number to act as agent of the bank.

Directors normally serve without salary. Since they are big business men, the time and attention required of a director represent considerable sacrifices. In some large banks, directors are given fees for each meeting they attend, but these fees do not compensate for the sacrifices. Formerly certain directors did not take seriously the very important work of their office; they accepted the office because of the honor and business prestige that attach to it, but gave too little attention to the actual duties involved; but public opinion, as well as the courts, is insisting upon a more serious attitude from directors. The banking law prohibits any officer, director, or employee of a member bank from being the beneficiary of or receiving directly or indirectly any fee, commission, gift, or other consideration for, or in connection with, any transaction or business of the bank, other than the usual reasonable salary or director's fee paid to them for their services.

In choosing directors, various factors are considered: The largest stockholders may be elected, the other shareholders feeling that large holdings will induce a keen interest in the success of the bank. Oftentimes small groups of shareholders having a majority of the shares will elect themselves or close associates so as to control the policy and conduct of the bank. Men of large influence in the community or of large capital and business connection stand a good chance of election because of the business which they will presumably bring to the bank. It is highly important that the directors be men of good financial record and possessed of conservative business sense and sound judgment.

Functions and Powers of Boards of Directors

The bank may divide its business into departments and choose a separate board of directors to have control of each part; or it may have one board and divide it into committees, giving each committee control over certain functions, so that the resolutions of the committee within the scope of its business have the same force and effect as resolutions of the entire board. In the committee system it is essential that the board expressly define the powers conferred on a committee. One of the most common committees is the discount committee, which in lieu of the whole board passes upon the offerings of discounts.

The board exercises general control and government of all the affairs and transactions of the bank. With a few restrictions it can do anything the corporation can do under its charter and the law. What functions the board must perform are largely determined by the usage among banks. The directors must handle the general superintendence and active management of the bank. They are presumed to know all that is done, and the system and rules for doing it; they may appoint agents and endow them with powers sufficient for executing the resolutions of the board and for carrying out the ordinary transactions of daily business, without specific authority in each instance; but any such delegation of power does not divest the directors of their responsibility and duty, and they may be held for losses arising through officers in the selection and supervision of whom they have not acted in good faith or with ordinary diligence.

The conferment of too broad discretionary powers upon officers is dangerous and may amount to the delegation of the management of the bank; this exceeds the directors' authority. It is always held that the making of loans and discounts is an inalienable function of the directors, which cannot be conferred upon officers because it is so vital to the bank. The officer may not make loans and discounts unless specifically approved by the directors as to the aggregate amount, time, and other particulars. The directors may authorize the cashier to let a certain borrower have such loans in such sums and at such times as he may wish within a certain time, up to a certain aggregate, to run specified periods, at named rates of interest, and according to designated conditions as to security. This is called extending a "line of credit"; but the cashier and his subordinates have no authority beyond this, nor do the directors pass upon each individual loan or discount.

The courts distinguish executory functions and management functions. The former are the medium through which management and control are effected and consist of such acts as drawing checks, receiving deposits, paying drafts, etc., and may be done by the appropriate customary officers without an authorizing vote by the directors.

Limitations and Responsibilities of Directors

The courts regard the directors as trustees for the stockholders and for depositors and noteholders. They insist not only that the directors be free from blame, but that they be prohibited from doing things where self-interest may bias them as against the bank. A director may not acquire any interest adverse to the bank of which he is director, nor may he secure by means of his trust any advantage not common to the other stockholders. In all such matters he must refrain both from voting and exercising his influence. If he applies for a loan he must not vote on the approval of his application and must behave as any other applicant. In such a case there is great danger of favoritism for fear of offending the applicant director or because of his influence; but such favoritism is dangerous to the bank. In some states a loan to a director is prohibited; but this prohibition is often evaded by a loan to another person for the use of the director; such evasion is not necessarily unlawful, although the purposed destination of the funds may be known. The danger of favoritism to directors has led to the specific prohibition of certain acts which might work adversely to the bank; for instance, interest on deposits of a director may not be at a higher rate than to other depositors of the bank; paper offered for discount by a director must be discounted on the same terms and conditions as paper offered by others, and even then only with the affirmative vote of three-fourths of the directors; securities may be sold to a director, or to firms of which he is a member, in the regular course of business, on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority vote of the board.

If an officer commit an illegal act without the knowledge or direction of the board of directors he may be prosecuted, but not the bank itself. Of course, he is still more liable to prosecution if he commits an illegal act contrary to actual orders of the directors. It is the duty of the directors, in case they are informed of the commission of an illegal act and can avert its evil consequences, to disavow at once the act of the officer, to remove him from office, to decline to accept any advantage from his act, and to seek to undo or correct it, and, if any benefit has been derived, to make restitution. If an officer accepts benefits illegally and the directors, but for their negligence, should have known of the fact, the directors are presumed to know it and cannot plead ignorance.

The directors are limited in their powers. They can use the funds and property of the bank only for proper banking functions and to the bank's advantage in the best way that their knowledge and abilities can devise. They cannot vote to contribute to charities or make gifts. They cannot needlessly and gratuitously assume actual or contingent liabilities for others.

The directors and officers may do wrongful things favoring third parties and bind the bank, provided the facts as actually or constructively known to the third parties did not constitute notice to them of the wrongfulness of the transaction. An officer clothed with the indicia of authority can bind the bank by his representations to innocent persons.

Directors are liable to stockholders for such losses to stockholders or creditors, or both, as are incurred through the failure of the directors to manage the bank according to the charter and in good faith. They are not liable for losses arising through frauds by officers, provided they have not been grossly negligent in selecting and watching such officers. What constitutes reasonable care required of directors depends upon the matter in hand and can only be determined in the light of all the circumstances. Ill health or non-residence does not excuse a director from constructive knowledge of the affairs of the bank.

The bank can be held liable if it publishes corporate reports, as such, falsely and with criminal intent. A report, for instance, regularly adopted by the directors and published makes the bank liable for its truth. If officers assist the directors in the preparation of such false reports, they, with the directors, are under personal liability to indictment for conspiracy to defraud.

CHAPTER XXVIII

BANK ADMINISTRATION—THE OFFICERS

The President—Powers and Responsibilities

The president of a bank in almost every case is chosen by the board of directors from their own number. The national banks are required to elect their presidents in this manner. The president is indifferently called "president of the bank" and "president of the board." It is his duty to preside at meetings of the board of directors. In small banks the president is often but the nominal head of the institution, the active part being taken by an experienced cashier. In such a case the president may not be versed in banking, but may be chosen because of his wealth, prominence in finance, high public esteem, or his success in other lines of business. In certain other cases he may perform the office of cashier and be clothed by the board with express or implied authority to conduct the bank almost as he wills and his policy determines that of the bank. The amount and nature of the duties conferred upon him vary with the practice and by-laws of the bank. Provided the president is competent and conservative, the one-man bank—the bank that is dominated by its president—may be highly successful and desirable; but generally it is best that the board of directors retain an active control and supervision. In nearly all cases the position of president is one of dignity and of an indefinite general responsibility rather than of any accurately specified power. The president is usually expected to exercise a more constant immediate and personal supervision over the daily affairs of the bank than is required from any other director.

The president derives his authority from the charter and by-laws, from votes of the directors, and from the tacit ratification of his acts by the board, that is, from the usages of the bank. His ex officio powers are scarcely greater than those of any other director. As head of the board he may bring suit in the name of the bank, and in suits against the bank legal processes may be served upon him, whereas service upon any other director might not be held by the courts to be proper and due notice. The function of caring for the litigation of the bank, both as plaintiff and defendant, is inherent in his office, and for this purpose he may retain and employ counsel. This is his sole inherent power beyond that of any other director. But he is commonly the active executive officer of the bank and his authority is very much extended by express delegation by the board or by their tacit sanction of his known acts.

The tendency of court decisions is to the effect that the president cannot assume any kind of executive power without direct authorization of the board. But the president can bind the bank by his action "wherever the charter, or vote of the directors, or usage of the bank, or long acquiescence by the bank in a course of action by the president, or any facts constituting a holding out of the president by the bank as having a right to act for it, lay a foundation for authority actual or inferred, and whenever the bank has ratified his action." But representations or admissions by the president do not bind the bank unless they come within the scope of his office. The statutes of the state may confer special powers on the president alone or jointly with the directors.

For acts of gross negligence or fraud the president is liable to the bank for damages. He is also bound to use reasonable diligence in acquainting himself with the affairs of the bank; if he fails to do this and makes false representations to third parties, even though in good faith, about the condition of the bank, he is liable to them for negligence. He is not regarded by the courts as an insurer of the honesty of the cashier, and is expected to exercise only ordinary care in the supervision of officers in the discharge of their duties.

In the appointment of a president there is no implied promise to pay him and he cannot sue for pay for services on that score, any more than any other director can. In any bank, however, which requires the whole or a goodly portion of the president's time, it is customary to pay him, his compensation ordinarily being determined by vote of the board of directors.

The Vice-President

The president is assisted by a vice-president, who in his absence or disability performs the duties of the president. The national bank laws provide that in certain instances the vice-president may act instead of the president, and the Comptroller of the Currency therefore holds that in other cases, where the law does not specifically make provision otherwise, the vice-president cannot perform the duties of the president.

In very large banks there are many vice-presidents and the work of the bank is divided among them on the basis of geographical areas or other considerations. Banks doing a national business have vice-presidents for different portions of the country, the most useful line of division being the federal reserve districts, each vice-president handling one or more contiguous districts. Banks having foreign departments and doing a world-wide business allot to the foreign department one or more vice-presidents who divide the work on the basis of countries or grand divisions. If a bank has allied institutions, certain vice-presidents of the bank may act as the heads of these.

In very large banks the duties of the president are sometimes divided among a chairman of the board of directors, the president, executive managers, and vice-presidents. The exact lines of division of the functions between these are determined by the board of directors and are more or less confidential. As the banks get larger the number of these higher officers increases and the parcellation of functions is more extended.

The president and vice-presidents, being normally directors, are elected yearly, but the tendency is to re-elect the same men from year to year and thus get continuity of policy and practice.

The Cashier

The office of cashier of a bank differs radically from that of other institutions. He is by law and long usage an executive officer who conducts all the money operations of the bank. The cashier of other institutions is a relatively unimportant person, functioning chiefly as the payer and receiver of cash.

The division of authority between the president and cashier, as well as their relative rank, is changing slowly. The president's powers and functions are being extended; he is becoming less of an inactive figurehead. The growth of certain banks to giant size has recently led them to divide the cashier's duties with a "comptroller." Promotion from lower to higher offices need no longer be through the cashiership alone. Despite these tendencies, however, the cashier remains the focal officer of the bank.

The cashier does not regulate and control—he executes, carrying out transactions over which his discretionary authority is very limited. He must be clothed with sufficient practical power to perform the daily routine of business, but must not trespass on the control and responsibility which are inalienable in the directors; the demarcations between these are often subtle, and wide variance of opinions is found in decisions of courts as to what is and what is not within the cashier's authority. Acts which are strictly of performance and not of judicial quality may be delegated to the cashier; anything which pertains to the determination of the soundness and wisdom of a transaction and which requires the exercise of semijudicial discretion is not appurtenant to his office. It is the duty of the cashier to execute what the directors decide; they are responsible for the wisdom of their decisions; he is responsible for the honest, accurate, regular, and skilful execution of them.

The Powers of Cashier

The powers that have come by court decisions and common usage to be regarded as inherent in the cashier's office include the following:

1. To draw checks or drafts upon the funds of the bank deposited elsewhere. Checks so drawn are known as "cashier's checks" and are highly valued. Normally the cashier signs himself as "Cashier of the . . . . Bank" to show that he is acting in his official capacity and that the check is intended to withdraw corporate funds.

2. To certify checks, unless a check happens to be drawn under unusual conditions. In New York and in the United States courts the right of certification is held inherent in the cashier; but some states deny this. The power of certification may be conferred by the directors on other officers and with such restrictions as the board sees fit to impose. The cashier may not certify checks of a drawer who has insufficient unencumbered funds, nor may he certify his own checks.

3. To buy and sell bills of exchange; to provide for exchange and for the acceptance of bills.

4. To take charge of the bank's personal property not otherwise provided for by the directors and to dispose of it in the regular course of business, and to keep the accounts of the bank.

5. To indorse and transfer negotiable paper on behalf of the bank in the regular course of business, that is, for discount, collection, payment of the bank's debts, converting collateral security into cash, etc.; he cannot indorse for accommodation nor on his own paper, nor give title to other than negotiable property of the bank.

6. To collect debts due to the bank and perform the necessary incidental operations.

7. To borrow money in the regular course of business and give the bank's note and pledge collateral.

8. To receive deposits and issue certificates of deposit or other evidences.

9. To make or supervise the transfer of the bank's shares of stock.

10. To buy or engage to buy government securities.

Besides his inherent powers the cashier may have delegated to him special powers; such delegation arises by statute or charter provision, by action of the stockholders, by vote or verbal order of the board of directors, by usage and tacit approval by the board, or by some necessity or emergency requiring action manifestly to the interest of the bank.

The cashier is limited as to the time within which and the place where he may exercise his powers. Some powers may only be exercised at the bank and during regular banking hours; others may be exercised anywhere and at any time. The distinction between the two groups rests upon practical business convenience and custom; if any knowledge or articles which can only be fully and satisfactorily obtained at the bank are necessary for the proper performance of an act, the act can only be performed at the bank and during regular banking hours; for instance, the payment or certification of checks and the receipt of deposits can only be done at the bank. But the issue of cashier's checks and the indorsement of checks for the bank may be done at other times and places.

In acts which a cashier has an inherent right to perform he can bind the bank to a third party dealing with the bank and having no notice of any restriction upon the cashier. But in actions which are based on special powers derived in any one of the ways mentioned above, he can bind the bank only within the scope of his delegated authority, and even then only if the acts are *intra vires* for the bank itself and are in proper form.

The cashier is liable to the bank for damages for any loss or injury sustained through his fraudulent or wrongful acts in his official capacity, or through his unauthorized acts, or through disobedience to the directions imposed upon him by the directors. But he is not liable for an intentional or innocent default of his subordinates unless it can be satisfactorily shown that the default was occasioned or facilitated by his improper or negligent performance of duty. He is bound to exercise the most thorough supervision practicable considering the amount of business and the method of doing it; negligence in this matter makes him responsible for the wrongful acts of his subordinates. The statutes may inhibit him from doing specific things under penalties; and if he does such things the bank may sue for reimbursement of loss as well as the amount of the penalty, or at least the amount of the penalty and the excess of the loss over the penalty.

In large banks the duties of the cashier are so heavy that they must be shared with subordinates, and a number of assistant cashiers are appointed for that purpose. They relieve the cashier of such work as he or the board of directors may direct, and in the absence of the cashier they perform his duties, except in such matters as the National Bank Act specifically requires the cashier to do. In these specified cases the Comptroller of the Currency holds that an assistant cashier cannot act in place of the cashier. The assistant cashiers may be heads of departments at the time of their election and continue thereafter to perform the duties of assistant cashier in addition to their departmental work; in such cases the assistant department head will bear a bigger part of the duties of the department.

The Departmentalization of a Bank

It is impossible for the cashier and assistant cashiers to perform all the business included in the general functions of issue, discount, and deposit. For the expeditious execution of the multiplex duties involved, bank officers have divided the bank into more or less separate departments, put under responsible heads, and performing a set of allied operations. The number of departments varies directly with the volume of business to be handled and the possibility of separating the operations into more or less routine elements. Some of these departments, though large in the number of their employees, may yet handle only one or a few operations because the actual volume is so great. Other departments may be small but handle a variety of minor operations, highly responsible perhaps, but less regular or more easily disposed of. In some departments it is essential to limit the number of employees in order to create a definite responsibility for doing very responsible work.

As the bank expands, the tendency is to a further and further parcellation of work among new departments. The departmentalization follows natural lines of cleavage according to the operations to be performed. The general nature of any particular operation is the same in any bank, large or small, country or metropolitan. In certain banks an operation may attain such volume as to warrant the creation of a specialized department; in others a specialized clerk in some other department can handle it; while in still others the operation is so occasional and unimportant that it can be best handled by a clerk as a side line. The fact that needs emphasis is that it is a banking operation of a distinctive sort, which may become common to all or nearly all banks, and that it may develop into such size as to engage a whole department; and, therefore, a description of the operation of a very large metropolitan bank's practices in its numerous departments will elucidate the nature of the operation more clearly than a description of the operation as an occasional act of a junior clerk. The operation is the central fact; the departmentalization is an expedient method of executing it. So while this book describes a bank in which departmentalization is carried very far, the operation and its execution are fundamentally the same in every institution.

Methods of Growth and Expansion

The department heads and clerks are all subordinates of the cashier. Their offices are offshoots of his. To the paying teller is delegated the special function of paying out the bank's funds over the counter and taking care of the funds in vault. In the receiving teller is vested the function of accepting deposits over the counter. And so on. Out of the cashier's general authority the right of paying and receiving are excepted and delegated to these special subordinates of his. Some courts argue that this delegation excludes the cashier from the exercise of this right if he, possibly foolishly, so far as business is concerned, seeks to exercise it. Others argue that his power continues co-ordinate with that of the receiving or paying teller, and both or either may exercise it. The former view would result in less confusion and interference.

The tendency is for large banks to engage in foreign banking operations. These foreign affairs are at first delegated to a foreign department, and a vice-president and assistant cashier may be given charge of them. This department handles all the foreign business, that is, business affecting accounts in the bank for foreigners and the bank's accounts with foreigners, and business for domestic clients of the bank with foreigners or vice versa, or between foreigners. These foreign departments were originally operated almost as separate institutions, borrowing as other customers did from the general or domestic division. As the department grew an internal departmentalization developed; inside it arose the collection department, the commercial credit department, the traders' department, etc. The term "foreign department" then became a misnomer, for it was a department with departments. These internal departments also contain the rudiments of later departments; for instance, in the tellers' department are the receiving section and the paying section. In the charting of this organization, therefore, the cleavage is into the domestic division and the foreign division; these divisions split into departments, which in turn divide into sections, which are formed of subsections and clerks.

Types and Systems of Management

The departmental system of management is peculiarly apt for banking houses on account of the great detail and wide variety of the operations. Management has been a subject of much discussion and experiment in recent years. Several systems of so-called "scientific management" have been devised. The principles of scientific management were first applied to production within a factory; more recently they have been adapted to sales, business offices, and banks. It is not unusual nowadays to find in a modern bank an efficiency expert, a man trained in scientific management, who devotes his entire time to managerial mechanics. He, in conjunction with his planning department, studies and devises methods for more economical and expeditious handling of business.

One form of organization is the military or line type, where authority and responsibility descend by direct line from general through colonel, major, captain, and corporal, to individual man. It is crossed by the staff type; that is, the army is divided on the basis of functions into fighting, supply, medical, engineering, and other divisions, and a soldier is subject to different chiefs depending upon whether he is at the front, in a hospital, or crossing a pontoon bridge. The line type is common in proprietary business houses. While simple in outline, it requires great versatility in its officers. It becomes more difficult as the operations of the house increase in complexity, range, and volume. Its virtues are that it unifies the work and fixes responsibility.

F. W. Taylor devised the system of "functional" management, whereby a worker is subject not to one boss alone but to eight, each one specialized in one function. To this end he separates the actual physical work from the planning of the work. The latter he allocates to a planning department. This department controls three functions, over each of which is a functional boss. These functions are:

1. The preparation of instruction cards.
2. The routing of the work.
3. The keeping of records of cost and time required.

None of these functional bosses comes into direct contact with the worker at actual production.

The production itself is directed by five other bosses:

1. The gang boss, who gets the materials, etc., to the machine.
2. The speed boss, who sees that proper tools, speed, etc., are used.
3. The inspector, who is responsible for the quality of the work.
4. The repair boss, who cares for the proper treatment of the machine by the worker.
5. The disciplinarian, who is a sort of works policeman and judge in all cases of friction.

The system has many advantages, the chief of which are the greater efficiency from specialization of labor, the easier training of workers, the standardization of operations, material, and equipment, and the fixing of responsibility. The chief criticisms of the system are that it requires much clerical work, that it is difficult at times to define clearly certain functions and assess and enforce responsibility without irritation, and that it is cumbersome and expensive.

The third system of management is the departmental plan. It divides the plant into a number of clearly defined departments, each put under a head who is held responsible for conducting the assessed function or functions and getting results. The department head devises methods, routings, and divisions of functions among workers, and holds each subordinate responsible for the performance of set duties. The departments are really separate entities, with interdepartmental accounting, and the worker is responsible to one boss only. The advantages of this system are the fixing of responsibility, the specialization of labor, and flexibility in meeting the enlargement of the working force or the further specialization of tasks as the volume of work increases.

In the present stage of development the departmental scheme is more largely used in bank management than the others, although some applications of the other two types are found intermixed with it. Functionalization appears in the personnel department, which is charged with all employment problems, including hiring, bonding, transfers, promotions, time records, personal records, resignations, pensions, labor turnover statistics, recreation, etc., for the whole bank. The medical department administers to employees throughout the bank, preventing the admission of the physically or mentally undesirable, attending the unwell, and preventing the spread of disease. The educational department conducts training classes for employees of all kinds, provides books and lectures, and stimulates the mental development of the personnel. The purchasing department buys supplies for every department of the bank.

Committee System

Another phase of modern bank management is the use of the committee system. This plan aims at two things chiefly: (1) to get the men into the spirit of co-operation; (2) to focus the combined abilities of many minds upon one problem. A more representative view will be attained and a better understanding of the purposes of the management, as well as their difficulties, and a readier compliance and helpfulness realized, if the officers consult freely in committees composed of those who are vitally related to the problem at hand. This system offers an excellent opportunity for the higher officer to instil his personality and spirit into the other members of the committee; it also gives him opportunity to measure the abilities of the members of his staff.

An Illustrative Organization

To give coherence and unity to the extensive discussion of banking operations as given in later chapters, department by department or function by function, the accompanying chart (Figure 10) will prove helpful. The organization is of no existing bank, and is idealized in many respects. The chart is diagrammatical, its purpose being to help the reader grasp the relationships of the various officials and employees, and of the various departments and functions, and to give him a conception of the bank as a working whole.

While the functions performed are alike for all banks, the distribution and allocation of these functions among officers and departments differ with every bank. Many factors account for these differences; one is the historical or genetic course through which a particular bank has evolved; another is the predominance of certain phases of banking operations or services that characterize a bank. Other reasons for the difference are the scope and volume of business done, the relations to subsidiary or affiliated houses, the personality of certain officers, and the like. Obviously each bank must work out its own organization, following roughly certain common lines of division.

The organization chart given is plainly for a very large metropolitan bank. The multiplicity of vice-presidents, assistant cashiers, and departments shows that. In a smaller bank some of the functions would not be performed, or only in embryo fashion. It will assist elucidation to describe the larger rather than the smaller bank.

In this organization the board of directors has differentiated the offices of chairman of the board and president. There is an assistant to the president. The vice-presidents are of two classes: The older or higher ones are designated executive managers, one of whom acts as general executive manager. Jointly these constitute a managerial board; severally they are experts in respective banking lines. This organization consists of a domestic division and a foreign division, the former being administered by five executive managers and the latter division by two managers.

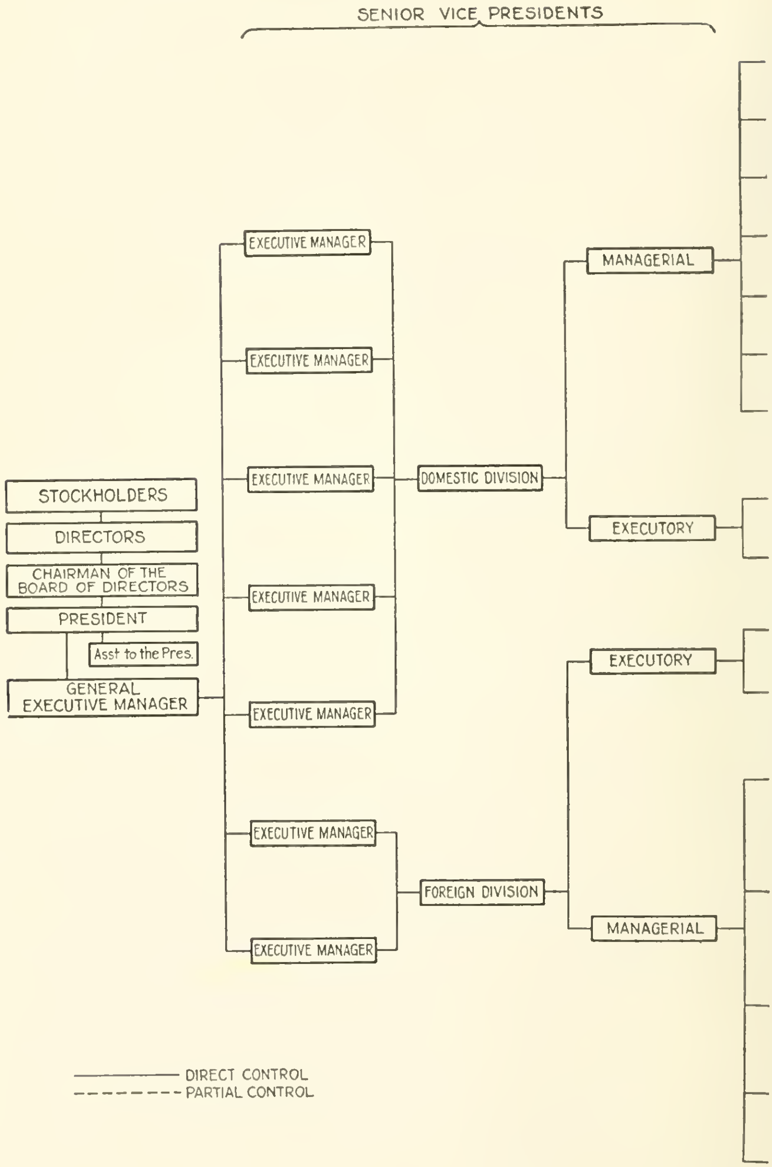
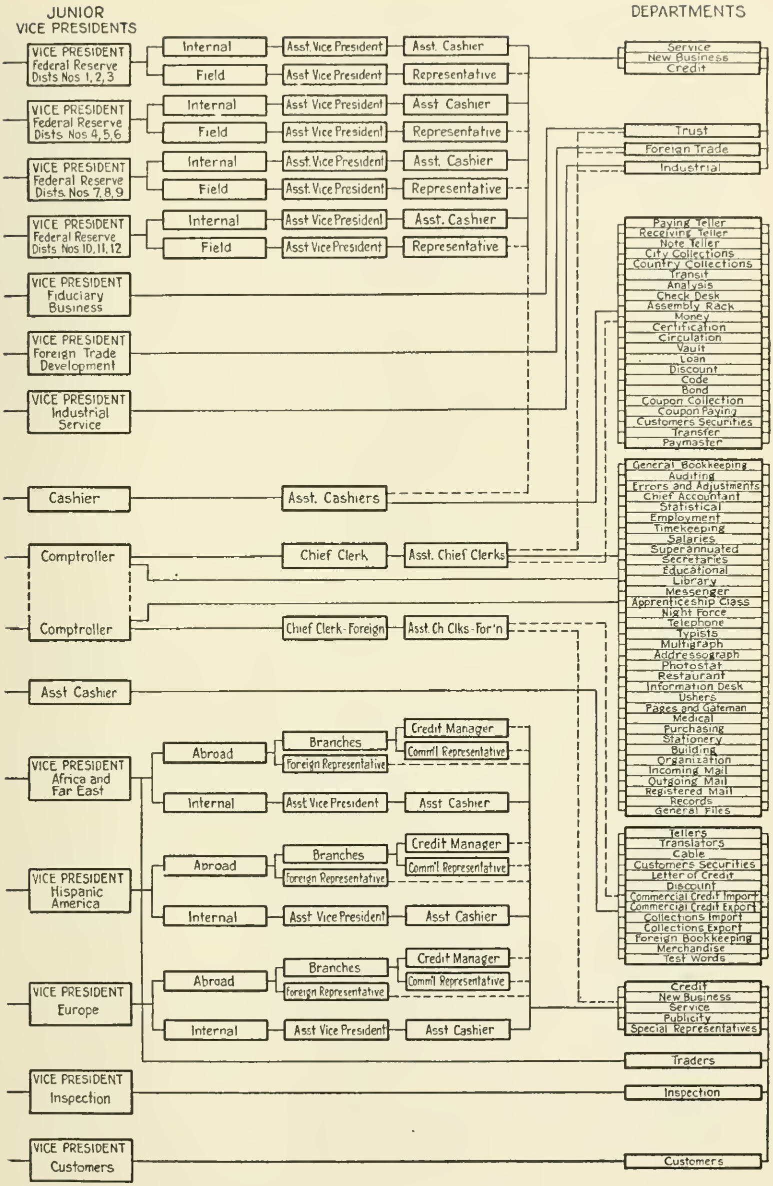


Figure 10. Ideal Chart of



Typical Bank Organization

The Managerial Functions

For purposes of clarity the managerial and executory functions in this ideal organization are separated with somewhat more distinction than is the case with actual banks. The managerial functions are carried out through vice-presidents of the junior grade. The functions are divided in two ways: Some of the vice-presidents specialize in certain lines of work, as fiduciary business, foreign trade, industrial service, etc., and to them is allocated the care of those respective departments. Among the other vice-presidents the country is divided on the basis of federal reserve districts (or other boundaries), and each vice-president has the handling of all the business arising from one or more such districts. All matters relative to prospective, new, and old accounts; all offerings of discounts and applications for loans; all services for clients and prospective clients; in summary, the getting and maintaining and handling of all business in their respective territories devolve upon the vice-presidents, and upon them is placed the responsibility for the bank's success or failure in those territories. The vice-president works through a field organization and a home organization. The assistant vice-president or traveling representative travels through the territory, reports on business conditions, gathers credit data, reports on present and prospective accounts, pushes the publicity of the bank and its services, and, at the instance of the vice-president, may solicit an account. The home organization consists of one or more assistant cashiers and some assistants who, under the vice-president, study the territory and its business opportunities, assemble, analyze, and file the credit data, provide credit reports for clients requesting information, buy commercial paper for them or advise them about buying it, and see that certain other services are performed for clients. The credit department is logically divided on the same basis as the territorial division among the vice-presidents, and its several divisions show quite noticeably the stamp of the respective vice-president's policy and personality.

The credit, service, and new business departments are more intimately related to the vice-presidents than any other departments, but the vice-president may directly ask or require any other department to provide certain data or perform certain services.

The Executory Functions

The executory functions in practically every bank are conducted by the cashier alone. There has, however, lately arisen in some banks an officer designated "comptroller," who shares the executory functions with the cashier. Whether this feature of organization will become common or not it is impossible to state, but it is used in the given chart to show the natural line of cleavage and to set apart under the cashier the more distinctly banking functions. It is to be understood that in banks which do not have a comptroller all the executory functions here allocated to him are controlled by the cashier directly or through the chief clerk subordinate to him.

No wholly distinct line is drawn between the work of the departments under the cashier and those under the comptroller; the line is functional, the comptroller handling those departments which function for the whole bank and are concerned with employment, personnel, purchasing, buildings, equipment, training, files, telephone, messengers, expense, accounting, general bookkeeping, auditing, organization, etc., and the cashier controlling the departments which on the whole perform more strictly banking operations. The comptroller through his capacity for devising and directing the organization may come to exercise a dominant position in the bank. By placing the auditing in his hands an independent check is put on the acts of the cashier's departments. The comptroller acts through the chief clerk, the chief accountant, the auditor, and the department heads. The cashier executes his work through assistant cashiers and department heads. The foreign division is administered in practically the same manner as the domestic.

CHAPTER XXIX

THE PAYING TELLER

General Duties and Qualifications

The paying teller is ranked as "first" teller of a bank. This rank is due to the high responsibilities devolving upon his office. His prime duties are to keep the bank's cash and pay it out over the counter, but there are many ancillary duties, such as:

1. Making shipments of currency to the bank's correspondents and to the United States Treasury and the federal reserve bank.
2. Certifying checks and other items.
3. Caring for signature files.
4. Recording and watching stop-payment orders.
5. Settling clearing house balances.
6. Attending to the pay-roll of the bank itself and of other institutions for which the bank performs this service.

The number of these ancillary duties performed by the paying teller's department depends upon the degree to which the bank is departmentalized; the tendency is toward a more exclusive devotion to keeping the cash and paying it out over the counter and toward an allocation of the other functions to specialized derivative departments. For instance, in the smaller banks the paying teller attends to the certification of checks and other items, while in the larger banks this work is delegated to a separate certification department; likewise in the larger banks the work of gathering, filing, and proving signatures is taken over by the signature department, and the counting and proving of moneys are performed by the money department.

In another sense than that of responsibility the paying teller is a very important personage in the bank. He and the receiving teller come into most intimate contact with the public and with the bank's customers, though the window men in other departments, for example, the discount department, the loan department, the customers' securities department, the note teller's department, etc., also meet some of the customers and public. The receiving teller meets for the most part only the customers of the bank; the paying teller meets both customers and public. The former must especially strive to retain the clientele of the bank by considerate and courteous treatment, the latter to spread the good-will of the bank among outsiders and attract new customers. Much of the gospel of the bank is disseminated through these tellers.

The statement of his duties indicates the qualifications of a good paying teller. He must know most intimately and thoroughly all the United States moneys and their characteristic differences; he must know in the same thorough manner the nature and essentials and legal phases of the commercial instruments which he may be asked to cash; he must be expert in counting and handling money; and he must be a man of tact, with good memory for the names and faces of the people with whom he transacts business and for the peculiar preferences of each. He must possess good address and dignity and should be patient, affable, and easy to meet.

Internal Organization of Paying Teller's Department

The internal organization of the paying teller's department depends upon the degree of its separation from the receiving teller's department, with which it is fused in small banks and in larger banks organized on the unit system, the one teller both receiving and paying funds. Its organization also depends upon the number of functions it performs and the number performed by departments that are offshoots of it. Another factor entering into its internal organization is the number of people who visit the bank for payments over the paying teller's counter. Some large banks have relatively few counter customers and the big bulk of their deposits and payments is transacted by mail and through the clearing house. Of this sort is the bank, which this text seeks primarily to portray, situated in the down-town section of a central reserve city; and even in the case of this very large bank two paying tellers may be found sufficient to handle the counter trade. In such a bank a chief paying teller would supervise the two paying tellers (window men) and keep them supplied with cash from the vaults; each paying teller would have his cage and assistant paying teller, and between these paying tellers' cages would be a cage for a clerk or bookkeeper who would handle the clerical work for the two. The handling of signatures and certifications and the counting of money would be taken care of by specialized departments. The paying teller's department would be therefore so specialized as to require but few men.

Handling the Bank's Cash—The Money Department

The first duty of the paying teller on arriving in the morning is to open the vaults and take out and arrange the various kinds of money needed for the day's use. Method is necessary in this work if accuracy is to be assured. For convenience and safe handling the cash is placed in various drawers and racks according to its character and denominations; large notes, such as 500s, 1,000s, 5,000s and 10,000s, are generally kept out of too easy reach in order to reduce to a minimum the danger of paying them out for notes of smaller denominations. The gold coins are sorted on trays according to the various denominations, in stacks of twenty coins each. The silver and minor coins are likewise sorted on trays in uniform stacks according to denominations. Silver and minor coins are also run through a coin-counting machine, which counts and wraps at the same time. Halves and quarters wrapped in rolls of $10 each and dimes in rolls of $5 each are made up in boxes containing $100. Nickels in $2 rolls are put up in boxes containing $20, and pennies in 50-cent rolls in boxes containing $10.

This arrangement of bills and coins greatly facilitates both the proving of the cash at night and its paying out during the day. A "vault book," containing an accurate record of the entry and issue of cash is kept, sometimes going into such detail as the actual amount of each denomination. Since the Amendment of June 21, 1917, to the Federal Reserve Act, designating the federal reserve bank as custodian of all the legal reserves, the volume of money kept in the bank's vaults has been greatly reduced and the vault records simplified.

The cash from the receiving teller and note teller, as well as all other money received into the bank through various channels, is charged to the paying teller and turned over to the money department to be proved and sorted. The money department is a specialized section performing certain operations common to several departments having to do with cash and providing an independent and disinterested check on the counting of moneys received and issued. The packages of money from out-of-town accounts are turned over by the paying teller to the money department, which opens them and sees whether the money inside agrees with the marks on the outside. The money is then parceled out for counting and sorting according to kinds and denominations. The mutilated money is made up into packages, keeping the kinds and denominations separate; all national banknotes are sent to the Comptroller of the Currency at Washington and the other mutilated money to the Treasury or federal reserve bank. The good money is made up into standard packages, varying with the kinds and denominations, and is put into the vaults for current use.

The money department receives from various departments money charged to the paying teller, the money teller receipts for it and is responsible for it while in his custody, and at the end of the day makes a proof of receipts and disbursements.

Payments and Receipts by Mail and Express

That part of the bank's mail relating to payments of cash is turned over to the paying teller. This comes from all parts of the country and includes requests for payments to be made on account of the 5 per cent redemption fund, transfer of funds, and interest on public deposits, letters of advice from out-of-town correspondents relative to shipments of currency forwarded for their credit, and letters from correspondents containing signatures of indorsers of checks, sent for the purpose of identification. In banks where the signature department is not specialized, the paying teller also receives the letters containing stop-payments on lost or stolen checks.

All these letters are read and initialed. Letters of identification are acknowledged and then filed alphabetically in a special book for ready reference. Requests for the payment of money are passed to the bookkeeper's department and signature department, for verification of balances and signatures respectively. On their return a charge ticket against the account and a letter of advice are prepared. In shipments of currency one advice is enclosed with the package of money and another is sent by separate mail. All charge tickets and advices, together with the original letters, are returned to the paying teller, and if found correct in every particular, are dated, stamped, and initialed by him. The charge tickets are then sent for official signature to the bank officer who has charge of the business coming from the particular area concerned, and on their return the cash is either paid out or shipped against them.

If the volume of the work warrants, all shipments of money may be performed by a specialized shipping department, divided into sections for handling registered mail shipments and express shipments. Money made up for shipment is turned over to a special messenger, who delivers the package to the express company or post-office, and the signed receipt for it is returned to the teller for his initial. An affidavit covering every shipment of currency is filled in and signed by the messenger and his assistants who handled it.

Currency is received by express and registered mail. The bank's organization may be such that these packages come direct to the paying teller or through the note teller. If the currency comes in either way to the note teller, he receipts for it and makes record, and then passes the packages to the paying teller against receipt. The record kept of these shipments covers the transactions with great minuteness and is carefully verified. Credit tickets are put through to the bookkeepers, and letters of advice are despatched through the transit department advising the shipper of the receipt of the package. These letters are ordinarily stamped "Subject to count," for the amount stated on the strap of the package may not agree with the actual contents, and the first count of the money department is not considered final; this proviso gives a certain amount of redress if a shortage is found in the final count, which may be a few days later. After all details in connection with the receipt of the shipment are executed, the money is turned over to the money department for sorting and counting.

The paying teller's department prepares weekly statements for the press and ticker and for the cashier, chief clerk, and general bookkeeper's department, of all receipts and shipments of gold and currency to the East, West, Middle West, and South.

Payments at the Clearing House—Pay-Rolls

Balances at the Clearing House in New York were formerly paid by the actual transfer of lawful money, or currency certificates based on deposits of lawful money. For this purpose the paying teller prepared, according to the clearing house requirement, packages containing large round sums. But during 1917 a new method was adopted in New York and in many other clearing houses whereby such balances are now adjusted by book entries, instead of carrying the money through the street to and from the clearing house. The federal reserve bank makes the settlement for the member; in case of a debit balance it pays the money to the clearing house and charges the member's account, and in case of a credit balance receives the money and credits the member's account. Corresponding entries are made on the member's books. In any city where the old method is still used the paying teller has the duty of making settlement of balances.

Another duty devolving upon the paying teller is to prepare the pay-roll of the bank. The names of the employees and the amount due each will likely be prepared through the chief clerk's office. One member of the paying teller's department, designated "paymaster," will then prepare the envelopes containing the proper amounts and distribute them to the employees. Some banks have undertaken to make up the pay-rolls of certain depositors and outside employers, and in such cases this duty is incumbent upon the paying teller. It is a voluminous and tedious task and involves the bank in high responsibility. Hence many banks refuse to undertake it.

The Paying Teller's Proof

The paying teller's records are relatively simple. His proof (Figure 11) consists of balancing the excess of receipts over payments, against moneys in vault.

The amounts paid to and received from the various tellers are obtained from a debit and credit slip kept for each of the tellers. On these slips all items that pass between the departments during the day are listed. At the close of business these slips are totaled, and the amounts proved with a corresponding slip kept in each department.

The source and disposition both of paid checks and of currency may be summarized as follows: Currency is received over the counter, by shipments, and from the receiving teller, note teller, and city collection department, and is put into the vaults. The assembly rack department charges the clearing house exchanges to the paying teller and he receives the credits from the clearing house. All checks received over the counter are classified into three groups: (1) checks by domestic customers on the

PAYING TELLER'S PROOF Date......

Balance forwarded		Exchanges received from Clearing House	
Exchanges for Clearing House		Balance received from Clearing House	
Morning additions		Checks paid on the bank itself	
Total amount to Clearing House			
Balance paid to Clearing House		Paid to Second Teller	
		Paid to Third Teller	
Received from Second Teller		Paid to Fourth Teller	
Received from Third Teller		Paid to Fifth Teller	
Received from Fourth Teller			
Received from Fifth Teller		Gold Coin	
		Gold Certificates	
Total		Gold Order Certificates	
		Gold Clearing House Certificates	
		Total Gold	
		Legal Tender Notes	
		Legal Tender Clearing House Certificates	
		Silver Certificates	
		Silver Clearing House Certificates	
		Unassorted Notes	
		Silver Dollars	
		Fractional Silver	
		National Bank Notes	
		Federal Reserve Notes	
		Federal Reserve Bank Notes	
		Minor Coins	
		Total Cash other than Gold	
		Total Cash	

Figure 11. Paying Teller's Proof

bank, (2) checks drawn by foreign customers on the bank, and (3) all other checks. This third class is turned over and charged to the note teller through whom they are collected; the foreign class is entered in the foreign book and sent along with the domestic class to the check desk department.

The Payment of Checks

Although many other kinds of items are paid by the paying teller, the great majority are checks. The high responsibility of the paying teller appears when he cashes a check. Against him are pitted the cleverest wiles of forgers and crooks. After paying out cash he has no way of detecting an error till proofs are drawn at closing time, and even then he may be able only to know that an error somewhere in the course of the day's work has been made. If an underpayment has been made, the payee will most likely make claims later, but the likelihood of an overpayment being returned is much less. Payments on forgeries, raised checks, postdated checks, stop-payments, checks drawn without proper authority, overdrafts, stale checks, and payments to unwarranted parties, may cost the bank heavily, and the chief protection in this respect is afforded by the acumen and shrewdness of the paying teller.

It is essential that the teller be familiar with the signatures of the depositors and also, in a general way, with the kind of account kept by each depositor. For the paying teller to stop and inquire of the bookkeepers regarding an account keeping a good balance is likely to be regarded as a reflection on the drawer's credit. It is better, however, to be sure than sorry, wherever there is doubt regarding an account or when the amount involved is large and reference to the bookkeepers is fitting. Such reference, if the bookkeepers are near at hand, is easy; but if distant, they can be reached by telautograph, interior telephone, pneumatic tube, or messenger, great care being exercised to do this quietly and in such a way that the action will be quite unknown to the party at the window.

The teller must be a handwriting expert. Forged checks are paid to the bank's loss. A person's signature at different times, while never exactly the same, has detectable characteristics. For the verification of signatures there is kept in the paying teller's cage a complete file of cards containing the authorized signatures of all accounts. These cards not only have on them the signatures of the officers of the various concerns who are authorized to draw funds, but should contain also the following data concerning the account: by whom introduced, nature of business, when opened, and instructions concerning by-laws, powers of attorney, etc. The signatures on checks are carefully examined as to their genuineness and authority. The work of assembling, filing, renewing, and proving these and other signatures becomes so voluminous in a metropolitan bank as to require the exclusive attention of an independent department, the signature department.

"Stop-Payment" Orders

So many checks are continually going astray in the mails and otherwise that it is unsafe to pay a check more than a few hours old without looking through the list of "stop-payments." The drawer of a check may, after it is drawn, wish to prevent the bank from actually paying it; such occasions arise, for instance, when the check has fallen into wrong hands, when a duplicate has been issued, or when a business transaction has been forfeited. The drawer requests the bank to refuse payment of a certain check upon presentment, the request perhaps being made by letter so as to give the signature of the drawer. It is then the business of the paying teller to watch for this check; if he pays a stop-order he cannot charge the amount to the customer's account.

Stop-orders are, therefore, annoying, and a systematic watch for such items is required. Stop-payment cards are prepared and distributed to all tellers and bookkeepers affected; the paying teller may keep a complete file of these cards, but in large institutions the volume of this work has necessitated the creation of a specialized department or its reference to the check desk bookkeepers, in which case the paying teller will only keep on file stop-order cards for checks drawn within a day or two; it becomes unnecessary for him to care for the others, since he would make no payments on old checks unless passed upon by the check desk bookkeepers who have notice of stop-payments. The stop-payment cards should contain a description of the check, its drawer, number, date, amount, payee, a statement of whether a duplicate has been issued, by whom the information was received, whether by letter, telephone, or personal call, hour when filed, and any other memoranda thought useful.

For reference and legal protection the maker's letter requesting estoppel of payment is filed, and record is also kept of the withdrawal of the stop-payment. Stop-payments may arise otherwise than by request of the maker. For instance, legal action, such as court order, garnishee, etc., stops payment during its period; or factional fights within a customer's organization may make it unwise to pay except to the court.

Raised, Postdated, and Stale Checks

By the Negotiable Instruments Law, if a bank pays a raised check it is liable for the amount of the raise, although it may recover from accommodation indorsers subsequent to the raising. A defense might be set up that the instrument was so carelessly drawn as to invite fraud. Material alterations in the instrument render it void; these consist of any change or addition which alters the effect of the instrument in any important respect, such as change of date, sum payable, time or place of payment, number or relation of parties, or the medium in which payment is to be made. To lessen the danger of altering checks safety paper or a check-writer or protectograph should be used by makers, or at least great care should be taken to make the instrument as difficult to alter as possible. If there is an inconsistency between the amount stated in figures and the words, banking practice is to use the words, and this practice is sustained by the courts; some payers play safe and pay the lesser of the two sums.

Another duty of the paying teller is to guard against paying postdated checks. The bank can legally pay only checks drawn the day of presentment or earlier; to pay postdated checks would curtail the maker of the privilege of stopping payment. On the other hand the paying teller must be watchful of "stale" checks.

> The duty of the bank to honor a check is not affected by its age, at least within the period of the Statute of Limitations. The check is a continuous order, good at any time before outlawry or revocation; and the bank having sufficient funds of the drawer is under obligation to pay it, and is protected in paying it, at any time within these limitations. The only effect of age is to put the bank upon its inquiry. It is right, and perhaps the duty, of the bank to inquire into the matter before paying an old check. If, however, the bank chooses to waive its privilege of inquiry and pay the check, it may do so. If the check be good, the bank will suffer no loss. But if the check ought not to have been paid, and the bank, by inquiring, would have discovered the fact, then the bank may be held to bear the loss arising from its own laches.[1]

This is a matter for the paying teller to decide.

Finally, if the check is not dated, the paying teller may legally fill in the date as of the day of presentment, or else get the presenter to do so.

Identification of Presenter

It is not the custom in this country to pay checks drawn to order without good and sufficient identification, and this perhaps more than any other one thing causes the paying teller, as well as the presenter, no end of trouble. Checks are being constantly presented by persons who are not known at the bank and have no satisfactory means of identification, and it is the teller's duty so to pass upon cases of this kind that the bank is protected and the customer satisfied. Frequently a check-holder resents being questioned regarding his identity, and it takes time and tact to convince him that it is for the common protection of himself and the bank that his identity be fully established before the cash is

[1] Morse, p. 443.

passed over the counter. Some of the bank's correspondents enclose in their advices the written signatures of the parties in whose names the drafts are drawn; these signatures and advices generally reach the bank before the drafts are presented, and much time and trouble are thereby saved. Less difficulty is had with holders of foreign checks, as they are generally supplied with several documents showing their identity. The identification of foreigners should be handled by the foreign division, which is more conversant with such instruments. These consist of passports, military passes, birth and marriage certificates, and various other official documents; and in many cases the signature of the indorser is forwarded by the bank of issue. If this were done in all cases, and especially in cases where the amount involved is large, it would greatly facilitate the paying of these checks.

Checks made payable to "bearer," "cash," "currency," or to a fictitious party, may be paid to the party without identification or indorsement, for they are negotiable by delivery alone. But it is wise for the paying teller to insist upon indorsement by the presenter of even these bearer checks; such indorsement gives evidence of good faith, for the presenter becomes liable as indorser to such holders as may make title through his indorsement.

The Signature Department—Duties and Organization

As stated above, the duties of gathering, filing, renewing, and examining signatures have grown to such proportions as to necessitate relieving the paying teller of the burden. Relief is obtained by the creation of a special department to handle all matters relating to signatures for the paying teller, as well as for other departments.

The organization of the signature department is simple. It is in charge of a signature clerk. In addition to the work of superintendence, the signature clerk passes upon the authority of the signatures, which requires that he be an expert in the law relating to signatures. He also directs the work of procuring signatures.

The rest of the department are engaged in proving signatures on the various items sent in by other departments of the bank. The signatures are divided into sections following the check desk ledgers, and the clerks are rotated from section to section lest the monotony cause the clerk to grow stale; various schemes of rotation may be devised.

Identification of Signatures

A signature is the name of a person written, stamped, or inscribed by himself. In law and business, signatures have come to play a most important rôle as a means of proof, identification, and intention, in commercial instruments and legal documents. The identification of signatures is a specialty and comes through constantly familiarizing oneself with them. Over a period of years a person changes his signature considerably. It is, therefore, necessary to renew signature files from time to time to keep them up to date.

The department keeps an up-to-date card file containing the names of every account on the bank's books, arranged alphabetically, and giving the date of opening and the address of the customer. It also keeps another card file containing the name of every person whose signature is on file, together with his title and the institution with which he is identified. These files have cross-references whereby at a glance may be seen the various concerns with which a certain person is connected, his office in each, and the date when his authority to sign was received. The by-laws, resolutions of boards of directors, powers of attorney, surrogates' certificates, wills, and joint-account letters, which have been received in the process of assembling signatures, may also be filed in this department or with the general bookkeepers.

The signature department is an offspring of the paying teller's department. Its greatest intimacy is with that department and the check desk, as it receives most items from these. Items come, however, from practically every department of the bank. Signatures of foreigners are best handled by a specialized subdivision of the foreign division, for the law and custom of foreign countries differ widely from domestic law and custom and are better known to the foreign division.

Routine of Work

The general routine of the signature department practically starts with the incoming exchanges from the clearing house. After these checks have been sorted they are submitted to the signature department for careful scrutiny as to the comparison of the body and figures and as to the signatures. Items found regular are returned to the department submitting them. Irregularities found in either signatures or amounts are immediately communicated to the maker by telephone or telegraph; but before advising the maker the department should inquire whether the account has a sufficient balance to meet the check, whether payment has been stopped on it, and whether the customer has given any instructions as to irregular checks. The amount of the check and the character of the payee have much to do with the manner in which the department handles irregular checks. If the amount is comparatively small and the check is in favor of a bank or other creditable concern, it is often paid to avoid possible inconvenience to the bank's customers or to their business relations, and the drawer is then advised of the bank's action. A check that necessitates wiring is returned to the presenting bank, with a notation of the action taken and a request that it be held until the drawer sends instructions; upon receipt of instructions the department immediately communicates with the bank holding the check, which thereupon either presents it for certification or puts it through the clearing house the following morning.

Procurement of Signatory Authority

The value of a signature depends upon its authority, and it is expedient that the department take great care to have only properly authorized signatures. Authority is vested differently for each kind of account.

Unless otherwise advised, the department assumes that the president, vice-president, and cashier of a national bank have unrestricted authority to transact the ordinary business of the bank. It therefore gets the signatures of these officers and has them acknowledged by the cashier. In some banks the signatory authority is delegated to certain tellers, the auditor, or bookkeeper; in such cases the department has a form of resolution which it asks the board of directors of the bank to pass and return duly certified by its secretary over the corporate seal. Such a resolution must state that such and such parties are authorized to sign certain instruments for a specified time, and that such instruments so signed are a correct and lawful charge against the account of the bank. Sometimes a drawee out-of-town bank asks its metropolitan correspondent to honor at par checks drawn by certain of its customers; this enables a bank's customer to have reserve city funds without opening an account in the metropolitan institution. In such cases the signature department of the reserve city bank asks for a resolution of the board of directors of the out-of-town bank authorizing the former to pay and charge to the latter's account checks of the customer in question and stating the maximum amount to which such checks may be honored in any one day.

A receiver duly appointed by the Comptroller of the Currency to take over an insolvent bank has authority to withdraw the bank's funds from its correspondents; the directors' authority to sign ceases with the assumption of control by the Comptroller. The signature department may obtain from the Comptroller a certificate relative to the appointment of the receiver, together with the receiver's signature; or it may get the signature directly from the receiver and have his appointment confirmed through the bank's Washington agent. In cases of consolidations or changes of title, even if there be no change in the official staff, it is well for the signature department to procure new resolutions from the directors and new sets of signatures. With respect to state banks, trust companies, and savings banks, the same procedure is followed in procuring signatures and authorities, except that in case of receiverships the authority is procured through the Superintendent of Banks and the court of record concerned.

Signatory Authority of Corporations and Partnerships

When a corporation opens an account with the bank, the signature department should procure from it for file a copy of the by-laws or such articles therefrom as cover its financial affairs, and have them certified by the secretary over the corporate seal. Sets of signatures of its officers, similarly certified, are also procured. If such certified list is not procured, but the officers send cards signed officially, it may be taken for granted that the persons whose names appear on the cards have been duly elected and are the ones to whom the by-laws or resolutions apply. Care should be taken to see that the by-laws contain authority for every signature given; if any discrepancies appear, a resolution of the board of directors should be requested covering the defects. The procedure in case of receivers for corporations is practically the same as for banks, although there is more detail connected with the court order. When two or more receivers are appointed, it should be noted whether the authority extends to separate signatures or joint signatures.

When a partnership opens an account, the signature department procures the signatures of the partners, and it is assumed that they have equal authority. Sometimes the authority is limited by terms of the partnership agreement, but ordinarily the credit department will have discovered that point. The bank is liable for payments beyond the known authority to sign. If it is the intention of the partners to allow non-partners to sign, a power of attorney is required; such power of attorney may be very full or may be limited in scope. If possible, the power of attorney procured should contain a clause to the effect that revocation shall be recognized only by notice in writing served upon the bank. If, by reason of death, marriage, bankruptcy, or transfer of interest, of one of the partners, the partnership is terminated and the remaining partners wish to continue the business, it is necessary to procure new powers of attorney. If a new member is admitted to the partnership, a new power of attorney must be issued and the old one revoked. The powers of attorney may be signed by one or more, or by all of the partners; the signature department may require that each member of the partnership sign.

Account of Deceased Depositors

As soon as the signature department hears of the death of a depositor it should send a memorandum to all departments dealing directly with the customers. Note of the death and date is made on the signature cards. This stops all transactions immediately, and all delegated authority, if any, is automatically canceled. The newspapers should be watched for death notices. If the decedent left a will and named the executor, and the probate court issues letters testamentary, these letters and the will constitute the executor's credentials and delimit his authority. If the executor has died before the party making the will, or if the decedent died intestate, the court appoints an administrator and issues letters of administration, which state his authority. The executor or administrator, after ascertaining the amount of money in the bank to the credit of the deceased, presents the will and his credentials to the state comptroller, who issues a waiver of inheritance tax, which serves as a proof that this money has been registered with the comptroller. This waiver authorizes the bank to transfer the balance to the executor or administrator. This procedure may, of course, differ somewhat according to state law.

Trustee's, Joint, and Other Accounts

Trustees are usually designated under a will to hold and manage certain undertakings, such as a charity, or to pay income to certain persons until the occurrence of some event. Such testamentary trustees must qualify under the law of the state in which the executor is proceeding and are required to get a letter of authority from the court. The signature department procures a copy of this letter for its files. If more than one trustee is appointed, they must act in conjunction. The authority of a trustee cannot be delegated except by order of the court.

When a joint account, or an "and/or" account, is opened, the signature department should procure a statement that the account opened by the parties therein named is their joint property and subject to the check of either; and in the event of the death of either the money on deposit is considered the property of the survivor. This letter is practically a will; therefore, after the bank has received notice of the death of either party, it is necessary for the signature department to obtain a waiver of inheritance tax from the state comptroller before a check can be drawn against such account. State law may vary the procedure.

An account opened by a firm or corporation of which a person is sole owner requires special care to protect the bank. Some states require that a certificate of sole ownership be filed with the county court, in which case a copy of the certificate should be obtained by the signature department for its files. If such firm or corporation wishes to empower someone else to sign checks, a power of attorney should be procured by the department and it should be so phrased as to protect the bank.

When an account is opened by an agent of a foreign house and is to remain for a sufficient length of time to allow communicating with the agent's principals, a letter should be requested from them by the department, defining the nature of the agency and the ownership of the funds and giving the signatures of those who have the right to withdraw the funds.

Certification Department—Function and Organization

In a small bank all the certification work is done by the paying teller; but in large banks, particularly in the vicinity of the speculative exchanges, the volume of business is large enough to require a specialized certification department. A single Wall Street bank, in the days of unsecured day loans, certified between 800 and 1,000 checks per day, in an amount ranging from $15,000,000 to $35,000,000.

The internal organization of such a department in a large bank would consist of:

1. A clerk at the receiving window, who receives the items for certification and issues in exchange an identification receipt.
2. A certification clerk, who supervises the department and passes upon the certification.
3. Entry clerks, who keep records of the certifications and balances.
4. Another window man, who hands out the certified items in exchange for the identification receipts.

The certification of an item is accomplished by the proper officer of the drawee bank writing upon the face of the item the word "good," "certified," "accepted," or other equivalent phrase, and signing. The certification operates as a guaranty that the signature is genuine, that the bank has in its possession sufficient funds of the drawer to meet the item at maturity, and that it will hold enough of those funds for that purpose; it releases the drawer, but does not guarantee the indorsements to be genuine.

The object of certifying is to enable the holder to use the check more readily. The transferee takes it with the same readiness and sense of security with which he would take the notes of the bank. It may even serve all the purposes of money until it is presented for payment and extinguished; small, round-denomination certified checks become very current in times of financial stringency. This enables persons not well acquainted with each other to deal together promptly and with safety, for the credit of the checks is guaranteed or assumed by the bank, which is well known.

Outstanding Certified Checks and Identification Receipt System

The bookkeepers in the check desk department keep a book called the "outstanding certified check book." It contains a record of checks that have been certified by the bank but have not been presented for payment through the clearing house or tellers. Outstanding certified checks are continuing liabilities of the bank; some may date back many years; the writer knows of one which a bank has carried since 1879.

When a certified check is mislaid, stolen, lost, or destroyed and the maker desires credit for it, the certifying bank requires him to file an indemnity bond relieving the bank of responsibility in the matter. If a depositor has a check certified, which later for some business or personal reason he finds he cannot use, his account is restored by his depositing it to his own account; the check reaches the check desk through the regular channels, where it is written off the outstanding certified check book and credited to his account again; whether the check is payable to "bearer" or a specific payee or indorsee, it is sufficient that only the maker indorse such redeposited certified check.

Because of the great number of checks certified by them and the possibility and risk of not returning the check, after it has been certified, to the rightful owner, large banks have installed an identification receipt system which makes it quite impossible for anyone but the proper party to obtain the check. When the check is handed in at the window a receipt is given with a number, and a corresponding number is stamped on the face of the check. Then to obtain the check the receipt must be filled in, and in this way signatures and numbers may be proved. The numbers also help in tracing lost checks.

It is unsafe to certify items before receipt of the morning mail, for the mail may include stop-payment orders on the very items which were certified before that hour. Nor is it safe to certify after banking hours unless the certifying bank is protected by a written request by the makers on the back of the check.

Precautions in Certifying Checks

Before a check is certified, care must be taken to see that the signature is genuine and the date correct, that the amount of the check expressed in figures agrees with the body of the check, that no stop-payment order has been received, and that an amount sufficient to meet the face of the check appears on the ledger. This same care must be exercised in regard to certification of notes and time acceptances. For the proof of signatures the certification department may have a set of signature cards of its own or may refer to those filed with the paying teller or signature department.

The bank receives from certain of its correspondents letters asking it to protect their notes at maturity. These letters should be distributed first to the bookkeepers handling the respective accounts. If the bookkeeper finds sufficient funds on his ledger, he notes the full balance on the correspondent's letter and initials it. The letters then pass to the certification department, where they are used for reference and information. Should the bookkeeper not find sufficient balance to meet the amount of the request, he should wait until he receives his morning mail credits from the mail department and then proceed in the manner described above. If, however, he receives no credit and is unable to obtain any from another department, he should request advice of the proper officer of the bank.

The mail may also bring stop-payment orders. Signatures on these orders are passed upon by the signature department. A record of these orders is taken by the paying teller's department and the certification department, and then they are sent to the respective bookkeepers, who make a detailed record of the entire order. It is only very recent stop-payment orders that give the certification department anxiety, for old stop-payments will have become familiar, and besides the certification department would never certify a check more than two or three days old without referring it to the bookkeepers. These several guards against paying or certifying checks for which stop-payment orders have been received make the payment or certification of such checks very improbable.

A handy method for watching balances is to employ form slips showing the balance amounts of brokers' accounts and other large active accounts for which certification requests are likely. Referring to his ledger each bookkeeper puts the correct balance, after the proper name, on the slip. The entry clerks in the certification department enter from these slips the respective amounts on certification sheets, which are after the same form as the slips. These sheets give the department ready information as to the respective balances of the various depositors at the beginning of the day's business.

Day Loans and Overcertification

It was the former practice of Wall Street banks to permit brokers to overdraw their accounts; the banks would certify these overdrafts, the understanding being that the broker would, before the close of business that day, place the bank with sufficient funds to cover the overcertification. It was a means of extending an unsecured loan to the broker. Congress attempted to correct what seemed an ill-advised practice, declaring it a misdemeanor to overcertify or to evade the prohibition of overcertification by accepting fictitious obligations or other devices.[2] In place of overcertification there was then devised a system of one-day loans, whereby brokers request the bank to make them loans for use in their day's business. With some banks these loans are unsecured,

[2] Rev. Stat. U. S. 5208, and Act, 1882, ch. 290, sec. 13.

but conservative banks insist upon the deposit of securities for collateral, as well as the giving of a very sweeping collateral note. Under the day-loan plan the brokers agree to cover the loan by check at the end of the business day and are charged no interest.

Requests for day loans are mostly received at ten o'clock, the hour of opening the exchanges, but the certification department would not be likely to be informed of the transaction until a filled-out form comes to it from the loan department. This form would show the amount to be loaned and the signature of the broker and would be the authority of the certification department for certifying. The certification department should examine this day-loan ticket carefully as to the correctness of the borrower's signature, the amount of each loan being entered on the certification sheets in the same manner as are balances received from the bookkeepers.

Certified Checks and Bookkeeper's Department

There are cases where a check is presented for certification drawn by a person who has no funds credited to him on the certification sheets, or where the entered amount is either entirely exhausted or insufficient. Before refusing to certify such a check, the certification department should make inquiry of the receiving teller and other departments whether they have received any credits payable to the drawer. If the department is unable to locate any credits, the customer is advised of the fact and requested to make a deposit immediately.

During the day's business many drafts on the bank drawn abroad may be presented for certification. The certification department sends these immediately to the foreign bookkeeper's department, and if that department finds the drafts in order, they are initialed by the department head and returned to the certification department for certification in the regular way. But if the drafts are not found in order, the foreign bookkeepers return them to the certification department with a memorandum attached, giving in brief the reason or reasons for non-payment, such reasons being "No advice received to pay this draft—kindly present again on arrival of next steamer," or "This draft is drawn for account of one of our European correspondents, and is to be paid only upon receipt of their advice, which has not yet come to hand—please present again on arrival of next mail," or "This draft has been issued in original and duplicate—if both the original and duplicate are presented together, we will honor them—otherwise the draft must be presented for payment at some other place."

The certification stamp commonly used reads as follows: "Certified, payable only through the . . . . Clearing House," date, serial number, and possibly the name of the certifying bank. Making the check payable only through the clearing house is held not to destroy its negotiability and is intended to keep it from being considered as cash; but if it is presented at the window it is likely that the bank will pay it there. After checks have been certified they are handed back to messengers, for delivery to their respective offices. In the course of the payees' business the checks are deposited in banks from which they pass through the clearing house.

As soon as the check is certified and entered on the certification sheets, it is virtually charged to the drawer's account; the sheet may not be sent to the bookkeepers immediately, but if the balance is small, notice that the check has been certified should be sent to them at once. At the close of the day the sheets are used by the bookkeepers for posting the certifications into their Certified Checks account and the customers' accounts. From these sheets the certification department also prepares its proof sheet for the general bookkeepers, itemizing the certifications for the day.

CHAPTER XXX

THE RECEIVING TELLER

General Duties and Organization of Receiving Teller's Department

The receiving teller is known as the "second" teller. In very small banks his work is combined with that of the paying teller; but the first line of specialization in a bank is the separation of these two tellers' duties. The department of the receiving teller receives all cash items delivered over the window by depositors for credit on their accounts, proves such items, and distributes and charges them to the proper departments of the bank.

The second teller deals with the customers of the bank. He sooner or later meets practically all the customers and has the greatest opportunity to popularize his institution and perpetuate its good-will. If the teller forgets himself occasionally and becomes indifferent to the requests of a customer, the customer may form an erroneous opinion of the bank's methods of conducting business. Courtesy, tact, and careful attention are necessary attributes of a successful teller.

The internal organization of this department varies with the personnel and number of depositors. Banks with a great number of counter depositors who deposit often and in small amounts, require numerous windows and tellers and classify their depositors alphabetically in groups per teller. Banks in the residence section of a city may cater to female depositors and have a special section and teller for women. Such up-town or country banks are in contrast with metropolitan down-town banks, which have relatively few counter depositors and large mail operations. In the latter type of bank the window work can be handled by a single receiving teller and an assistant receiving teller in the first cage, with a few sorters and entry clerks in other cages adjacent and subsidiary.

By the alphabetical division the body of customers assigned to one teller can be reduced to such number as may be personally known by him, and the personal factor, so desirable in any business, can be realized. By this means the line of customers before the window can also be shortened; customers appreciate this economy of time and effort. The division of the bookkeeping of the bank naturally follows the same alphabetical grouping.

The great defect of the separation of the paying, receiving, and other tellers, with windows for each, is that a customer must appear at several windows if his business is at all complex. He must wait his turn at one window after another, and this is wasteful of time and patience. To obviate this objection some banks with large counter trade have broken up the bank into distinct units complete in themselves and combining the functions of paying teller, receiving teller, and others, in one teller; the customer can then do all his business at the one window and be saved tiresome waiting at successive windows. This unit system is a recent development.

Opening an Account and Making a Deposit

The initiative in opening an account may lie with the bank officer in charge of a particular area, with the credit department, with the new business department, with another depositor and friend of the applicant, or with the applicant himself. It depends upon circumstances and upon the organization and policy of the bank. When a person applies to open an account and become a depositor, he is first referred to the bank officer in charge of the applicant's area, who with the help of the credit department and new business department will decide whether the applicant will make a desirable client of the bank. The factors considered are his character, his financial and business reputation, his connections, the present and prospective average balance of the proposed account, its probable permanency, etc. If the applicant passes this test, the officer prepares a "new account" slip, which authorizes the receiving teller to receive the deposits and issue a pass-book and check book. A set of signatures is invariably required of the new customer.

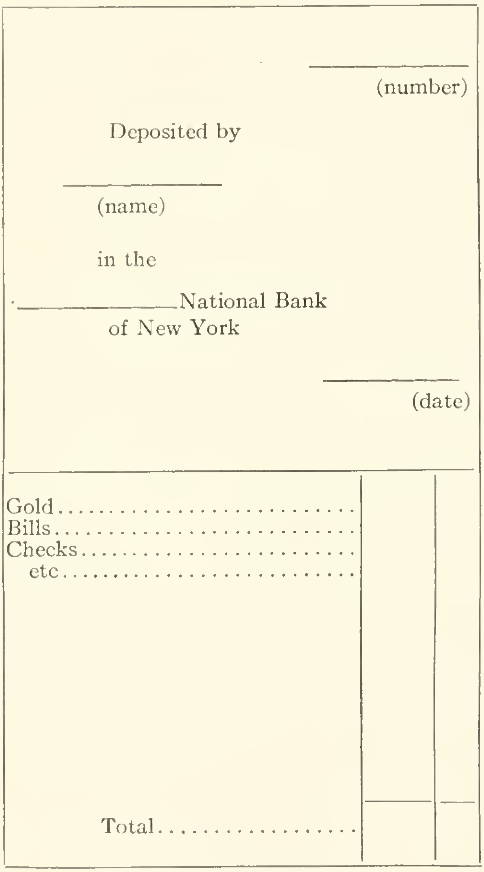
The pass-book is to evidence the deposits made from time to time. It is ruled for debits and credits. The credits are entered at the time of deposit by the receiving teller, if the funds are received over his counter. Credits that come by mail or through other departments are entered by the bookkeepers (or the auditor) whenever the pass-book is left for balancing the account. Quite a number of depositors prefer not to use a pass-book, and request duplicate deposit tickets instead.

The check book is simply a pad of blank checks and stub. To protect itself, the bank is careful to give check books to customers only. If checks are written in the bank by a customer special counter checks are provided for his use.

The depositor lists the items which he wishes to deposit on a deposit slip (Figure 12), a plentiful supply of which is always conveniently near on desks and tables. The deposit slip ordinarily bears a number, the name of the depositor, the name of the bank, the date, and a column for items deposited. It may also contain a proviso somewhat as follows: "In receiving items on deposit this bank obligates itself only as the depositor's collecting agent and assumes no responsibility beyond reasonable care in selecting correspondents, and until actual payments have been received for such items this bank reserves the right to charge back to the depositor's account any amounts previously credited in case the items cannot be collected." If this notice is not found on the deposit slip, it is put on the first page of the pass-book, or is fully explained to the depositor at the time his account is opened.

The amount of cash and of each check or draft is listed separately and the column is footed. Coupons are usually enclosed in separate envelopes and the sum marked on the outside.

The items, the slip, and the pass-book are presented at the receiving teller's window, and the teller, after examining and counting at least the loose bills and coin, enters the total in the credits of the pass-book.



(number)

Deposited by

(name)

in the

National Bank
of New York

(date)

Gold ....
Bills ....
Checks ....
etc ....

Total ....

Figure 12. Deposit Slip

Nature of Deposits and Deposited Items

Caution should be exercised in entering credits lest the nature of deposits be misunderstood. By the deposit of cash and cash items the depositor acquires the right to draw against the bank and to receive payment in lawful money; he does not have the right to draw out the specific cash he deposited. The cash items are deposited in order that the bank may collect them, that is, convert them into cash, but the depositor does not have the right to draw out the specific cash realized from them. The depositor has simply a general claim against the bank, the contract implied between him and the bank being that the bank, having sufficient funds to the depositor's credit, will pay his properly drawn checks when duly presented. But the fact that he procured this right to draw by the direct deposit of cash and cash items over the receiving teller's window does not clothe him with any different or greater rights than if he had procured the right to draw by giving his promissory note to the bank through the loan department. The deposit of cash and cash items is but one of the many ways by which deposits, that is, the right to draw, are created.

Handling Deposited Items

Deposits are received from individuals, associations, firms, corporations, trust companies, and savings banks located in the same city, and the departments of the municipal government. The deposited items consist of cash and cash items only, and these include paper currency, gold, silver and minor coins, checks, sight and demand drafts, bills of exchange, post-office orders and travelers' checks, due coupons, and note and time drafts which are due and certified. When a deposit is received it is entered in the pass-book by the teller, though certain of the deposits entered as cash may yet be uncollected. By far the greater part of deposited items consists of checks and drafts; with certain depositors coupons are a very common item. The methods of handling these different forms are as follows:

1. *Checks and Sight, Demand or Due Drafts, Bills, Notes, etc.* If drafts with bonds or stock attached are deposited for collection, they are shipped according to directions received from the depositor. A special book of record of such shipments is kept. No responsibility is assumed for loss of the item in transit.

The indorsements on checks presented for deposit are examined with more or less care, particularly to see that the depositor has indorsed them. Greater care is used in noting the regularity of indorsements and other features in case of small accounts than large ones, because small depositors are not so likely to correct irregularities of returned items and are more likely to practice "kiting" and other abuses.

If the checks are regular, they are handed to assistants to sort according to the ledger headings and to prepare for listing. The number of daily over-the-window deposits in a large bank reaches into the hundreds and the number of items into the thousands. Speed and accuracy at running and listing them become highly essential. The practice is to handle them by the "batch," or "block," method; when a suitable number of deposits have been received, a "batch" is made and sorted, say, as follows: clearing house checks (with subdivisions based on clearing house numbers), checks against the bank itself (checks drawn by domestic and foreign depositors), "sights" (sight and demand drafts), "trust companies" (items against trust companies not members of the clearing house), "small countries" (small checks for less, say, than $500 against out-of-town banks and larger checks on up-town banks), "large countries" (out-of-town items of large amount that are sent from the transit department the same day as received), and cash (received in different deposits in the batch). The packages of these batches are listed separately and their aggregate must equal that of the deposit tickets contained in the batch. It is essential for the men to know the routing of these checks at a glance, in order to get the work out with despatch and accuracy.

Occasionally differences occur either in listing the separate packages or in the deposit tickets; this necessitates a review of all items listed. If the mistake is not found in this way, a check-off is in order—a tedious task. When a correction is made in a deposit ticket, the depositor is notified.

When the batches prove, an assistant runs off what are called "proof sheets," showing the totals of all items handled in the department. These sheets are ruled to show the kind and disposition of the items. Copies of these sheets are sent to the city collection department and the transit department, which handle the collection of the non-clearing house items. The originals are filed with the receiving teller.

The clearing house checks are passed to clerks who indorse them with the clearing house stamp. This is usually done by an indorsing machine. A package is made up for each subdivision into which the clearing house items are grouped. The checks are then sent to the assembly rack department, where they are sorted and listed according to clearing house numbers, in preparation for the clearing the next morning.

Sight drafts and trust companies are stamped with a "Paid" indorsement stamp and, together with the small and large countries, are sent to the transit department, where they are analyzed; the sight drafts and trust companies are returned to the receiving teller, who lists them, proves them against the totals on his proof sheet, and turns them over to the city collection department, which presents them for payment at their respective places of payment the day after receipt.

2. *Currency.* Loose bills and coin are usually counted before the customer leaves the window; but there are instances when a depositor may make a large deposit of bills or coin, in which case the packages or bags are marked with the name and amount and are received subject to count. Mistakes, if any, are rectified, say, the next day. All the money received is charged to the paying teller and the day after receipt is verified by count of the money department.

When a deposit is received and there is money listed on the deposit ticket, the teller checks off the cash and prepares two currency slips, one for use in his cage and the other to accompany the batch in which the deposit is listed. At the end of the day's business a money proof of the amounts taken from these slips is made and proved against the actual amount of cash in the box.

3. *Coupons.* Coupons are usually deposited in envelopes with the face amount entered on the outside. They are charged and tendered to the coupon collection department.

The Second Teller's Proof

The distribution of the items may now be summarized as follows: From the second teller the transit department receives directly the large countries and indirectly, through the city collection department, the small countries. The drafts and trust companies are also passed through the analysis division of the transit department, where they are analyzed and are then sent to the city collection department for collection. Checks drawn on the bank itself by foreign and domestic customers are sent to the check desk. The checks on clearing house members are sorted into sections according to clearing house numbers and sent to the assembly rack department. All money received is tendered to the paying teller, and the coupons are turned over to the coupon collection department.

The second teller's proof (Figure 13) is as follows:

SECOND TELLER'S PROOF		Date........	
Transit Department........		Deposits over-the-counter...	
Checks on the Bank itself...			
Paid to First Teller.........		Received from First Teller..	
Paid to Third Teller........		Received from Third Teller.	
Paid to Fourth Teller.......		Received from Fourth Teller	
Paid to Fifth Teller.........		Received from Fifth Teller.	
Large Sight Drafts.........			
Small Countries............			
Sight Drafts...............			
Trust Companies...........			
Clearing House Exchanges...			
Total.................		Total.................	

Figure 13. Second Teller's Proof

The deposit tickets received are listed on sheets divided into sections according to the ledgers of the check desk department, a sheet for each ledger; that is, a sheet contains all entries for the accounts in one ledger. The grand total of these sheets is proved against the total amount charged to deposits on the second teller's proof sheet. To reduce the possibility of errors to a minimum, from time to time during the day the accumulated tickets are passed to the bookkeepers. The tickets ultimately reach the files of the auditing department.

CHAPTER XXXI

THE MAIL TELLER

General Duties and Organization of Mail Teller's Department

In modern business a large part of the cash deposits in banks is made, not over the receiving teller's counter but by mail through the mail teller. The mail teller is called the "fourth" teller. His department varies in its relative importance with the size of the bank, with the personnel of its depositors, and with the number of its out-of-town depositors, particularly with the number of its bank correspondents for whom it handles collections and acts as financial adviser. In metropolitan banks in reserve and central reserve cities the mail teller's department assumes great proportions; the volume of mail becomes large and its composition complex. A certain Wall Street bank in 1917 received daily from 2,000 to 4,500 cash letters alone, containing from 30,000 to 80,000 items. Tuesday is the day of lightest receipts, and Monday (or a day after a holiday) is the day of heaviest receipts.

The incoming mail is customarily sorted into three classes by the department:

1. The personal, official, and departmental letters.
2. The foreign mail.
3. The letters containing cash and collection items for credit.

It is the general function of the fourth teller to receive, open, acknowledge, prove, record, distribute, and charge the items of the cash letters. The foreign mail is turned over to the foreign division, and the personal, official, and departmental mail is given to a special force of clerks for distribution through the bank.

Since the cash letters represent millions of dollars and affect vitally the accounts of the bank and in turn their customers, expedition in handling this mail is of prime importance. To this end the day's mail in a metropolitan bank is handled in three lots: the night mail, the morning mail, and the afternoon mail. About midnight a force starts to sort and list checks received in letters delivered since bank closing hours; this work of the night men is continued until about eight o'clock and its details are almost identical with that done by morning men. The afternoon mail is such mail as is received after ten o'clock, that is, after the preparation of the exchanges.

The department is under the general supervision and direction of the mail teller. That part of it which is devoted to the preparation of the items for the clearing house is commonly called the "assembly rack" department. A rack is a sorting table with its pigeonholes, but by a figure of speech the work is spoken of as the preparation of "racks"—the assembly rack, the A. M. rack, and the P. M. rack. As a rule the same room and desks and sorting fixtures are used in the preparation of the three different racks, but the work of each rack is done and proved by its own clerical group. The mail department is assisted in handling the morning mail by clerks from other departments, such as the accounts current men from the check desk, the special collections clerk and the returns clerk from the transit department, etc.

Sorting the Morning Mail

The mail teller and his assistant arrive at the bank early in the morning in order that some of the larger cash letters may be ready for sorting as soon as the clerks of the racks arrive. The foreign, personal, official, and departmental mail is first laid aside, and then the work consists in the sorting of the cash letters (the large letters first), the sorting and proving of the enclosed items, and the charging and distributing of the items to the departments of the bank.

This work is facilitated by dividing it into sections. The regular cash letters are sorted into section boxes arranged, say, as follows:

Section 1. National banks, A-C.
Section 2. National banks, D-M.
Section 3. National banks, N-Z.
Section 4. State banks.
Section 5. (a) Trust companies and savings banks.
(b) Individuals.
(c) Credits for the collection ledger (remittances from collections).
(d) Doubles (letters enclosing credits for two or more banks).
Section 6. Letters containing collection items for credit.

The letters may contain only cash items, or only collection items, or both cash items and collection items, for credit. If they contain both kinds of items, the collection items are deducted from the footing of the cash letter—if they are included therein—and listed on a form on which are written any special instructions received, such as advising payment by mail or telegraph and instructions as to protest, etc. The items are then handed to the collections clerk. However, if they are listed in a separate letter both the collection items and the letter are turned over to the collections clerk at once. He charges and distributes the items as follows:

1. The coupons, to the coupon collection department.
2. The out-of-town and up-town items, to the country collection department.
3. Notes, stock drafts, collections for remittance, foreign exchange items for sale and collection, to the note teller.
4. Time drafts and special advice and other items on the home city, to the city collection department.

Proving the Cash Letters

The method used in proving the cash letters is the "batch" method. When a sufficient number of checks is received in one or more letters, they are proved in batches, called "racks," by dividing the items, say, as follows·

1. Clearing house checks.
2. Checks on the bank itself.
3. Checks on trust companies not members of the clearing house.
4. Country checks and checks on the Treasury of the United States.
5. Sight drafts.
6. Sundries.

The totals of these subsections are listed on a proof (Figure 14), on which is stamped the rack number, and they should equal the sum of the letters. The proof would be as follows:

........Letters	**RACK PROOF**	Date........	Rack No.........
Letters:			
————	....	Clearing House	....
————	....	Checks on this Bank	......
————	....	Trust Companies	......
————	....	Country Items	......
————	....	Sight Drafts	......
		Sundries	......
Proved by————			

Figure 14. Rack Proof for Cash Letters

After the batches are proved, the clearing house checks are stamped by machine and sorted into the rack according to clearing house numbers. No time need be taken to examine indorsements; if any check proves later to have been irregular as to indorsements, it can be traced more easily than a similar one in the paying teller's department, since it is described somewhat in the cash letter and the bank may rely upon being able to fall back on its correspondent bank to make good irregular and forged checks. To make the tracing of checks convenient for themselves and their metropolitan correspondents, some out-of-town banks put the transit number of the bank on their checks.

The other packages are listed on a separate proof in totals and distributed as follows:

1. The trust companies and sights, to the city collection department.
2. The countries and checks on the United States Treasury, to the transit department.
3. Checks on the bank itself, to the check desk department.
4. Cash, if any, to the mail teller, who signs for it on the original letter.
5. The cash return items, to a clerk whose special duty is to prove the cash return items, including those listed in the cash letters.

The cash letters are stamped with the date and section numbers and handed to the accounts current men who are present to post their ledgers. The letters are run up on adding machines and should prove with the rack figures for those letters.

The clearing house checks are listed and examined for "sent-wrongs," as the clearing house imposes fines for checks or packages sent to banks for which they are not intended. All package totals are copied on a clearing house sheet, which is divided into, say, five sections, grouped according to clearing house numbers, and the packages are forwarded to the assembly rack.

The New York Clearing House provides for an optional nine o'clock clearing, in which a large majority of the members participate. This early clearing greatly facilitates the work of the banks, whose volume of business has tremendously increased in recent years. The figures for this early clearing are included in the regular ten o'clock clearing and a receipt is given at the time of delivery.

The Assembly Rack Proof

The assembly rack in the morning receives the packages of the P. M. rack and also the packages of the banks for which the bank acts as clearing agent; before going to the assembly rack these packages also are divided into sections similar to those on the clearing house sheet, as described above. A separate assembly rack proof (Figure 15) is kept, on which is listed the totals of each section from the various racks, as well as those of the banks for which the bank clears, and those additions which the clearing house allows. These additions consist of large items taken from letters received late.

The packages for the clearing house are called and listed by the settling clerk on his settling sheet, and there is also a ticket made out for each bank showing its clearing house number and the amount of checks with which it is charged. After each section and the settling clerk's sheet are proved with the total of the tickets, another ticket is made showing the total amount brought by the bank to the clearing house; this is signed by the settling clerk and goes to the manager of the clearing house and constitutes the credit of the bank at the clearing house that morning.

Referring to the description given above (page 578) of the sections into which the cash letters are divided, it will be noted that, in addition to the regular letters from the trust companies, savings banks, and individuals, section 5 includes "remittances" and "doubles." The remittances are received in payment of cash items and collections sent by the bank to other banks and trust

A. M. ASSEMBLY RACK PROOF Date . . . .

Sources	Total	Section I	Section II	Section III	Section IV	Section V
P.M. Assembly Rack.						
Night Racks:						
Rack No. 1						
Rack No. 2						
Rack No. 3						
Rack No. 4						
etc.						
Total Night Racks.						
Banks for which this bank clears						
Morning Racks:						
Rack No. 1						
Rack No. 2						
Rack No. 3						
Rack No. 4						
Additions.						
Total Clearing House.						
Total Assembly Rack.						
Difference.						

Figure 15. A. M. Assembly Rack Proof

companies. The amounts remitted are listed on the machine; the exchange charges are then listed and added to the amount of checks received; and the total should prove with the gross amount which is credited to the collection account ledger. The doubles are the letters which contain credits for two or more banks. For these it is necessary to make out separate credit tickets. All credits to the note teller that are handled by this section are described in detail on a sheet, in order that a complete record may be had for future reference.

The cash return items are checked with the name of the indorser, and the date of the return letter placed opposite the amount of the incoming letter. The reasons for returning the individual items must be attached to, or marked on, the items themselves. Then, together with the collection return items, they are listed on the mail teller's return sheet and the total is proved with the city collection department, to which they are charged.

The Charging and Distribution of Items

The rack proofs are assembled on the mail teller's sectional proof, the debit side of which (Figure 16a) shows the totals of each rack, the amounts received from the banks for which this bank clears, and assembly rack additions; the total of the second—the letter—column should prove with the total of the remaining—the distribution—columns, from which the charges to the different departments are made. The credit side (Figure 16b) shows the distribution of the credits, those to the different depositors in the ledgers and those to the different departments for whose credit checks are received and those for the Collection ledger account for remittances in payment of collections.

The items are charged as follows:

1. The total clearing house, to the paying teller.
2. The sights and trust companies, to the city collection department.

Debit — **MAIL TELLER'S SECTIONAL PROOF** — Date........

	Letters	Clearing House Checks	Sights	Countries	Checks Against This Bank	Hold-overs	Sundries	Exchange	Memoranda
Rack No. 1									
Rack No. 2									
Rack No. 3									
Rack No. 4									
etc									
Banks for which this bank clears:									
Bank A									
Bank B									
Bank C									
etc.									
Assembly Rack Additions..									

Figure 16. (a) Mail Teller's Sectional Proof (debit side)

Credit																	
National Banks (letters)							State Banks			Trust Companies	Individuals	Collection Account	Second Teller	Third Teller	Fifth Teller	Foreign Exchange	Returns
A–B	C	D–H	I–M	N–P	Q–S	T–Z	A–H	I–N	O–Z								

Figure 16. (b) Mail Teller's Sectional Proof (credit side)

3. The countries, to the transit department.
4. The checks on the bank itself, to the check desk department.
5. The cash (of the sundries), to the paying teller.
6. The cash return and Collection account returns, to the city collection department.
7. The Canadian and foreign currency, to the city collection department.
8. The exchange, to the check desk department.
9. The hold-overs, consisting mostly of missorted checks, are handled in the afternoon mail.

The fourth teller's proof (Figure 17) for the day assumes somewhat the following form:

FOURTH TELLER'S PROOF		Date........	
A.M.:			
Transit Department..................		Received from First Teller...	
Check Desk........................		Received from Second Teller..	
Clearing House, First Teller..........		Received from Third Teller...	
Paid to First Teller.................		Received from Fifth Teller...	
Paid to Second Teller...............			
Paid to Third Teller................			
Paid to Fifth Teller.................			
Sight Drafts......................			
Cash Items.......................			
Total..........................		Total..................	
P.M.:			
Transit Department.................		Received from First Teller...	
Check Desk.......................		Received from Second Teller..	
Clearing House Exchanges...........		Received from Third Teller...	
Paid to First Teller.................		Received from Fifth Teller...	
Paid to Second Teller...............			
Paid to Third Teller................			
Paid to Fifth Teller................			
Sights, small and large..............			
Countries to Transit Department.....			
Cash Items.......................			
Total..........................		Total..................	

Figure 17. Fourth Teller's Proof

Handling the Afternoon Mail

The mail received after the morning exchanges is spoken of as the "afternoon" mail. It is handled in somewhat the same manner as the morning mail, but certain of the more important differences may be noted.

The men from the other departments who assist the mail teller in the morning mail work return to their respective departments about ten o'clock and the work of the mail teller's department for the rest of the day is done by the regular men alone.

The clearing house checks are sorted into sections and handled by the rack department, together with items received from the second, third, and fifth tellers. Sights and trust companies of large amount, say, of $1,000 or over, are sent at once to the city collection department, by which they are immediately collected. All large countries, say, of $500 and over, are separated from the other out-of-town items and turned over to the transit department to be handled the same day. The small countries are charged to the city collection department, where they are held overnight.

All items sent in for collection, unless they are for large amounts or request telegraphic advice, are held over until the morning. Likewise, all return items not for large amounts, and letters in payment of collections, are held over; of course, if the enclosure letters are received from parties for whom accounts are kept on the collection ledger, they are handled at once, as the money is due the respective accounts, and to hold them over means a loss of interest for one day. Checks on the bank itself received in payment of cross-credits (remittances received from one bank for the credit of another bank) are put through the same day; checks on other banks, however, are held over for the night force. In the event of an overdraft in the account for whose credit the letter is intended, the remittance is credited in the afternoon; if the maker of the check has an account with the bank, the check is not sent for certification; otherwise, it is despatched through the messengers department for that purpose.

It frequently happens that trains are delayed, resulting in an unusually large afternoon mail. This must be given prompt and careful attention; all stop-payment orders, 5 per cent fund transfers, orders for the shipment of currency or coin, orders for the purchase of stock or bonds, requests for telegraphic advice, letters recalling notes, and all other letters of unusual importance, must be forwarded at once to the department to which they pertain. Only the important letters of the departmental afternoon mail are distributed in the afternoon; the others are held over till the following morning to be sorted by a special force of clerks who are familiar with the detail work of all the departments of the bank and therefore know the proper destination of each letter. The official mail may be distributed as received.

It is necessary to examine the letters carefully to see that all instructions given in them are strictly followed. One man should be held responsible for this work; he should see that all the mail received is addressed to the bank, and that it is credited to the proper accounts; he should telegraph the receipt of all credits when telegraphic advice is requested; he should be responsible for any collection letter which may be handled in error as cash; he should have all collection item letters properly initialed (these include the collection items deducted from cash letters, in which cases he should check the instructions on the letter with the ticket from which the item is credited).

It is customary to acknowledge all cash and collection letters; the only exceptions are those received in payment of collections, which are not advised unless the remitters specially request it. Acknowledgments are made by post-cards, and advices on advice slips.

CHAPTER XXXII

THE CHECK DESK DEPARTMENT

General Functions and Organization of Check Desk Department

The functions of the check desk department vary considerably among banks, since they are combined in different degrees with those of the general bookkeeper's department. The check desk department handles all the accounts of customers and correspondents, except foreign accounts, receives all credits for the accounts from every department of the bank and makes all charges to the accounts, watches the average balances and interest allowed, and prepares statements for customers. It is the bookkeeping department for domestic customers' accounts. Ancillary to this function is its receiving of the checks against the bank itself and the clearances (checks against banks for which the bank acts as clearing agent) which it prepares for proper credits and charges; this preparation includes sorting, listing, proving, and examining for stop-payments, overdrafts, certification, indorsements, signatures, dates, and filling. The preparation, examination, proof, and charging of these checks consume the most time and labor in the check desk department; in small banks these operations can be done at a desk, hence the name of the department into which it evolves in large banks. In the scheme of some banks the check desk department devotes itself to this work with the checks and clearances alone, and the bookkeeping phases are handled by a distinct customers' bookkeeping department or by the general bookkeeper's department. The following description relates to a bank where the check work and bookkeeping work are both assumed to be handled by the check desk department.

Such a department would be divided into subdepartments performing specialized functions. The receipt, proof, sorting, and examination of checks and clearances would be done by the proof desk and its accessory signature desk, and the clerks would be spoken of as "proof clerk," "signature clerk," "filling clerk," "clearance clerk," etc. The division of the bookkeeping work follows the classification of the accounts and can be best shown by the following diagram:

- Accounts
  - Bank Sections
    - National Banks Section
      - Ledger A—C
      - Ledger D—H
      - Ledger I—M
      - Ledger N—R
      - Ledger S—Z
    - State Banks Section
      - Ledger A—H
      - Ledger I—N
      - Ledger O—Z
    - Trust Companies and Savings Banks Section Ledger
  - Individual Sections
    - Impersonal Section
      - Ledger A—B
      - Ledger C—D
      - Ledger E—H
      - Ledger I—M
      - Ledger N—P
      - Ledger Q—S
      - Ledger T—Z
    - Personal Section
      - Ledger A—F
      - Ledger G—O
      - Ledger P—Z

It will be noted that the bookkeeping has been divided into two main divisions, which in turn are ultimately divided alphabetically into "combines," "sections," or "ledgers," as they are variously called. Each ledger would have a bookkeeper. Three or four accounts current clerks, whose duties will appear below, would be connected with each combine. For the preparation of statements to customers, a special subdivision of statement clerks would be provided. The designation "check clerk" is commonly applied to the head of the check desk department.

If the bookkeepers are distant from the cages which deal with customers, it is imperative that communication between them be accurate as well as speedy. Telautographs supplemented by interior telephones are the best means of reducing friction and giving service to customers and at the same time protection to the bank.

Sorting the Items

The items handled by the proof desk are received through the following: the clearing house, the paying teller, the receiving teller, the note teller, the mail teller, the city collection teller, and the foreign division. Each check bears evidence of the department through which it has been received, for it is either stamped with a distinctive "Paid" stamp or has been thrust onto a spindle with a distinctive cut. During the night the mail teller's department has sorted the incoming cash letter items, and those for the check desk are ready for the proof clerks, who begin work about eight o'clock. Nearly all the accounts current clerks report in the morning to the mail teller and assist in preparing the outgoing exchanges.

The items coming to the check desk department from the morning mail are stamped with the mail teller's "Paid" stamp and include the following:

1. Checks on the bank.
2. Clearances.
3. Certified checks—those certified by the bank.
4. Dividend checks of the bank.
5. General items—including the bank's cashier's checks, coupon checks, redemption checks, clearances returned, and irregular items.

These are made up into packages of, say, 300 each, listed and proved, the totals of the lists being proved against the mail teller's charge. The packages are then laid aside to be sorted into the rack later.

If the bank is one that employs the early nine o'clock exchanges at the clearing house, the items received are handled in the same manner.

By the time the later exchanges arrive all the accounts current clerks have been released by the mail teller. The later exchanges and such items as have been left over from the early exchanges are divided equally among, say, seven groups of ten clerks each, each group being under the direction of a captain and assistants. As fast as the packages are proved they are sorted into a rack according to the ledger headings, as given in the chart of accounts above. The items are then ready for the signature clerks, who start on their duties as soon as possible, so that if they discover a forgery it will be possible to return the check to the sending bank before close of banking hours. Usually by noon all the exchanges are proved. The clearances are run up on machines, are charged to the fifth teller, and sent to the drawee bank by noon. As soon as the exchanges are proved, the accounts current clerks immediately start sorting their checks and list them on machines, the lists showing the total of checks for each account, after which the bookkeepers start posting, using the slip totals to facilitate their work.

Clerks from the check desk are constantly collecting checks from the various tellers of the bank each afternoon, and these checks are sorted, listed, and proved against the various ledgers in much the same way as are the checks received from the clearing house. These checks are handed to the signature clerks and then to the bookkeepers, who in turn give them to the accounts current clerks for posting and proving against their afternoon slips.

Examining the Items

Each day before the close of business hours all checks received by the bank and affecting its accounts are closely examined for possible defects. The signatures are viséed by the signature clerks; the bookkeepers see that no check is charged that is either postdated or of stale date; the accounts current clerks watch for the proper indorsement of large checks; and the filling clerk reads the fillings to see that they agree with the figures. Any defects, when discovered, are referred to the check clerk. In some instances the items are returned to the sending banks either for a redemption check or for a special guaranty, and in some cases the items are paid.

All requests to stop payments are referred to the stop-clerk; he immediately enters the time and date of receipt on the back of the order, and notice is sent to the paying teller and certification clerk. The order is then sent to the auditing department, where the check files are examined to learn whether the check has been paid; if it has not been paid, it is so stated on the order and returned to the check desk department. The accounts current clerk then examines the accounts current sheets in his book to see whether the check has been paid. When certain that it has not been paid, the order is recorded in the general stop-payment book and also in the bookkeeper's individual record. When a check marked "duplicate" is received, resort is had to the stop-payment book to see whether any orders have been received to stop payment of the original and pay the duplicate, and if such instructions have been received they are followed. In default of instructions and in case a search of files does not reveal the payment of the original, the duplicate is paid.

The Proofs

The items are disposed of as follows: Foreign items are sent in batches to the foreign division as soon as proved. The foreign bookkeepers return a proof later showing the items as they have been charged to the different foreign ledgers, and these are entered in the trial proof as shown below. Certificates of deposit, cashier's checks, redemption checks, and coupon checks are charged to the general bookkeeper. Returned items and clearances are charged to the fifth teller.

Owing to the volume of checks handled each day it is necessary to have an infallible proof system, which is at the same time concise and simple. Usually two identical proofs are taken, one for the forenoon, and one for the afternoon. The system can be

CHECK CLERK'S SECTIONAL PROOF Date........

Sections	Exchanges	In	Out	Net	Books	Remarks
Personal:						
A–F..............						
G–O..............						
P–Z..............						
Impersonal:						
A–B..............						
C–D..............						
etc.						
National Banks:						
A–C..............						
D–H..............						
etc.						
State Banks:						
A–H..............						
I–N..............						
O–Z..............						
Clearances...........						
General Items........						
etc.						
Claims..............						
Total...............						
Allows..............						
Net..................						
Clearing House......						
Difference...........						

Figure 18. Check Clerk's Sectional Proof

explained by describing the check clerk's sectional proof (Figure 18) and the check clerk's trial proof (Figure 19).

The first column of the sectional proof contains the totals of the machine slips of each combine, of the clearances, of the general items, etc., plus the amount that the bank claims through errors of the sending banks, and less what it allows for the same reason. The grand total of this column represents the amount of checks re-

Dr.	CHECK CLERK'S TRIAL PROOF	Date......	Cr.
General....................		Clearing House............	
Certified..................		First Teller...............	
Personal:		Second Teller.............	
A–F....................		Third Teller..............	
G–O....................		Fourth Teller.............	
P–Z....................		Fifth Teller...............	
Impersonal:		Foreign Division..........	
A–B....................		Certified.................	
C–D....................			
etc.....................			
National:			
A–C....................			
D–H....................			
etc.....................			
State:			
A–H....................			
I–N.....................			
O–Z....................			
Foreign Division:			
A–C....................			
D–L....................			
etc.....................			
Fifth Teller:			
Clearances..............			
Returns.................			
Claims....................			
Allows..................			
Net Total...............			

Figure 19. Check Clerk's Trial Proof

ceived, and should prove against the total with which the clearing house charges the bank, plus the items received from the mail teller that morning and from other tellers during the forenoon.

The Out column and In column arise as follows: When the accounts current clerks are sorting their checks they frequently find items which do not belong to their particular section. They might be handed directly to the proper clerk; but to avoid confusion each clerk lists the missent items found and sends them to the proof desk and calls them "outs," since they are taken out and deducted from the section slip. When these "outs" have been properly sorted, they are handed to the proper clerk and called "ins." The total of the slips (as shown in the first column), plus the "ins" and less the "outs," gives an amount against which a section should prove.

The Books column shows the actual book figures taken from the check clerk's trial proof (Figure 19).

The trial proof consists of a balance of debits and credits. The debits column is assembled as follows: The total amount of checks posted to an account is transferred to a set of posting sheets and the total on each combine should balance with the total amount of their slips. The total of each accounts current clerk's postings is written on a slip and handed to the proof clerk, who enters this amount on the trial proof. This trial proof represents the actual amount of the postings, and when the figures of a combine are totaled the result should agree with the amount extended on the sectional proof above. The total of the book figures of all combines, of the amount of certified checks, redemption checks, cashier's checks, coupon checks, and foreign items, and all items charged to the fifth teller, plus the bank's claims and less its "allows," compose the debit column. The credit column gives the totals with which the check desk department is charged by the different tellers and the foreign division and the clearing house exchanges. The two columns should balance and show a proof of the day's work.

The Ledgers

In the accounting scheme for the check desk department the bookkeeping is divided into three major classes of accounts;

namely, bank accounts, impersonal accounts, and personal accounts; and each class is subdivided into alphabetical sections or "combines," for each of which a special ledger is kept by a bookkeeper, co-operating with whom are three or four accounts current clerks. The balancing of pass-books and preparation of statements are done by statement clerks, who may, of course, be the same persons as the accounts current clerks.

The most used form of ledger in banks is the Boston ledger (Figure 20). It is a large book for the chronological record of the transactions of each account. The accounts are arranged alphabetically on the left-hand margin, or on both the left-hand and right-hand margins, or in the center, of the page; spaces are left for new accounts. From left to right across the two pages, as the book lies open, are a number of columns for each day

LEDGER J-T

	22 August 1921 Monday			23 August 1921 Tuesday			24 August 1921 Wednesday				25 August 1921 Thursday			26 August 1921 Friday			27 August 1921 Saturday		
Date of Settlement	Dr.	Cr.	Bal.	Dr.	Cr.	Bal.	Dr.	Cr.	Bal.	Names	Dr.	Cr.	Bal.	Dr.	Cr.	Bal.	Dr.	Cr.	Bal.
										Forward									
										Jones & Co.									
										Richard Roe									
										Smith & Smith									
										The West Co.									

Figure 20. The Boston Ledger

of the month; the three essential columns are debits (checks), credits (deposits), and balances; other columns may be introduced for giving the items in detail and total, and for other purposes. Every item, whether debit or credit, may be posted with a distinct mark after it, to aid the auditor in tracing it.

Routine of Bookkeepers in Check Desk Department

The early morning is spent by the bookkeepers of the check desk department in checking their ledger balances against those of the accounts current clerks and correcting any differences discovered. They also report to the cashier any large or unusual increase or decrease of the balance of any account. They then strike proof and foot their ledgers. Each bookkeeper puts his proof figures on a special ticket and sends it to the general bookkeeper, who checks it against his figures. If there are discrepancies, the errors are searched out by the bookkeeper and the errors are adjusted through the auditor or the specialized error and adjustment department.

The morning mail is the source of most of the credits received for the bank accounts and of fewer for the individual accounts. As described above in the proof desk work, some of the accounts current clerks assist the mail teller with the morning mail, proving and sorting the items into packages. The cash letters are sorted alphabetically and then posted on the accounts current sheets. Meanwhile a clerk from the transit department examines each letter and marks it for interest and deferment of credit. The bookkeeper then takes the mail and posts it into the ledgers, marking the accounts with symbols to correspond with the conditions stamped on the letters by the transit clerk; and the mail, when posted, is turned over to the mail teller.

Whether an account is paid interest on its balance, at what rate, how the interest balance is calculated, and how deferment of credit is carried out, are matters of contract between the bank and its customer. A separate interest sheet is kept for each account. The interest balance (the amount upon which interest is paid for the day) is determined by the bookkeeper and entered on the interest sheet. The fixing of the rate and the calculation of the interest are best lodged with the general bookkeeper, who then, once a month or oftener, according to the contract, directs the bookkeeper to sum up the interest sheet and credit the account with the accrued interest.

About ten o'clock the balances of the different brokers' accounts are prepared by the bookkeeper and sent to the certification department, where they are posted on the certification sheets.

Posting the Exchanges

As described above under the proof desk work, the exchanges are sorted into sections, proved, and turned over to the signature clerks for examination. The accounts current clerks then take their respective bundles of checks and sort them into accounts, alphabetically arranged. The checks of each account are then sorted numerically. The bundle of checks for the section next passes to the bookkeeper, who examines them for "stop-payments" and to see that each check is drawn on the bank. Meanwhile the accounts current men list and total the checks of their bundles, throwing a total after each account; from these slips the bookkeeper posts the total of each account to the debit of the account.

The work of the accounts current men in posting the exchanges consists in posting the number and amount of each check on its respective accounts current sheet and carrying the totals to the extension column; if an account is one that draws a large number of checks, the checks are listed on machine sheets and only the totals entered "as per list" on the accounts current sheet. After proving against the total of the bundle list, the "ins" are added and the "outs" subtracted, and the totals of each book are sent to the proof desk.

All stop-payments are entered in the stop-payment book and afterwards checked by the stop-clerk. This record includes the date of receipt, name of payee, number, amount, etc.; and if a check comes in on which a stop has been placed, notation is made of that fact.

Method of Handling Overdrafts and "Holds"

When all the exchanges are posted, the bookkeeper examines the ledger for overdrafts and reports any that are found to the respective bank officer who has charge of the district of the drawer. Before reporting the overdraft, a search should be made through the bank for credits to the account. To do this an overdraft slip is prepared, naming the account overdrawn, the amount of the overdraft, the cause, when the last remittance was received, average balance for the past six months, and the date and amount of the last remittances or collections for the account. In the case of individual accounts this slip also contains the line of business of the drawer and who introduced him to the bank; and below these data is the question, "Do you know of any credits for this account?" A list of departments that may have received credits then follows, and the bookkeeper presents this slip to those departments to be initialed. If the account was not overdrawn in the morning and credit is found in one of the departments, the account is not reported as overdrawn. If, however, it was overdrawn at the commencement of business and credits are found, the bookkeeper reports it as having "made good."

All overdrafts for which no credit is found must be reported to the officer in charge of overdrafts before, say, two o'clock, so that he may, if he deems best, communicate by telegraph with the offending customer before the business day closes. If the officer thinks it imprudent to carry the overdraft, he orders returned a sufficient amount of checks to offset the overdraft. To protect the customer without at the same time offending him, the notice should be stated in mild terms. When credits are received to cover the overdraft in whole or part, the returned checks to an equivalent amount are recalled. A close record of overdrafts should be kept, and the credit department should be given notice of them, as they reflect on the credit title of the drawer.

In figuring an overdraft, "holds" must also be considered. A "hold" is a temporary pencil debit made against an account at the request of some department, for a transaction which they wish to execute. The rule of the bank may be that no debit can be made against an account unless it be signed by an officer; to save time and serve convenience a reservation of funds is made at once in pencil, and the debit itself, duly signed, later comes to the bookkeepers in the regular course of the day's business, when the entry is made in ink. The hold is made only for a good and sufficient purpose, the department probably acting under specific orders of the customer, and may be erased if the department ordering it finally decides not to put through the transaction for which the money is held. A hold against an account for which there is not a sufficient balance is considered an overdraft.

The Balancing of the Accounts

After the exchanges are paid the daily average balances are taken off and entered in the daily average balance book in round numbers. On the last day of the month all the average balances of the accounts in the daily average balance books are footed and the sum divided by the number of business days in the month. This average is placed in the monthly average balance book opposite the name of the account.

All transactions entered after the exchanges are called "afternoon" work. These debits and credits are fully described on the accounts current sheets. During the day the receiving teller sends to the bookkeepers batches of deposits which he has sorted, entered on their sheets, and proved. The afternoon mail credits are sent by the mail teller to the bookkeepers to be posted, with a slip showing the amounts credited to the different ledgers. The afternoon mail checks on the bank are charged to the check desk department, where they are sorted, proved, and distributed to the bookkeepers. After banking hours the certified checks are footed and then given to the bookkeepers to be posted. Likewise, when the general bookkeeper's credits and debits are posted in his journal, they are distributed to the various bookkeepers for credit or debit to the accounts. The transit department charges are entered by the bookkeepers and accounts current clerks from the carbon copies of the letters which the transit department is sending to the correspondents.

When all the debits and credits are posted, the bookkeepers "strike" all the accounts.

The accounts of a bank are mostly balanced once a month; some accounts are balanced more often—daily, semiweekly, weekly, semimonthly, or whenever the pass-book is presented for that purpose. To spread out through the month the balancing of accounts and the preparation of statements, the accounts are divided among the days of the month, one group of accounts being closed on the first, another on the second, etc. The accounts current clerks strike a balance of the accounts that are to be closed and enter the balance on "striking sheets," which are compared with the bookkeepers' balances. The accounts current sheets are sent to the auditor's department, where the back sheets have been collected and where copies of all sheets are made, and where, too, all canceled vouchers are filed. After comparing the vouchers and the lists for numbers, the vouchers and the statement are despatched by mail to the customer. Very large packages of vouchers are sent by express. With the vouchers a reconcilement blank is enclosed.

Other Duties of the Check Desk Department

Advices of drafts drawn on the bank by correspondents are filed for reference in case of irregularities in the drafts. The accounts are not charged upon receipt of advice of drafts drawn but upon presentation for payment. Advices of credits in transit are handled by the check clerk, who sees that the advised remittances are duly received and credited. In case of delay in receipt of an advised remittance, notice is sent to the customer. The mail teller advises the correspondents of credits placed to their respective accounts by other banks. These advices are checked against the entries on the accounts current sheets.

Among the minor duties of the bookkeepers may be noted the following:

1. All discount and loan tickets that require average balances for the preceding six months or year are filled in by the bookkeepers who keep the respective accounts.
2. A record of certified checks is kept in the outstanding certified check book, and this is proved, say, once a week.
3. When a new account is opened or an old account closed, notice of the fact is sent by the bookkeeper to the various departments and officers concerned.
4. All requests for information concerning an account must be answered by the proper bookkeeper.

CHAPTER XXXIII

THE NOTE TELLER AND CITY COLLECTIONS

Classification of Items for Collection Purposes

A bank receives a great variety of items which are claims against other parties and which it proceeds to collect from these debtors. For the purpose of collection the items are divided into classes according to three principles:

1. Whether or not the item can be treated as cash.
2. Where the debtor lives.
3. Whether the volume and characteristics of the item warrant separate handling.

The collection of each class is then, in a large bank, assessed upon a distinctive department. The following table will illustrate the ordinary division:

TABLE SHOWING CLASSIFICATION OF ITEMS FOR COLLECTION

Collection Area	Department	Items Handled	
		Cash	Collections
City	Mail Department or Rack Department (Clearing House)	X	
	Note Teller or City Collection Department (City Collections)	X	X
City and country	Note Teller or Coupon Collection Department (Coupons)	X	
Country	Country Collection Department		X
	Transit Department	X	
Abroad	Foreign Collection Department		X

The operations of these various collection systems will be treated in this and following chapters.

General Functions of the Note Teller

In general, the department of the note, or third, teller is closely related to the departments handling correspondence, collections, and discounts. In most banks one of the note teller's primary functions is to make collections of notes in the city and account for the proceeds received, such collections being made for the discount department, for customers, and occasionally for non-depositors. But the collection, also, of the city items other than notes usually devolves upon him. As the volume of work in the department becomes large, certain branches of it are turned over to specialized departments: The note teller's department is the parent of the messengers' department, the city collection department, and the coupon collection department. The apportionment of functions among the offspring departments and the original note teller's department differs greatly in the different banks. In a very large bank, messengers may be assigned to the discount department, which then makes its own city collections. The same is true of the coupon collection department.

The note teller receives and is made responsible for funds from numerous sources. These funds include items coming in by mail or express or over his window, from depositors and non-depositors, for collection in the city or country; credits with cash offset from other departments; deposits requiring special advice; payments for exchange charges; payments for rent of offices in the bank building; etc.

In every bank there are many odds and ends of a banking or non-banking nature for the performance of which either a special department is created or a parcellation is made among existing departments or an allocation upon a single existing department. A common arrangement is to assign such work to the note teller. Such an arrangement tends to less confusion, for it permits a higher specialization of the other departments and a reduction of their fewer functions to a more stereotyped routine. It also results in fixing definite responsibility for the performance of an heterogeneous group of operations. Some of the miscellaneous duties commonly assessed upon the note teller are the issue of certificates of deposit; the care of remittances not having proper instructions; the care of canceled vouchers returned on account of forged, missing, or wrong indorsements; the transfer of funds by telegraph; the purchase of rare coins for the bank or for customers or others; the payment of notes for non-depositors; the receipt of the registered and special delivery mail; the delivery of mortgages, deeds, or valuable papers against payment or receipts; etc.

Since the functions of the note teller are so miscellaneous, it is difficult to apportion them among clerks on any one principle of division, and so the clerks handle more or less unrelated lines. Some of the functions, for instance, may be divided among a transfer-of-funds window, a note collection window, a registered mail division, a credit journal desk, a transfer desk, and a note entry desk; and the note teller and the assistant note teller may take certain lines of the work under their especial care.

Handling of Notes for Collection

Notes for collection are received in the note teller's department from various sources: by express, registered and special delivery mail, over the counter, and from the mail department, city collection department, and foreign division. Those not received from other departments are entered individually in a blotter, with a page for each day's receipts, and columns for the letter date and address, indorser, collection item number, due date, whether protestable, where payable, amount, and special instructions. Maturity dates are next written with a blue pencil upon the face of each note. The notes are then entered in note registers: (1) the owners' book, that is, under the name of the depositor, and (2) the makers' or acceptors' book, under the name of the maker or acceptor; these two books form a cross-index for ready reference to the note.

The notes are also entered in a tickler according to maturity dates, and filed chronologically in note boxes, notes payable in the city being placed in one box and those payable out of town in another. The latter are turned over to the country collection department in ample time to assure their being presented at maturity. On the day before the city notes are due, a credit ticket and advice of payment are written for each note, and the notes are then entered in the route book which gives the place of payment. The totals of the route book, tickler, and credit tickets must prove. The notes are presented for payment by messengers who have assigned routes; the degree of co-operation with the city collection department varies with the banks, but to save confusion a bank may find it advisable to employ a different set of messengers and routings for each department. In case a note is not paid, the collecting bank is guided entirely by its correspondent's instructions in regard to protesting and telegraphing the disposition of the note.

Miscellaneous Collections

Drafts with securities attached sent for collection are entered on sheets giving the name of the drawee, amount, and a complete descriptive record of the securities. The collection of these drafts is entrusted to a special messenger, great care being required in the handling of the drafts owing to the negotiability of the securities attached. In many instances payment is refused on account of some irregularity, which necessitates considerable telegraphing and correspondence.

Bonds and coupons are received by express, registered mail, and over the counter. They are checked, entered in the coupon blotter, and charged to the coupon collection department, whose work is to effect collection and credit the proceeds to the depositors' accounts.

Country items sent for collection and requiring special advice of payment are entered in the country collection blotter and delivered to the country collection department for attention.

Items payable in the city and deposited over the note teller's counter for collection are delivered to the city collection department against receipt.

Certain up-town banks may deposit country checks with the note teller for collection. These are charged to the transit department. Deposits of clearing house checks from non-member banks of the city and vicinity may also be received and they are charged to the mail teller.

Miscellaneous Duties

The note teller receives over the counter all deposits requiring special advice.

Some parties for whom the bank collects country items prefer to pay the exchange directly and not have it charged to their account. Such charges are billed and entered in the exchange book kept for that purpose by the analysis desk of the transit department. Payment of these charges is made to the note teller, who credits the Exchange account and records the payment in the exchange book.

Credits are received from many departments in the bank which have no credit journals; they are accompanied by debits in the form of checks or cash. Such items come, for instance, from the certification department, the code department, the customers' securities department, etc. When a sufficient number of credits and debits have accumulated, they are listed and proved. The tickets are given an identification number and listed in the credit journal under the proper account; the entry shows the amount, number of the ticket, and a brief description of the debit offset.

Packages which are known to contain remittances of currency from customers pass directly to the paying teller, but are credited and acknowledged by the note teller.

Certificates of deposit are usually issued only upon the approval of an officer. They are issued in three classes, namely: demand, definite time, and indefinite time. The first are payable upon presentation; the second are payable in accordance with their tenor; the third are payable a certain number of days, say, thirty-one, after the payee has served notice. A specimen of the payee's signature is procured. A credit ticket is written, giving the number of the certificate, the amount, and the terms of issue.

A special form of certificate of deposit is the "margin" certificate, which is issued only under instructions of certain officers of the speculative exchanges. These officers select certain banks as legitimate depositories of money sent by principals to be used as margins by brokers in executing orders, and the deposit certificates run in the name of the officer or the principal or both. The contracts which these margins cover are recorded on the exchange, and at the termination of the contract the certificates are paid under the direction of the officers. The credits are handled in the same manner as are those for regular certificates of deposit.

To protect itself, a bank may adopt the policy of making telegraphic transfers of funds only upon written request. The telegrams are prepared in code and in triplicate. A translation of the message is made on the second and third copies. After the telegram has been checked and a test word added, the original copy is given to the telegraph operator for transmission, the duplicate is sent to the correspondent as a confirmation, and the triplicate, with the instructions of the transmitter, is sent to the general file department.

Letters received without proper instructions concerning the enclosures are investigated. If it is impossible to ascertain the disposition to be made of them, the remitter is immediately notified by letter, or by telegram in case of large remittances. The money is credited to the Cashier account until complete instructions are received.

Paid and canceled vouchers returned for missing, wrong, or forged indorsements, are received by mail and over the counter. These vouchers are sent to the last indorser with the request that he correct or supply the indorsement. In the case of a forgery, an affidavit accompanies the voucher and a refund of the amount involved is demanded.

Bookkeeping and Proofs

The credit journal of the note, or third, teller classifies its credits in some such way as follows, the alphabetical groupings coinciding with the check desk bookkeepers' and foreign bookkeepers' classification:

General bookkeeper.
Personal: A-H, I-N, O-Z.
Impersonal: A-B, C-D, E-H, I-M, N-P, Q-S, T-Z.
National banks: A-C, D-H, I-M, N-R, S-Z.
State banks: A-H, I-N, O-Z.
Trust companies and savings banks.
Foreign: A-C, D-L, M-N, O-R, S-Z.
The bank's accounts: foreign, domestic.

All credits are prepared on credit tickets as the items are received and are sent and credited according to their tenor.

The third teller's department proof would take a form somewhat as that shown in Figure 21.

The charges to the transit department include the large country checks; the charges to the check desk department are the checks received drawn on the bank itself; the charges to the first teller are for currency remittances and for the till cash; those to the second teller are for the exchange charges paid to the note teller; those to the fourth teller are for special instructions items, etc.; and those to the fifth teller are for large sights, trust company checks, small sights, and small country checks held overnight. The clearing house items, after sorting, are charged to the mail department. The credits from the first, second, fourth, and fifth tellers are rare and odd items.

Dr.	THIRD TELLER'S PROOF	Date........	Cr.
Transit Department........		Credit Journal............	
Check Desk Department....		Received from First Teller..	
Paid to First Teller........		Received from Second Teller	
Paid to Second Teller.......		Received from Fourth Teller	
Paid to Fourth Teller.......		Received from Fifth Teller..	
Paid to Fifth Teller:			
Checks on trust companies			
Sight drafts.............			
Small country checks.....			
Clearing House Exchanges..			
Total.................		Total.................	

Figure 21. Third Teller's Proof

Functions of the City Collection Department

The city collection department corresponds closely with the transit department. It handles much the same kinds of items and performs the same functions, but its collection area is limited to the city. Moreover, since a big proportion of city cash items is collected through the clearing house by the mail teller, the greater part of the cash items handled by the city collection department, or fifth teller are sight drafts of large amount or on non-clearing institutions.

The collection area covered by the department is determined by the size of the city and the convenience of the bank. The whole of a moderate-sized city can be conveniently reached by messengers directly from the bank, but in a very large city a down-town bank considers up-town institutions as out of town and handles its collections in the up-town distant boroughs through its transit and country collection departments. Certain of the up-town banks are regular correspondents and handle the collections of the down-town bank. An item on an up-town institution may be large enough to warrant the down-town bank to collect it directly by special messenger in order to get the funds as soon as possible. The New York Clearing House recently established a city collection department for the purpose of collecting for member banks sight drafts drawn on selected concerns numbering 82 in all and including several East-side banks and bankers.

The messengers' department is an essential part of the city collection department. The messengers are divided into groups according to the class of items carried for collection—cash, special collections, coupons, notes, discounts, etc. The members of each group are assigned to routes into which the collection area is mapped; the routes of the "cash" area do not conform to the routes of the "special collections" area, etc. It is unusual in large metropolitan banks for a messenger to carry more than one class of items. The routes are arranged for convenience and, although geographical, one covers the cotton institutions, another the produce institutions, another the insurance companies, etc.

The city collection department is genetically derived from the note teller's department, and in smaller institutions its functions are performed by the note teller. Like the note teller's department, much detail is involved in its work. The internal organization of the department divides on the basis of the items handled; when any class of items attains to large volume, it is delegated to a specialized section. For convenience of treatment let it be assumed that the department's functions are grouped for the handling of:

1. Special collections
2. Sight drafts
3. Returns
4. Clearing house returns
5. Special deposits

The department would then be organized as follows: The city collection teller and his assistant would have general supervision of the department and the messengers. A special collection clerk, a sight draft clerk, a redemption clerk, a returns clerk, a cash clerk, and a special deposits clerk would have charge of their respective sections, and a bookkeeper would keep the credit journal. The city collection window would open into the cash section, and the redemption window into the returns section.

Special Collections

The special collection section of the city collection department receives:

1. For collection and credit, all drafts which require special advice of payment, drafts with bill of lading attached to be held for arrival of the merchandise, and all drafts which require special attention.
2. Foreign currency and rare coins for sale and credit under advice to correspondents.
3. Notes for collection.

The special collection clerks are often called upon to exchange inland bills of lading for ocean documents, to get shipments insured through brokers in the city, to arrange for the transfer of merchandise from the railroad yards and steamship docks to the warehouses for storage, and to care for all the detail in this connection.

Clerks from the city collection department assist the mail teller with the morning mail and receive from the mail teller and check all items sent in special letters or bearing a special notation requesting that a specific thing be done. A credit ticket is immediately made out bearing the name of the correspondent, collection number, date of letter, name of drawee, amount, instructions as to protest, etc. The drafts are stamped "Paid" and sorted into the various routes for the messengers. Another source of drafts is from the foreign collection department.

The notes received for collection are entered in a "note book," with complete instructions covering each item, and then delivered to the note teller to be collected at maturity. All time drafts are listed upon sheets with a complete description of each item and also of the final disposition when accepted or returned. Time drafts are usually left with the drawee overnight for examination, a messenger calling for them the following morning. If they are accepted, they really become notes and are entered in a scratch book and delivered to the note teller to be collected at the date of maturity. If any of the time drafts are returned without acceptance, they are returned to the correspondents or the foreign collection department. Time drafts carrying documents usually bear instructions indicating that documents may be surrendered upon acceptance or upon payment, and the messenger guides himself accordingly. Arrival drafts, that is, drafts drawn payable upon arrival of certain goods covered by a bill of lading which is usually attached to the draft, and other drafts bearing order bills of lading, are presented and held per instructions and the correspondents are notified to that effect. Because of the great number of arrival drafts it may be quite impossible to follow up the arrival of cars, and unless the correspondent makes a special request the bank will depend upon the drawee for information as to the time the goods arrive.

While the messengers are on the street making collections, the special collection clerks compare the instructions on the credit tickets with those on the letters, and prepare telegrams and letters covering the items which require immediate attention.

The credit tickets are arranged according to amounts, and as the messengers return to the bank the clerks check the items received in payment of the various drafts. Advices of payment are prepared and, after proof against the tickets, are mailed through the transit department or, if they are foreign advices, delivered to the foreign collection department, which in turn advises its correspondents.

The credit tickets are posted in the credit journal and are turned over to the bookkeepers of the check desk department.

The special collection clerks attend to all the items returned unpaid, wiring or writing in order to effect an early settlement of each draft.

At the end of the day the special collection clerks make out a proof. The total of the items received in payment of the drafts must equal the total of the credit journal.

Sight Draft Collections

The sight draft section of the department collects all sight drafts which are received by mail or over the counter for immediate credit, but which are not payable through the clearing house. The volume of sight drafts drawn on non-clearing trust companies is so large that the handling of these is sometimes delegated to a special trusts section; the detail of their collection is similar to that of sights in general.

The drafts held as cash items consist of sight drafts, trusts, and items received as missorts, namely, countries, clearing house checks, and drafts on the bank itself. They are sorted into these five sections by batches. All items received from each teller are proved separately and then sorted. The ones against the bank itself are charged to the check desk department, the countries to the transit department, the clearing house checks to the mail teller.

The rest are sorted into the various routes and listed on sheets alphabetically, showing the name of the drawee and the amount of each draft. They are then delivered to messengers. Sight drafts of large amount, say, above $1,000, are received from the tellers throughout the day, entered on sheets, and handed to messengers for collection.

As the messengers return, the sight draft clerks check against the route sheets the payments or unpaid items returned, making a notation of just what is received in payment of each draft. At some fixed hour in the afternoon a clerk begins to assort the checks and cash received in payment of the items collected during the day; the drafts received against the bank itself are charged to the check desk department, clearing house checks are assorted into the rack and charged to the mail teller, and the cash is charged to the paying teller.

Unpaid drafts are entered in a return book and sent to the correspondent either through the transit department or by messenger if the correspondent is located in the collection district. The return letter is drawn in duplicate, the original is attached to the item when returned, and the duplicate is charged to the check desk for a debit to the correspondent's account. Unpaid drafts of large amount are wired unpaid. Protestable items are handed to a notary or returned to the correspondent, according to the instructions as to protest or other points given in the letter of transmittal.

At the close of business a proof is taken showing a total of the amounts charged to the sight draft section and the total of everything received in payment.

Returns

The term "returns" connotes items returned by correspondents unpaid. The clerk handling the returns from correspondents assists the mail teller with the morning mail, listing them on a sheet, giving the name of the indorser, place where drawn, reason for non-payment, and the amount. The mail teller charges the total to the city collection department. These items are then returned to the depositors, who make reimbursement.

The clerk in charge of returns also receives the protest notices mailed to the bank and taken from the official mail. The clerk enters them in a scratch book under the names of the correspondents and mails them at once to these correspondents.

After the morning exchanges the check desk department delivers to the returns clerk all items from other banks returned through the clearing house. The New York Clearing House permits members to return through the exchanges items which are unpaid and returned by reason of irregular indorsement. The returning bank must certify these and is not allowed to send more than $5,000 in amount each morning. These items are handled in a manner similar to the mail returns as described above.

Later in the morning the check desk department delivers the clearances to the returns clerk accompanied by lists. The clearances are the items on banks for which the bank clears. The returns clerk delivers the clearances over the window to representatives of those banks and later in the day receives reimbursement, together with items which have been rejected by those banks. The unpaid items are then handled in much the same way as the items returned through the clearing house.

During the afternoon the check desk department charges the returns clerk with all items rejected by the bank itself and indicates whether these are to be returned by messenger or through the clearing house.

The up-town banks which make collections for the bank outside its collection district receive reimbursement for their returns by charging the bank with the total and the bank credits their account through the return proof and credit journal.

At the end of the day the returns clerk makes a proof similar to the other sections of the department.

Clearing House Returns—Special Deposits

Drafts and checks on clearing house banks which the bank has presented for payment through the clearing house and which have been rejected for some reason are returned by hand to the city collection department, which then issues a redemption check.

The redemption checks have a stub at each end, one stub forming the department's permanent record, the other giving the number of the returning bank, the indorsers on the returned drafts, and the amounts. The items are listed on sheets and handled like other return items. As the redemption checks are paid, they are checked off the list.

The city collection department sometimes has a section which handles the deposits and reports of certain special customers, as railroads or steamship lines, which wish special advice as to the payments and deposits of their agents. A daily report is prepared and sent to these accounts.

Cash Item Proof

The several sections of the city collection department, as noted above, make separate proofs at the close of the day. These are summarized in the total cash proof of the department as follows:

Dr.	FIFTH TELLER'S PROOF	Date........	Cr.
First Teller................		Credit Journal............	
Check Desk Department....		Rack Department Missorts.	
Second Teller..............		First Teller...............	
Third Teller...............		Second Teller.............	
Fourth Teller..............		Third Teller..............	
Foreign Division...........		Fourth Teller.............	
Clearing House Exchanges..		Foreign Division..........	
Sight Drafts...............		Transit Department.......	
Cash Items................		Check Desk Department...	
Small Countries............		Cash Items previous day..	
Transit Department........			
Total.................		Total.................	

Figure 22. Fifth Teller's Proof

Duties of the Coupon Collection Department

The collection of due coupons and of due or called bonds has become an important activity in large banks and trust companies. In the smaller institutions this form of collection item is handled by the note teller or by the city collection and country collection departments, which have sprung from his department. In the larger institutions the volume and importance of the work warrant the use of a specialized department, which may be called the "coupon collection" department. This department receives for collection, subject to count, to be credited only on final payment, coupons, due bonds, and bonds called for payment. It receives items:

1. From the customers' securities department (coupons detached from bonds held in safe-keeping for customers).
2. From the bond department (coupons detached from bonds owned by the bank as investment).
3. From the loan department (coupons detached at the request of the borrower from bonds held as collateral).
4. From the foreign division.
5. Over the counter.
6. By ordinary and registered mail and by express.

Those received by ordinary mail are registered in a book which the mail teller keeps for that purpose; the others are entered by the note teller (or the department in the bank which handles the registered mail, etc.) in his coupon blotter, under their respective headings, and charged to the coupon collection department. Bonds called, or bonds due or soon due, may be received from any of the above sources.

All coupons other than those detached from obligations of the United States or any of its political subdivisions, must be accompanied by a certificate of ownership made out on one of the forms prescribed by the United States Treasury. The ownership certificates state whether the owners are exempt from the normal income tax subject to stoppage at the source. The owner is required to state on the certificate the name of the debtor, a description of the particular issue of bonds, the date of maturity, the amount of interest, and is required to date the certificate; it must then be signed by the owner, or his agent, with the complete address of both. If signed by an agent, the first collecting bank or agency must write or stamp across the face of the certificate "satisfied as to the identity and responsibility of agent." This, of course, should be done only when the signing agent is known to the collecting agent.

The ownership certificates are of several classes, shown in the following scheme:

I. Original certificates
   - A. Interest on bonds and other similar obligations of domestic and resident corporations.
     1. Tax to be paid at source (white, Form 1000).
        ("I certify that the owner of the bonds from which the interest entered herein was derived falls within the class of persons or organizations opposite which such interest is entered.")
     2. Tax not to be paid at source (yellow, Form 1001).
        ("I certify that the owner of the bonds or other similar obligations from which the interest entered herein was derived falls within the class of persons or organizations opposite which the amount of such interest is entered and is entitled to such interest without deduction of tax.")
   - B. Dividends on stock of foreign corporations and interest on bonds of foreign countries and foreign corporations.
     1. Tax not to be paid at source (green, Form 1001A).
        ("I certify that the owner of the bonds or stock on which the interest or dividend entered herein was derived falls within the class of persons or organizations opposite which the amount of such interest or dividend is entered and is entitled to such interest or dividend without deduction of tax.")
   - C. Disclosing actual owner of stock.
     1. For use of foreign principal—individual, firm, or organization—to be filed with representative in the United States of such foreign principal, to disclose actual ownership of stock of domestic corporation (buff, Form 1087).
        ("I hereby declare that I am the actual owner of the above-described stock or that the record owner of said stock holds it for my own account and the actual owner is ......; that I am or the actual owner is non-resident

alien as to the United States; that the record owner of said stock is correctly listed above and that said record owner is the representative in the United States of the undersigned with respect to said stock; and that all the information given herein is true and correct.")

II. Substitute certificates

A. Interest on bonds and other similar obligations of domestic and resident corporations.

1. Tax to be paid at source (white, Form 1059).

("I certify that the owner of the bonds from which were detached the accompanying interest coupons has filed a certificate of ownership, Form 1000, duly executed . . . and I hereby promise to forward said certificates to the Commissioner of Internal Revenue at Washington, D. C.")

2. Tax not to be paid at source (yellow, Form 1058).

("I certify that the owner of the bonds from which were detached the accompanying interest coupons has filed a certificate of ownership, Form 1001 . . . and that under the provisions of the Income Tax Law said interest is exempt from the withholding of the tax at the source, or that exemption was claimed as stated herein; and I hereby promise to forward said certificate to the Commissioner of Internal Revenue at Washington, D. C.")

In the above scheme the declaration in each case is copied from the respective certificate. The Treasury provides that responsible banks may act as collecting agents and substitute their own certificate of ownership for the original. This substitution of certificates is to prevent unnecessary publicity of the ownership of securities; it restricts the information to the bank and the Collector of Internal Revenue.

The separation of employments within the department varies much with the bank, but four jobs, at least, can be allocated to specialized clerks. One of these is the marking of places of payment; a second is the writing of credit advices; a third is the care of the route sheet and checking the routes; and a fourth is the care of the out-of-town items and the incorrect certificates. The work of this department becomes especially heavy semiannually or quarterly, at the times of interest payments; the busiest times are about January 1 and July 1.

Sorting and Recording the Coupons

The first step after the receipt of the coupons and bonds is to sort them into, say, three sections. In the first section are placed the coupons and bonds which are not due; in the second section, the bonds which are due and those which have been called for payment; and in the third section, all others. Each section is totaled and proved against the grand total. Coupons and bonds not due are filed according to maturity dates. As due bonds and called bonds usually aggregate a large amount, they are handled separately in order to insure special attention. The third section is sorted alphabetically according to the ledgers of the check desk bookkeepers, and an identification number is stamped on each envelope.

The next step is to write the credit advices. These are in duplicate and give the correspondents the following information: date of letter or collection number, face value of coupons, amount of tax deducted, title of the bonds from which the coupons were detached, and the total amount credited. If the coupons are detached from bonds held in the customers' securities department, this information is also stated on the advice. The advice slips have spaces to be filled in advising non-payment of coupons and the reason therefor. The carbon copies of these advices are used as credit tickets and have an extended column where the identification number is noted for future reference.

The coupons are then counted and the identification numbers originally stamped on the envelopes are placed on each coupon and also on the attached certificates of ownership. After they have all been numbered and counted, the place of payment is marked on each envelope.

Next the coupons are sorted according to their place of payment into, say, four routes, known as "bank," "bankers," "trust companies," and "railroad companies." Each route is then subdivided into as many lots, commonly called "stops," as there are paying agents in the route, and the coupon envelopes are enclosed in route envelopes on which the amount of each coupon envelope is listed and the total stated. The coupons are entered on route sheets, which give the names of the paying agents, the identification numbers, and the total amounts of coupons enclosed in each envelope. The totals are proved against the route envelopes.

It is usually necessary for the department to transfer the coupons from the original envelopes in which the coupons are forwarded to it for collection to envelopes provided by the paying agents. The original envelopes form an important part of the bank's records and are filed for two or more years. For their convenience the paying agents require that all coupons be presented in their own particular style of envelope, and also that all coupons detached from the same issue of bonds be placed in one envelope. The transfer from the one set of envelopes to the other is called "scheduling."

With each stop (presentment) is enclosed a slip reading as follows: "Please give messenger number on corner of certificate if you deduct income tax, and oblige, The ...... Bank of ...."

Collection of Coupons and Departmental Proof

The coupons are now in shape to be presented for payment. A special group of messengers may be attached to the department, under the control of a clerk who checks the routes on the route sheet. As the returns come in from the street each stop is proved and a full description of the proceeds written on the route sheet. The amounts of the coupons returned unpaid are deducted from the credit advices, as is also the amount of tax withheld by the paying agents. The credits are then proved and the credit tickets, together with the checks and cash received, are handed to the note teller.

Coupons returned unpaid are disposed of according to the reasons for non-payment. The principal reasons for non-payment are that the paying agents have not received funds, or have not been instructed to pay the coupons presented, or that the certificate of ownership attached to the coupons does not comply with the regulations of the Treasury Department. Coupons are sometimes presented to the wrong paying agency, either through error in handling the large number of coupons or through the fact that municipalities and corporations often change their fiscal

PROOF OF THE COUPON COLLECTION DEPARTMENT Date.. .....

Received from:		Routes..................	
Mail Clerk..............		Countries:	
Note Teller:		Cash..................	
By express and registered mail........		Collections............	
Over the counter.......		Returns.................	
Foreign Division.........		Not due.................	
Customers' Securities Department.............		Held over...............	
Loan Department........		Special collections ($5,000 or more)..................	
Bond Department........		Foreign collections.........	
Held over:		Foreign returns..........	
From yesterday..........			
Not due................			
From routes.............			
Charged back.............			
Total.............		Total.............	

Figure 23. Proof of the Coupon Collection Department

agencies, and an investigation is required before the correct paying agent can be found and presentation and collection made accordingly.

Coupons payable outside the department's collection district are handed to the country collection department, where they are transferred from their envelopes to envelopes of the country collection department and treated in the same manner as other collections. The only charge made is the ordinary exchange charges, if any. The department employs the nearest paying agency, which can be readily found by reference to "Elliott's Red Book" and "Bullinger's Guide." Coupons to be returned unpaid to correspondents are handed in their original envelopes to the transit department, against receipt, and are returned to the correspondents by that department by registered mail, fully insured.

The proof of the coupon collection department (Figure 23) is really the coupon proof of the note teller's department.

CHAPTER XXXIV

CLEARING HOUSES

Definition of Clearing House Terms

The term "clearing house" is used to denote either an association of banks and financial houses which clear their mutual claims, or the place where this clearing is done. In the latter sense it is simply a central office where messengers from the associated banks meet daily and exchange checks and drafts and adjust their balances. In the former sense it is an institution, an association corporate or voluntary, a group of financial houses closely associated to carry out co-operatively operations which cannot be done so well or economically if the members act individually, the chief of these co-operative operations being to clear the mutual obligations of the members.

To clear a check means to send it, usually along with others, to the clearing house, where the sending bank receives credit, against which the drawee bank submits claims by way of checks against the former bank; only the differences, the balances, in these offsetting claims need be paid in cash or otherwise. The term "exchanges" is used to denote either the items sent to the clearing house or the operations at any one clearing hour. The term "clearings" commonly means the sum of the items balanced off, and the term "transfers" means the net balances paid. The balances may be debit or credit, according as they are payable to or by the bank considered. The payment of these balances is called "settlement."

The Place of Clearing and Its Equipment

Various expedients are adopted to provide quarters for the clearing transactions. The size of the total volume of clearings is the chief determinant of the nature of the quarters and of the physical facilities used. In smaller towns and cities a single room with tables is sufficient. This room may be rented by the association or may be a back room of one of the member banks, the member banks agreeing to furnish a room in turn, and the clearing place being then rotated from time to time. The main object in such an arrangement, of course, is to reduce the expense. In larger cities permanent quarters are usually established, but in rented rooms; the only association which is housed in its own building is the New York Clearing House.

The New York association in the early seventies began the accumulation of a building fund and in 1875 purchased and equipped their first building. By 1894 this proved inadequate and was sold. A new property was then bought, and a separate corporation, known as the "New York Clearing House Building Company," was organized to take title to it. This company drew upon the members of the clearing house association in proportion to their respective capital and surplus, for funds to purchase, build, and equip their present domicile. Receipts were issued and the contributing banks were allowed 8 per cent interest; these receipts are transferable, subject to the prior right of purchase by the association. The capital stock of the building company is practically all in the name of the president of the clearing house association, but a few shares are held by the directors of the building company. The building is "of white marble in Italian renaissance style—an adornment to the city and one of the architectural gems of the world."

The exchange building contains offices for the manager, secretary, and other officers of the association, vaults for the storage of deposits by its members, and an exchange room. The exchange room has a manager's desk and a cage for each member, the cages being arranged in parallel rows and according to the clearing house number of the member, thus expediting the exchange of packages of checks. These facilities represent the bare essentials for the operation of a clearing house. Of course, other services may be performed by the clearing house which require additional equipment, such as vaults, offices, a library, and the like.

Administration

A completely officered clearing house has a president, vice-president, secretary, treasurer, manager, and an executive committee, the president, manager, and executive committee being the essential officers. The president is general supervisor over all clearing house affairs; he is usually a member of each committee and chairman of the executive committee. He generally serves without compensation. The treasurer has custody of the funds left with the clearing house and pays out upon the order of the president and manager or executive committee.

The manager is the most important officer; he is appointed by the executive committee, and is usually reappointed year after year; he commands a good salary in the larger houses. He has direct charge of all the business at the clearing house, under the executive committee; he supervises the employees of the clearing house as well as the settling clerks and messengers from the member banks while they are in the exchange room; he imposes fines, makes and keeps the records of clearings, and prepares the reports.

The executive committee, composed of three to five members, all experienced and expert bankers, elected annually by the members, is the most important committee and has practically unlimited powers in the direction of clearing house affairs. Some of its functions are sometimes delegated to other committees, as the examination committee, conference committee, admissions committee, exchange committee, arbitration committee, and loan committee. Such division of business among committees is, of course, most extensive in case of large houses. The committees are elected at the annual meeting of the members.

Clearing house associations are either incorporated or voluntary; the voluntary association prevails in the United States. Opinion varies as to the advantages of incorporation. Either the articles of association, if it be a voluntary organization, or the charter, if incorporated, will detail the purposes, officers, and government rules and regulations of the association; these will be added to from time to time by a set of rules and regulations, defining in more detail and specification the conduct of the house.

Functions

The general functions of a clearing house are specified in the articles of association. The major function—the one performed by all clearing houses and giving them their institution and name—is the adjustment of the mutual obligations of the members. Another is to adopt such safeguards, rules, regulations, and conveniences as may be desirable and lawful, in and governing their relations with each other, with banks and trust companies in other localities, with the national government, and with the public in general. The safeguards adopted are rules as to proper reserves, loans, clients, till money, advertising, and banking practices. To see that these rules and regulations are carried out, a special examination committee has arisen in some clearing houses.

The rules relating to their relations to each other and to other banks and the public are to provide mutual help or to curb cut-throat competition and establish uniform practices; for example, to arrange for joint loans to needy members to settle balances, to publish weekly and monthly reports of the conditions of the members and of the clearing house clearings and balances, to fix uniform rates of interest on deposits, to fix uniform exchange and collection charges, and regulate, or provide facilities for, handling transits and country collections, to provide facilities for handling collections of city items not collectible through the regular exchanges, to provide for the issue of certificates of deposit for use in settling deposits, etc. Occasions have arisen where the clearing houses, particularly the New York Clearing House, have supported the United States Treasury in times of distress by loans' co-operation. In fact, before the establishment of the federal reserve system the New York Clearing House was regarded as the palladium of our financial system.

The New York Clearing House

Clearing houses arose by accident in London about 1770, when bank messengers got into the way of exchanging their checks at certain coffee houses instead of presenting them at the windows of the bank. A similar practice arose in Wall Street about 1850, and in 1853 the New York Clearing House was established by 52 banks. Banks in other cities fast followed New York's lead and established clearing houses: Boston in 1856, Philadelphia in 1858, Chicago in 1865, St. Louis in 1868, etc. There are in the United States upwards of 225 regularly organized clearing houses and many other informal ones.

The table on opposite page, in quinquennial averages indicates the growth of the clearings of New York banks and of the rest of the United States.

The New York Clearing House is the oldest, most completely organized, largest, and most influential clearing house in the United States, and therefore warrants some special paragraphs. The association at present (May, 1921) has 51 members, which include national banks, state banks, and trust companies. The Federal Reserve Bank of New York and the clearing house collection department also make exchanges at the clearing house, making 53 clearing institutions. The constitution makes provision for clearing for non-members; the non-member must have been actually doing business one year and have been approved by the clearing house committee, must pay to the association $1,000 per annum for the privilege, and must submit to the same examinations as are required of members. The member bank through which the exchanges are sent is the duly appointed agent of the non-member, and the member is held liable to the same extent as

TABLE SHOWING INCREASE IN TOTAL CLEARINGS

(In billions)

Years		In New York City	Outside New York City
1854–9	Yearly Average	$ 6.2	
1860–4	"	11.7	
1865–9	"	29.8	
1870–4	"	29.8	
1875–9	"	23.4	
1880–4	"	41.2	
1885–9	"	31.7	
1890–4	"	33.3	
1895–9	"	37.2	
1900–4	"	66.8	
1905–9	"	93.6	$ 55.7
1910–14	"	93.5	70.9
1915		110.5	77.3
1916		159.5	102.3
1917		177.4	129.5
1918		178.5	153.8
1919		235.8	181.7
1920		243.1	207.9

for its own transactions. The non-member must make a weekly report in prescribed form to the clearing house, and must keep the same cash and deposit reserves as are required from the member. The members handle these non-members' clearings for the profit they make out of the account. The checks of the non-member may arrive, as shown in Chapter XXXI, in the mail teller's department, put up in packages one for every member bank, and are entered into the members' exchanges in the assembly rack. There are now (May, 1921) 9 banks and trust companies, not members of the clearing house, which make their exchanges through banks that are members.

Provision is made for the admission of new members by the vote of three-fourths of the members; to be eligible a bank must have a capital of at least $1,000,000. Admission fees are $5,000 for banks having a capital less than $5,000,000, and $7,500 for those with capital over that amount. The federal reserve bank was admitted as a special member November 13, 1914. It was not required to sign the constitution and has no vote; it is not required to furnish a weekly report, nor is it subject to the rules governing collection charges. Otherwise it is expected to conform to the methods and rules of the clearing house.

According to the common practice throughout the country the members of the clearing houses are numbered on the basis of seniority.

The most important departments of a clearing house are:

1. The city department.
2. The city collection department.
3. The country department.
4. The examination department.

All these are well developed in the New York Clearing House. Of the clearing houses of the United States in 1918, 13 conducted country departments, 20 had examination departments, and 1 had a city collection department. It is, therefore, quite evident that the city department is the sole department of most, and the main and original department of all the clearing houses. It is the department which conducts the daily balancing of city items among members. The country department is itself a member of the city department of the clearing house and adjusts its balances with the other members as do the others, through the city department. This relationship will be explained below in the pages on the country department.

The Process of Clearing

The checks for the clearing house are prepared at each bank on the assembly rack, in packages, one for each member bank; the amounts are listed on the exchange slip attached to the package, and the packages are despatched by messenger to the clearing house. The bank has two representatives at the clearing house: the messenger who delivers the packages, or the delivery clerk, and the one who receives the return packages from the other banks, or the settling clerk.

The time of making the exchanges varies with the clearing house and depends upon local conditions, the hour chosen being the one that gives greatest convenience to the members. The hour in New York is 10 o'clock, in Chicago 11, in St. Louis 10:30, in Philadelphia 10, but in some cities it is as early as 8:30 and as late as 3:15; some houses provide for two regular exchanges, forenoon and afternoon. Besides the principal clearing at 10 o'clock in New York, there is provided a clearing at 9 o'clock. This early clearing reduces the congestion in the forenoon in the large banks, and also gives them an opportunity for knowing more exactly their position at the clearing house before business has proceeded far during the day. Whatever hour is fixed for the exchanges, it is highly important that every bank's representatives be on hand promptly, and fines should be imposed for tardiness.

Using New York practice for illustration, on their arrival at the clearing house the settling clerks hand to the proof clerk a "first ticket," giving the amount brought. This is copied by the proof clerk on the clearing house proof sheet under the head, Banks' Credit. Each settling clerk takes his seat at his desk inside his cage; the delivery clerks form in line before the cages in the consecutive desk order, with their packages on their arms. The delivery clerks have delivery clerks' receipts, which contain the amounts for each bank arranged in order and upon which, when a package is delivered, the settling clerk signs for receipt. Exactly at the hour of exchange, upon signal from the manager, the delivery clerks, successively from desk to desk, deposit the proper package and get their receipt initialed and deposit a "small ticket," which contains the amount of the package and agrees with the amount on the exchange slip. The complete circuit of the desks takes about ten minutes. The delivery clerk carries back to his bank at once the checks received by the settling clerk, who stays to help make proof.

The settling clerks, as soon as all the packages are received, sum up the amounts entered on their statements under the head, Banks Debit, and make out a "second ticket" containing the debit, credit, and balances, for the proof clerk. The proof clerk then enters the debit exchange and the balance on his clearing house proof sheet and strikes a balance of the debits and credits and balances. The settling clerks meanwhile check the amounts on their "small tickets" and those from the exchange slips. If the proof clerk finds that his proof sheet balances, the manager at once calls off, in thousands of dollars, the balances, which are copied by the settling clerks to take back to their cashiers respectively; the cashier is then informed, in rough amounts, how much his bank is to pay or receive. If the proof sheet does not prove, the difference is announced and a search begun by the clerks; exchange of sheets, calling back of entries, and other devices are employed to locate the error. The record time for performing the whole clearing operation is 35 minutes; 45 minutes' time is allowed, after which fines are imposed upon the clerk making the error, the fines varying with the nature of the mistake.

It is understood, of course, that the practices of the different clearing houses of the country differ from the above New York practices; the greater the volume of clearings handled and the larger the number of members, the greater is the necessity for decorum, precision, system, and speed. The small clearing house is often a scene of rollicking good times.

Making Settlements

There is in the records of the New York Clearing House no instance of an exact equality between the debits and credits for any bank; there are always balances to be settled. But the economy of the clearing house method is that only the net balances have to be transported to and from the clearing house and not the total receipts for checks, as would be necessary if the checks were presented over the counter at the drawee banks. The percentage of balances to total clearings depends upon several factors: the relative equality in the sizes of the members, the appearance of big and unusual checks, the regularity of the volume of transactions from day to day, and the local conditions as to interbank relationships. In the 67 years of its history up to September 30, 1920, the New York Clearing House had $3,777,-426 million total clearing transactions and adjusted them by actual payment of average balances of less than 5 per cent of the average amount cleared. The percentages for certain other cities were as follows in 1908:

Buffalo	12.0%
Pittsburgh	16.5
Chicago	7.5
Philadelphia	11.5
St. Louis	9.3

The records for total daily transactions in the New York Clearing House are $1,519,848,984 on December 16, 1919, and $1,280,733,879 on June 17, 1919; the balances on these days were $135,234,928 and $142,081,763. The other high records of balances were $133,761,391 on August 29, and $143,091,143 on November 21, 1917. These high balances and exchanges were occasioned by large single payments in connection with government financing. Also, on August 10, 1917, the largest check ever passing through the clearing house was cleared; it was for $96,-111,111; previous record checks were $72,000,000 on April 3, 1916, and $62,075,000 on June 1, 1915. Despite those immense sums for settlement, very little cash indeed had to be handled.

To effect the settlement of the balances, various devices are fixed by the rules of the clearing houses. The constitution of the

New York Clearing House formerly required the debtor institutions to pay the manager between 12:30 and 1:30 P.M. the balances against them, in United States gold coin or gold notes or legal tenders or clearing house certificates; and, as soon as possible after 1:30 and after every member had paid its balance, the manager paid the creditor members the balances due them respectively. In case a member defaulted or was late in making payment, the manager assessed the unpaid balance on the members exchanging that day, pro rata according to their respective balances, against the defaulting member, and the amounts paid constituted claims thereafter against the defaulting member; this was done so that the general settlement could be accomplished with as little delay as possible. As is explained on page 641, since the establishment of the federal reserve system, settlement of clearing house balances in New York has been effected by debit and credit book entries in the accounts of the clearing members with the federal reserve bank, the entries being made according to a certified list of the day's balances furnished by the clearing house manager. Errors in the exchanges and claims for the return of checks, or from any other cause, are adjusted directly between the parties and not through the clearing house.

Clearing House Certificates

A second method for making settlement of balances is the use of clearing house certificates. The members of the New York Clearing House, even prior to the law compelling members of the federal reserve system to carry their reserves with the federal reserve bank, carried relatively little coin in their own vaults. The gold coin was deposited in the vaults of the clearing house, and against this were issued receipts known as "clearing house gold coin certificates." They were signed by the manager and president of the clearing house, and when properly indorsed were negotiable between member banks and were much used in settlement of balances. Besides these gold coin certificates, the clearing house issued other certificates, as follows: clearing house gold currency certificates, against the United States gold bearer certificates; clearing house legal tender certificates, against the United States legal tender notes; and clearing house silver certificates, against the United States silver certificates. These certificates were issued only in denominations of $10,000 each and were redeemed in the same kind and denomination of currency for which the certificate was originally issued. All deposits of coin or currency lodged with the clearing house remained the absolute property of the banks which from time to time held the certificates, and were subject to withdrawal on presentment of the certificates properly indorsed. The use of these certificates lessened the difficulty and the risks of transporting large amounts to and from the clearing house daily. Taking the year 1908 as an illustrative year, as all forms were then in use, the amounts of the various forms used in the settlement of balances in New York were:

United States bearer gold certificates	$1,756,000,000
United States order gold certificates	296,000,000
Clearing House gold certificates	752,000,000
Clearing House loan certificates	529,000,000
Clearing House gold currency certificates	4,000,000
Clearing House legal tender certificates	2,000,000
Clearing House silver certificates	3,000,000
United States legal tenders and change	68,000,000
	$3,409,000,000

Clearing House Loan Certificates

In this list for 1908 appear clearing house loan certificates. These are an expedient adopted in times of tight money or panics, to enable solvent members to provide for themselves a means of settling their balances without using their lawful money. The New York Clearing House resorted to their issue in 1860, 1861, 1873, 1884, 1890, 1891, 1893, 1907, and 1914. Like the clearing house certificates, these loan certificates are for use only among the members of the clearing house and in the settlement of balances; the loan certificates are issued, however, only in emergencies, whereas the clearing house certificates are issued for everyday use, and the loan certificates have very different security and effects. Because of grave defects in our banking system for stemming and meeting panics, our whole financial and commercial structure was exposed to periodic overthrow; the banks affiliated together in the various clearing houses of the country devised, with no small heroism or else in desperation, a co-operative loan to solvent members who had slender reserves but pressing needs, the proceeds of the loan being expressed in clearing house loan certificates and acceptable among the members in the settlement of their clearing house balances.

The clearing house appoints a special loan committee in emergencies, consisting of about five leading bankers and the president of the clearing house, to provide for the issue of loan certificates. Member banks under actual or prospective pressure for cash funds submit to this committee acceptable collateral, usually commercial papers, on the basis of which the committee, keeping what is deemed a safe margin, issues the clearing house loan certificates; the certificates are in various denominations, having varied in the past from 25 cents to $100,000. They bear interest, payable by the bank to which they are issued and to the banks which receive them in settlement of balances. If the rate is made exceptionally high, the borrowing bank will have reason for retiring them as soon as the emergency occasioning them ceases. If the debtor bank wishes to retire them, notice is sent through the committee to the creditor banks that it is desired to retire them and that interest will cease on a specified date. As the certificates are retired, the collateral is released to the debtor bank.

The interest on these loans is a charge between members; the clearing house may let the members concerned adjust the account or it may administer the assessment and payment. The amount owing by the debtor bank is easily calculated, the rate, period, and principal of the loan being known to the committee; but there is difficulty in knowing the creditors and the amount contributed by each. One way of obtaining and using this information is for the clearing house to require the members to report daily the amount of certificates held, and these amounts are averaged monthly and interest is allowed on the average amount. The debtor bank may then be drawn on for the interest in favor of the creditor bank.

The certificates stay out for varying periods. In the panic of 1907 the New York Clearing House made its first issue October 26, 1907, and the first cancellation was on November 14; the final issue was on January 30, 1908, and final cancellation March 28. The total amount issued was $101,060,000, and the greatest amount out at any one time was $88,420,000 on December 16, 1907. Collateral substitutions were allowed. The total collateral (original and substitutions) amounted to $450,000,000, of which 73 per cent consisted of commercial paper and the rest of securities of different classes. All told there were 5,548 certificates issued in denominations of $5,000, $20,000, $50,000, and $100,000. To any one bank the greatest amount issued was $17,000,000, and the smallest amount $250,000. The total amount of loan certificates issued by the New York Clearing House since the practice was begun in 1860 without exception has been paid in gold, without loss.

General Purpose of Loan Certificates

Not all members have found it necessary to take out certificates, and the amounts taken by those who have found it necessary to do so differ greatly. It is regarded as a proof of strength and conservatism for a bank to ride a panic without them; and by some banks and outsiders, inability to do this is thought to reflect prejudicially. Probably the majority of the members feel that they are doing an heroic and patriotic thing to loan in the face of a panic and rescue a failing bank and save the business community from collapse and disaster; at least, in most of the times of severe stringency, when any member has found it necessary to take out certificates, all the other members have also taken out certificates, however strong they were and however easily they might have weathered the panic without using certificates.

The purpose and function of the loan certificates are to conserve the money funds of the members so that they may be able to use them to meet the demands of customers and banks other than the affiliated members. To provide for payments of balances at the clearing house, members have found it necessary to carry till money, varying with the bank and the times, but averaging perhaps 5 per cent of their demand liabilities. The issue of clearing house certificates sweeps away the necessity of carrying this extra till money, which can be diverted to the payment of the demands of local customers or correspondent banks; in other words, by this means the member is better enabled to meet runs. The process amounts to a pooling of the gold funds of the members and diverting them to succor needy members so long as they, in the eyes of the loan committee, are solvent and can pledge acceptable securities as collateral for the loan of this gold. The member which is solvent, but whose ready cash is insufficient, is sustained until the run is passed and the cash store built up; and since credit is a psychological thing and the banks are highly interrelated, and a failure of one drags others in its train, the issue of clearing house loan certificates may stifle a panic in its inception or mitigate its severity once it is started.

The other clearing houses of the country, even very small ones, have followed the precedent of New York and issued loan certificates to allay money "squeezes." This became the accepted and usual way of meeting panics. The weaknesses of the system have been related in Volume II, Chapter XXI. The federal reserve system, it is expected, will obviate the necessity of the issue of clearing house loan certificates, as rediscount operations will perform their function.

Settlement by Book Entries with Federal Reserve Bank

A third device for settling balances is by book entries with the federal reserve bank. This method began in New York in March, 1917, and has been adopted in Boston, San Francisco, and other cities. It has several purposes. One is to reduce the risk and inconvenience of carrying money through the street. A second is that it encourages the member institutions to hold smaller reserves in their own vaults and larger reserves with the federal reserve bank, and thus encourages the concentration of the gold stock of the banks in the central institutions. One of the arguments against the amendment to the Federal Reserve Act of June 21, 1917, requiring members to keep their whole legal reserve with the federal reserve bank, was that the till money necessary to meet business demands and the clearing house balances would exceed 5 per cent, the amount by which the reserve requirement was reduced by the amendment. This objection is obviated by settlement through the federal reserve bank by book entries, since no till money need be kept to meet clearing house balances. The said amendment also permitted banks and trust companies not members of the federal reserve system to deposit funds with the federal reserve banks for exchange or collection purposes only; and on May 21 the New York State law was amended to permit state banks and trust companies to deposit all but 3 per cent of their reserves with the federal reserve banks. These amendments open the way for the settlement of all the exchange balances by book entries at the federal reserve banks.

But whether all members of the clearing house avail themselves of the device or not, the method is applicable among as many as do. It simply requires that the manager of the clearing house certify the sheet showing the debits and credits and that the federal reserve bank make the adjustments by book entry, crediting those banks which appear as creditors and debiting those which appear as debtors, as a result of the day's clearings. The federal reserve bank could then pay a net balance, taking into consideration its own balance and those members who choose to use the federal reserve bank service for this purpose. For instance, the situation might be as follows on a certain day:

Balances	Debtor	Creditor	Net Balances
Of the federal reserve bank and members using its service......	$33,000,000	$36,000,000	$3,000,000 Cr.
Of clearing house members not using the federal reserve bank's service......................	7,000,000	4,000,000	3,000,000 Dr.
Total balances.............	$40,000,000	$40,000,000	....

The members of the latter group would pay, as formerly, $7,000,000 to the clearing house manager and get from him $4,000,000, and the federal reserve bank would get one payment of $3,000,000, representing the net credit due it and the banks for which it settles.

Other Methods of Settlement

The methods of settling clearing house balances discussed above are:

1. The payment of actual moneys, either transported to and from the clearing house, or deposited in the clearing house and exchanged by means of clearing house certificates.
2. The payment of clearing house loan certificates, based upon securities pledged with the clearing house committee.
3. The adjustment of balances by book entries with the federal reserve bank, which is a special member of the clearing house.

These are the methods that have been employed in New York. Of the methods adopted in other cities and regional clearing houses which differ from those used in New York, three expedients are worth notice.

1. Borrowing and Loaning Balances. One device has in the past characterized the Boston Clearing House, although it is not used there now—the borrowing and loaning of clearing house balances. It was the custom of such members as found that their balances at the morning exchanges were debits and larger than they could conveniently pay with cash, to go into the street and borrow from other banks. To lessen the inconvenience and risks of this practice it became the custom for the bank officials to meet in the clearing house and, after the exchanges had taken place, to borrow and lend their balances. A bank with a favorable balance and disposed to loan gave to the bank with an unfavorable balance and desiring to borrow, an order on the clearing house, which the latter might use in settlement of its balance; the manager accepted the order in settlement to the amount of its face value; the borrowing bank might pay part in coin and part in these orders, in which case it would not borrow all the balance; on the other hand, the borrower might have to go to several members before it procured orders for amounts big enough to settle its balance.

The customers of the banks differed widely as to the degree to which they resorted to such loans; some borrowed only, some loaned only, some did both, and some did neither. The rate of interest on these loans followed closely the market rate, and the clearing house rate was reported regularly in the financial papers.

The common criticisms of this method are: (1) that it is an unsecured demand loan which endangers the borrowing bank if insistence is made for immediate repayment; (2) that it deprives a bank which is an habitual borrower of the advantages of clearing house loan certificates; for as soon as a bank takes out loan certificates and is therefore with funds, a bank which has loaned a balance will demand payment; the bank simply exchanges clearing house loan certificates backed by very high collateral for unsecured loans outstanding; in borrowing balances it anticipates the help which would be rendered it when clearing house loan certificates are issued.

2. Settlement by Manager's Check. Another device, the manager's check, finds illustration in many clearing houses. The plan is to have the manager of the clearing house draw a check on the debtor bank in favor of the creditor bank; a representative of the creditor bank calls at the clearing house for the manager's check; it is presented to the debtor bank and paid by cashier's check or exchange on another city, or it is deposited in the federal reserve bank or its branch or is sent through the clearings next day. A time, say, three o'clock, is fixed by the clearing house rules at which the liability of the clearing house on such manager's check ceases and it is carried over to the next day at the risk of the creditor bank; the most common reason for carrying a check over is to keep down the share of clearing house expense to be paid by the bank in case such expenses are allotted on the basis of clearings made.

3. Settlement by Draft. Probably the most common device, taking the clearing houses of the country as a whole, is to settle by drafts on some acceptable city or institution. This method prevails in the small local clearing houses. New York funds are quite generally acceptable among banks of the greater part of the United States, and clearing house balances are adjusted by the debtor bank giving the creditor bank a draft on New York. The ultimate settlement of the balance, therefore, is among the correspondent banks in New York, which, as we have just seen, is by book entries at the Federal Reserve Bank of New York. Undoubtedly the federal reserve banks of the respective federal reserve districts will tend to become the settling point for clearing houses of their districts.

Items that May Be Cleared

Each clearing house defines the items which may be cleared through it. The regulations laid by the New York Clearing House include the following:

1. All checks, drafts, notes, bills of exchange, and other items sent through the exchanges are to bear stamped or written receipts as follows:

Received payment through New York Clearing House:		
Date	Name of institution	Number if desired

2. Errors in the exchanges, and claims arising from the return of checks, or from any other cause, are to be adjusted directly between the members which are parties thereto, and not through the clearing house.

3. Items to be returned for indorsement or because of informality, after being certified by the member returning same, may be returned through the exchanges the following morning, in an amount not exceeding $5,000 to any one member.

4. All checks, drafts, notes, or other items in the exchanges, returned as "not good" or missent, are to be returned the same day directly to the member from whom they were received.

5. Members may not send through the exchanges any checks, drafts, notes, bills of exchange, or other items having thereon any qualified or restrictive indorsement, such as "for collection," "for account of," "pay any bank or banker or order," or other similar indorsements, unless all indorsements are guaranteed by the sending member.

6. Items drawn upon institutions not connected with the clearing house and made payable, "if desired," by some clearing house bank, are not clearable.

7. No member may send or pay through the exchanges items drawn on non-members, by customers thereof in Greater New York, and made payable at a member bank unless the same shall first be accepted and made payable at a member bank by the

non-member bank upon which they are drawn. This rule applies also to non-members making their exchanges through members.

8. Items should not be presented through the clearing house on the day of their date.

9. Documentary instruments are not proper items for the exchanges.

10. Notes and bank acceptances may be sent through the clearings on the day of their maturity.

City Collection Department

In 1917 the New York Clearing House organized a city collection department. While its use by the members is entirely optional, practically all of them collect their items through the department. It has proved advantageous both to the members and to the paying institutions. The department was established to collect the city items not collectible through the regular exchanges. To date it limits itself to the collection of checks and clean drafts. Until 1919 the collection area was restricted to Manhattan south of 14th Street; it now reaches to 59th Street.

A list was prepared by the department of the banks, financial houses, insurance, steamship, railroad, mercantile, and other companies of this district, which desired to have checks and drafts drawn on them presented through the department. Instead of having runners from each bank and trust company in the clearing house that had checks or drafts payable by any such institution deliver them from time to time during the day, thus necessitating individual payments by check or cash to each respective runner, the department agreed to deliver to the messenger of an institution, at one time, all the items on it which the 53 members might elect to collect in this manner; and in this way the paying institution might settle by one check or cash payment instead of by 53. Part of the convenience and economy of this arrangement is lost because the notes, coupons, and items other than checks and clean drafts are collected as before by messengers from the collecting banks. It is arranged that the items are ready for delivery to the paying institution at 10 o'clock, and the institution agrees to pay by certified check to the order of the clearing house by 1:30 o'clock. The check must be accompanied with the return items, properly marked with the reasons for returning each. The returned items may then be sent to the clearing house members before 3 o'clock, the hour of closing. The paying institutions are grouped in routes on the list.

The items deposited by the members may be those only which are payable by a listed institution. They must be enclosed in sealed envelopes, or packages, one for each listed institution which is to pay. The contents of these envelopes are not examined by the department. The envelopes must be listed on deposit letters in the order given in the department lists, and subtotals shown for each route. The totals of each deposit letter are entered on a due bill, or receipt, accompanying the deposit, and these are verified and signed by the manager and returned to the messenger. This due bill is payable through the exchanges of the next business day. The deposited items are sent out for collection the same day by messengers, and the returns made to the department are put through the exchanges the next day to offset the due bills of that day. The deposits must be made before 10 o'clock; only one deposit may be made each day by each member. The items must bear a stamped indorsement:

> Received payment through the City Collection Department, New York Clearing House. Prior indorsements guaranteed.
>
> Date Name of member

The clearing house is exempt from all liability for the contents of the envelopes, for lost or missing items, or for claims therefrom.

Statistical Work

It is the practice of the clearing houses to publish statistical reports of the clearings and balances; the larger houses issue these reports weekly, and cover the condition of the clearing banks as to reserves, resources, liabilities, and other features. The volume of clearings is one of the best barometers of business activity, since over 90 per cent of the country's business is done by checks and the fraction of the checks cleared is fairly constant; and when coupled with the condition of the clearing banks in the great cities, especially New York, the clearings afford the most valuable information as to the money market. Such reporting is a public function, in addition to giving the members a better insight into the drift of their competitors' businesses. In analyzing the growth of the clearings they must always be corrected for changes in the price level, for clearings are likely to increase with the rise of the price level and in the same proportion. It is also necessary to note that local conditions may result in very local and spasmodic fluctuations in the clearings; for instance, a speculative boom in the speculative exchanges of a city or the occurrence of a large exposition increases the clearings greatly.

Examination Department

A department late to develop but one which bids fair to become very important in clearing house functions is the examination department. The bank examinations conducted under the Comptroller of the Currency and the state bank superintendents are designed to see that the law regarding the conduct of banks is obeyed, that their banking practices conform to the legal restraints, and that their reports are correct and truthful. Infractions of the law may be leniently or summarily dealt with by these authorities; if the offender persists in offending, its charter may be annulled and the bank liquidated. These examinations are highly serviceable, but they serve by punitive action, after the law has been violated. A bank may progress toward insolvency and keep within the law, and yet the public examiners be helpless to remedy the situation. The clearing house examinations are designed to supplement the public examinations by inquiring into, correcting, and making recommendations with respect to minor irregularities, which if unchecked are destined to wreck the bank or impair the faith of the public in the clearing house members.

These examinations are conducted by a special committee of the clearing house, composed of active officers of member banks, who employ competent examiners and auditors and examine at will any and all the member banks. This committee proves the assets and liabilities and looks into the operations of each department of the bank, although it may not audit all the accounts. Its report covers in detail the nature of their assets and of their loans, featuring the loans to officers and directors of the bank and to corporations in which these parties have an interest. One copy of the report is filed with the president of the bank examined, and the directors are requested to peruse it personally. A brief of the report is submitted to the clearing house executive committee, which considers the examiners' findings and recommendations. This executive committee advises the cashier or other officer of the bank as to what action in its opinion is expedient.

The recommendations of the clearing house committee are in general carefully followed, and the member banks strive to conduct their banks in ways that "will invoke compliments rather than criticisms from the committee." The great function of these examinations is to discover and eradicate in their incipiency practices which if let run may precipitate failure. Their discipline is a moral one, but no less effective than if backed by punitive legislation. They make for conservative and sound banking and a high plane of competition and business ethics; their influence extends beyond the banks and into the operations of their customers, promoting the conduct of legitimate business and dissuading from wrongful practices. There are (1921) twenty clearing houses conducting examination departments. The New York Clearing House provided such an examination department in 1911.

Co-operative Competition of Members

Another group of services of clearing houses is to promote co-operative competition. By this is meant uniformity of practices, the conducting of business in the open and on a fair basis, and the elimination of secret, underhand, unfair, or cutthroat practices. It has brought uniform counter checks, uniform exchange rates, honest advertising, and, in some places, uniform interest on deposits. This kind of competition is tending to prevail in all business lines. The most important of these matters is probably the establishment of uniform exchange charges; this subject will be treated in the following chapters, in connection with the country collection department (Chapter XXXV) and the transit department (Chapter XXXVII). Some clearing houses fix upon a service charge on accounts of small size; that is, checking accounts averaging for the month less than \$100, \$500, or \$1,000, as the case may be, are made subject to a service charge of from 25 cents to \$5 per month. Another line of uniform action is the matter of donations and subscriptions, many of the clearing houses having a rule to the effect that no member can donate or subscribe in excess of a certain amount except by associated action.

The expenses of the clearing houses are met in several ways. First, there is the payment of annual dues and of still heavier dues at the time of entrance. Not all clearing houses levy entrance dues, but the great majority of them do. The second method is an assessment against members, prorated according to the amount which each member has sent to the clearing house during the preceding period. The expenses of the city department and the city collection department and of the country department are kept distinct, and the expenses of each are prorated separately according to the business done for the different members. The expenses of the examination department are also prorated on the basis of the amount of time spent in examining each.

CHAPTER XXXV

COUNTRY COLLECTIONS

Transits and Collections Defined

In foregoing chapters has been treated the handling of:

1. Items drawn on or payable at the bank itself, by the tellers and the check desk department.
2. Clearing house items, by the tellers and assembly rack department and the clearing house.
3. City collection items, by the city collection department.
4. Coupons and matured bonds, by the coupon department.

There remains for consideration the collection of items payable outside the city collection district. Such items are frequently, though inadvisedly, called "foreign" items; this name is confusing, and so throughout this discussion they will be called "country" items. In a large city they include items on up-town institutions too distant for collection by messenger.

Country items are of two classes: transit items and collection items. The distinction between the two is not finely drawn; both are collected, both require time for collection, both occasion remittances, etc. The differentiation as commonly given is that transit items are given immediate credit in account and are treated as cash; they are commonly spoken of as "cash" items, and consist almost exclusively of checks, whereas collection items are received from customers or others for collection only; immediate credit upon them is not asked or given; they are credited only when, as, and if, collected; the collecting bank acts only as agent and does not regard the collection items as its own, and no liability attaches to the bank in their handling except the use of due care and diligence in their collection.

Country collections include time items and others for which the collecting bank is unwilling to give immediate credit; they include special advice items and items requiring special attention and care, such items comprising notes, drafts, bills of exchange, documentary bills, bonds, or mortgages to be delivered upon receipt of money, etc.

Transit and collection items are ordinarily handled by the same department of the bank; probably the most common name for such department is the "correspondence" department. In large banks the operations are split among several departments called the "transit" department to handle transits, the "country collection" department to handle country collections, the "code" department to handle the telegraphic communication with country customers, and the "analysis" department to analyze accounts and determine their profitableness.

Collections Through Correspondent Banks

The common arrangement throughout the United States for collecting country items, which antedated the federal reserve system and which still continues with lessened scope, was that banks formed mutual connections with correspondent banks to which they sent and from which they received items for collection; these agreements specified exchange rates at which each would remit for items sent to it. Another arrangement was for one bank to carry an account of a certain average size with a second bank, in return for which it secured favorable collection rates, interest on the balance, and other concessions. These accounts might be temporary or permanent; if temporary, the accounts were cleared by having the collecting bank remit the proceeds of collections; if permanent, the agreement might provide for clearance fortnightly, monthly, or on demand, either by remitting or placing the accumulated proceeds to the credit of the collecting bank.

The scheme was intimately connected with the system of redeposited reserves of national and state banks, for the balances carried on account with reserve city banks counted also as reserves of the depositing bank. The reserve and central reserve city banks acted as collection agents for the country banks whose balances they carried; and to secure these accounts, both for the use of these deposited balances and for the ancillary business which was derived through these accounts, the reserve city banks competed keenly and agreed, in consideration of a proper size of balance carried, to pay interest on the balance, to perform a variety of services, and to send to the country banks items which they had for collection in the vicinity of the correspondent. In some cities where competition for accounts was very keen the reserve city bank might agree to collect without charge the items sent by the correspondent, that is, to absorb the expense of collection and credit the items at par. Such a city was known as a "par point."

Ordinarily the common object of the two contracting banks was to make these agreements mutually profitable, but unrestrained competition at one of the places tended to make the bargain one-sided. The collections proved so expensive in certain cases that the accounts were carried at actual loss. The estimated cost to New York banks of collecting checks on New Jersey banks in 1899 was $1.66 per $1,000.

Exchange Rates and Collection Charges

To protect themselves the members of the clearing houses of the reserve cities joined in an agreement to fix minimum exchange rates and time schedules for deferring credit. The New York Clearing House, for instance, decreed certain points to be "discretionary points"; the charges on items payable at these points were at the discretion of the collecting bank; these items included:

1. Items collected for the accounts of or in dealings with the governments of the United States, and of New York State and City.

2. Items payable in certain specified cities near New York, known as "par points."
3. Items payable only at institutions which had agreed to remit in New York funds at par on the day of receipt thereof for all cash items drawn on it and sent by the members of the New York Clearing House or by the clearing house country department.

The New York Clearing House fixed certain minimum exchange rates on all other points, grouping them in two groups, based on the time it took to get receipts from collections, and charging for the first group a minimum rate of 1/10 per cent and for the second group 1/4 per cent; no charge was to be less than 10 cents per item, but all items received from any one person at the same time and payable at the same place might be added together and treated as one item for the purpose of fixing the amount chargeable. These rules were not to be evaded by rebatement of charges by way of interest payments or otherwise. Violation of the rules subjected the offending bank to heavy fines and possibly expulsion from membership.

The effect of such clearing house agreements was to reduce the volume of items sent to the banks of that city for collection, and to divert them to points where charges were lower. By this means out-of-town checks were repelled and the city was made less a collecting center; Philadelphia and Albany, for instance, gained as collecting centers, and it became the custom for New Jersey banks to collect through one of these cities rather than New York. The New York banks were put in the contradictory position of soliciting accounts by paying interest and doing services on the one hand, and on the other of repelling the checks on these country banks by prohibitive charges. They also imposed upon their correspondents, for they enjoyed a par list for making some of their collections and they did not share this list with their correspondents; that is, when one correspondent sent checks to the New York bank drawn on another correspondent of that bank, the New York bank collected without expense by debiting it at once to the drawee's account.

Effect of Collection Charges

Probably the most important effect of these local differences in charges for collection was the circuitous routing of the items. Each bank tended to send its collections to that bank and place where the charges were lowest; it put into one envelope items payable in diverse directions and widely separate places. The collecting bank followed the same practice, the result being that items traveled most roundabout courses before they reached their destination, often crossing and retracing their route, and the items were afloat in the mail for long periods, the total volume of this "float" being estimated as in excess of $500,000,000.

This circuitous routing of checks became most absurd. Hallock[1] describes one routing as follows:

> Started at Westerly, R. I., six miles from Stonington, which it reached only after many days and a thousand miles of travel by the following route: Westerly to Providence, Providence to Boston, Boston to New York, New York to Boston again but to another bank; Boston to New York again, but to another bank; New York to New Haven, New Haven to Saybrook, Saybrook to New London, and New London to Stonington. It passed through Boston twice, New York twice, and New Haven four times. It was put through nine banks, two of them in Boston and two of them in New York.

Cannon[2] described the route of a check in 1899 as passing through the following banks successively: Second National Bank of Hoboken, Harvey Fisk and Sons of New York, Globe National Bank of Boston, First National Bank of Tonawanda, National Exchange Bank of Albany, First National Bank of Port Jefferson,

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[1] *Bankers' Magazine*, July 1898.

[2] Clearing Houses, p. 74.

National Bank of Far Rockaway, Chase National Bank of New York, H. M. Reeve of Riverhead, Queens County Bank of Brooklyn, and the drawee Peconic Bank of Sag Harbor. Not all checks went so roundabout a journey, but these actual cases illustrate the absurdity of the situation that developed.

Country Clearing Houses—Organization

The collection of items through so many banks individually in the large cities, and by such circuitous routing, was not economical. Efforts were made in various places to introduce the clearing of country items. In London country clearings were established in 1858 through the enterprise of Sir John Lubbock, and about 1872 spread to other English cities. But the scheme made no progress in the United States until about 1895, when Sedalia, Missouri, devised a scheme quite identical with the London scheme but without knowledge of the London precedent.

The Sedalia collection area included thirteen towns on its par list. By the Sedalia plan the country banks were required to keep balances with some Sedalia correspondent bank; interest was allowed on this balance, and checks as received were debited or credited to this account. When a check on the out-of-town bank was received by its Sedalia correspondent, it was charged to its account and mailed that afternoon. If the check was received by some other Sedalia bank in the morning mail, it was presented to the drawee's correspondent through the clearing house and paid there as if it were the correspondent's own check; the correspondent then charged it to the drawee's account and sent it by the afternoon mail. If the Sedalia bank had received it late in the day, it was held over and put through the clearing house the following business day. The correspondent credited the out-of-town bank's account with any items returned unpaid, and collected same from the other Sedalia bank that had put those items through.

But the most important step in the development of country clearing houses was the establishment in 1899 by the Boston Clearing House of its country collection department. It was introduced against serious opposition of certain local and country banks, some of which refused to enter the scheme.

The country collection department of a clearing house is simply a co-operative arrangement among the members of the clearing house for the collection of their out-of-town items. The manager is given power to arrange with banks in the district to act as collection agents for the country clearing house. These correspondents are selected on the same considerations as any member would select correspondents, the clearing house choosing agents having strength and offering service at reasonable rates. After a sufficient number of connections have been arranged, the banks of the district are informed that the country clearing house is ready to receive and collect items on the listed banks and at specified rates. Notice is given from time to time of any changes in the list and rates.

Method of Making Country Collections

A member having items for collection indorses them to and for the clearing house, and such items are listed on foreign slips attached to the package made up; these slips give also the name and number of the collecting bank, the date of the indorsement, and the name of the bank and town to which the items are to be sent, in accordance with the clearing house list. The packages are delivered to the clearing house and a due bill is given as receipt. These due bills are clearable after a number of days, determined by the average time required to obtain returns for collections. At the clearing house these items are proved and sorted according to the banks to which they are to be sent; packages and cash letters are prepared and transmitted, the total of these packages or cash letters being proved against the total of the incoming packages or cash letters. Remittances are made directly to the manager of the clearing house; the refused or protested items and the exchange charges are deducted by the correspondent in making these remittances. The country clearing house is a member of the city clearing house and in this way distributes returns to the members and receives credits; these returns are cleared against the due bills on the agreed clearing day. If all remittances are duly received according to the estimated time and in agreement with the due bills, the offsetting will be nearly perfect and very small balances will have to be charged back or carried over until the returns come in. The overhead expenses of the country clearing house are prorated monthly or oftener, according to the average daily volume of checks submitted for collection.

The country clearing house does not necessarily supplant or interfere with the arrangements which individual banks may make with correspondents for the collection of its checks; it simply gives those banks wishing it this additional means of collecting.

Advantages of Country Clearing Houses

The economy of country clearing houses comes from the reduction effected in postage expense, the clerical work at each bank, the number of banks handling each item, the expense and trouble of maintaining many correspondent accounts by the individual banks, and, by more direct routing, the reduction of the time of transit or interest charge. The economy of reducing the overhead is greater in proportion as the number of items handled becomes greater; it is, therefore, desirable to have the system as inclusive as possible. This fact is brought out by the experience of Boston, where the volume of checks and the cost per thousand dollars were as follows:

Year	Amount of Checks	Cost Per $1,000
1900.........	$541,000,000	10 cents
1901.........	565,000,000	8 cents
1902.........	607,000,000	7 cents
1900–1912....	600,000,000	7 cents (average)

Another natural result of the establishment of country clearings is the abolition of exchange charges. The Boston Country Clearing House inaugurated par collections in 1900. All banks of New England were invited to agree to remit at par for checks properly drawn on them and presented for payment by mail; the banks were allowed to ship currency at the expense of the Boston banks, or to remit at par in Boston or New York funds. No bank was actually required to use the Boston par system, and it could continue to use its former correspondents and methods; but the clearing house banks at Boston refused to receive at par checks on any country bank which charged exchange, and items on it were collected through the express companies or otherwise in cash. Under this coercion the Boston Country Clearing House succeeded in getting practically all the New England banks and trust companies to remit at par. It sent the checks directly to the drawee bank. The advantages to the country bank were that it got the advantage of the Boston par list embracing upwards of 90 per cent of the New England banks, that it had to prepare but one remittance letter to the clearing house instead of one to each bank as formerly, that it was able to determine at sight the cost of collecting, a great convenience in analyzing an account, that checks went by a more direct course and required a shorter time of transit, and that interest on balances became more general and easy to obtain.

Growth of Country Clearing Houses

The New York Clearing House Association created a country department in 1915. It acted only as collecting agent of the sending bank and sent its items directly to the drawee bank. The checks for collection were deposited between 9:30 A.M. and 4 P.M. (2 P.M. on Saturdays), and only large checks after 2 P.M. The members were expected to deposit their checks at intervals during the day, accompanied by letters of transmission upon prescribed forms. The checks had to be sorted according to states, and a separate letter of transmission made for each state. Checks on institutions not in the collection system were not permitted to be deposited, and only cash items might be deposited. No items bearing "special instructions" were handled. When deposits were made the depositor received a due bill which could be cleared through the exchanges on the second morning after its date.

Country clearing houses increased in number and volume of business after the proved success of the Boston system. By 1915 they existed in Boston, Kansas City, Atlanta, Oklahoma City, Nashville, Chattanooga, Omaha, Richmond, New York, Louisville, and St. Louis. In that year the committee of twenty-five of the American Bankers' Association reported the following statistics of the operations of these houses:

Handled items on about	15,000 banks
Amount of items handled	$1,243,500,000.00
Number of items handled	30,000,000
Expense of operation	$212,600.00
Average expense of handling per thousand dollars	.17
Average expense of handling per item (service charge)	.007
Average amount of each check:	
Boston	47.00
New York	172.00
St. Louis	25.00
All United States	41.45
Savings effected by operations (of which $100,000 was on handling cost and $193,000 on exchange charges)	293,000.00

With the extension of the federal reserve par collection system the country clearing houses are being discontinued and their functions performed by the federal reserve banks. At present (1921) but four clearing houses are still operating country departments. Probably the discontinued ones would be resurrected if the federal reserve banks should ever cease to absorb the service charges. The country collection department of the New York Clearing House ceased to function November 15, 1918.

Nature and Allocation of Collection Charges

When a bank cashes a check on an out-of-town bank, or accepts one in payment to itself or for collection, it can realize no return from same until it is presented directly to the drawee bank, or indirectly through some near-by institution, for payment. Theoretically the check is payable over the counter of the drawee bank in currency. If the receiving bank cashed it at par, or if the bank accepted it at par in payment, or gave credit to the depositing customer at par and made the credit immediately available for withdrawal and allowed interest from date of deposit, it is evident that certain charges must be borne by either the collecting bank or by the drawee bank, namely: the expense for clerical work at the collecting bank, the postage from the collecting bank to the drawee bank (or local collecting agent), the clerical work of the drawee bank (or local collecting agent) in preparation of remittance, the postage and expressage from the drawee bank (or collecting agent) to the collecting bank, the insurance on the package of currency, and the clerical work and the postage on advice of receipt of payment at the collecting bank. Meanwhile also the collecting bank is without the use of the funds from date of receipt of check to date of receipt of remittance and loses the interest upon them. The fact that the check wanders far from the drawee bank delays its presentment and permits the drawee bank to enjoy that much longer a non-interest-bearing liability, that is, to enjoy the use of the funds without interest.

Several alternatives are evident for allocating these collection costs, and in assessing the cost they should be analyzed into their elements, as each element has its peculiar justification.

A jobber in a reserve city who accepts in payment for a bill of goods a check on an out-of-town bank understands that the collection of that check will occasion expense to someone; if his bank accepts it for collection, the bank may either debit those costs to his account or it may absorb those costs and perform the collection as a service and recoup them from the total profits of the jobber's account. The practice of banks should therefore vary with the size of the account; very small accounts bring such small profits in other ways as will not compensate for a lack of payment for the collection service, and a charge for this as well as the other services is legitimate.

Methods of Handling Interest Charges on Collections

The jobber's bank may be willing to absorb the clerical expense incurred by it on account of the collection but be unwilling to bear the loss of interest on the funds from time of receipt of check till time of receipt of remittance. This interest element may be handled in four ways:

1. The jobber's bank may discount the check for the time it takes, on the average, to collect items on such drawee, in much the same manner as it would discount a time note, and credit the jobber's account only with the proceeds.

2. The jobber's bank may credit the check immediately at par but defer its availability for withdrawal by check as many days as it takes on the average to collect items on such drawee.

3. The jobber's bank may accept the item wholly as a collection item and credit the account with the proceeds only when, as, and if collected.

4. The jobber's bank may be willing to bear the interest cost if it can immediately credit the despatched item at par to its reserve account with its central reserve correspondent, as it might have to carry this reserve in any event without getting interest upon it. If it is getting interest on its reserve balance and competition among the banks in the reserve center is very intense, the jobber's bank may be able to procure a contract to the effect that the central reserve bank will credit its account with collections as of the date of despatch rather than of receipt. Such contract would indeed be unusual, but would simply mean that the interest element was to be absorbed by the central reserve city bank instead of by the jobber's bank.

Banks do not like to discount checks according to the first method described above, for the reason that such a method occasions an immense amount of clerical work and retards business unduly. The deduction of discount when a check is cashed is not only troublesome to calculate and account, but also tends to offend customers or prospective customers. The second method, that of deferring the availability of items, was adopted by the Boston Country Clearing House and by the federal reserve collection system. Schedules of the number of days for which availability is deferred for items on the various places of the country are published, and are revised with every improvement or deterioration in the mail service. This method has the virtue of being calculable in advance and of not being affected by variations in the interest rates. The third method is quite common in the case of purely collection items as distinguished from transits or cash items. The fourth method explains some of the anomalous phases of the collection system in use before the federal reserve system was devised.

Allocation of Exchange Charges

The justifiableness of the extra clerical expense upon the drawee bank of having to make remittance for a check presented by mail or express has been questioned. The items are presumably payable over its counter, and not at some distant place. One of two things should be understood when the customer opens his account there: (1) that if he uses checks in making distant payments, his account should be charged with the extra clerical cost; or (2) that the bank, knowing that the customer would use checks to make distant payments, undertakes to bear this extra cost as one of the services for the account. The two are equivalent in fact, but the latter is the more convenient. There is no warrant for deducting this charge from the remittance.

The drawee bank has no justification for charging and deducting interest on the amount of funds remitted, for the item is payable upon demand and the bank simply meets its obligation whether it pays over the counter or by mail.

Unless there is a specific understanding between the bank and customer when the account is started, that the bank is to provide for the payment in certain distant places of checks drawn on it by the customer, the bank's implied obligation is to pay only over its counter and it cannot be expected to remit funds to distant places free of charge. If the customer, therefore, draws checks and sends them to distant places and some collecting bank asks that the drawee remit payment, the drawee has good warrant to ask pay for the service. The drawee bank may charge the postage, registry stamp, expressage, and insurance on the currency shipment directly to the customer's account, or it may deduct these charges from the face of the check and remit the proceeds. If the alternative is taken, the jobber will realize so much the less for his goods sold to the local retailer, and he will recoup by asking higher prices for his goods.

These shipping charges are known as "exchange" charges. They should vary somewhat with the distance and the amount shipped. If the retail customer preferred to ship currency himself to the jobber, he would have to pay these charges; if he bought a draft from the bank and sent it to the jobber, the premium which the local bank might ask him to pay should equal the exchange charges, for then the local bank instead of the retailer must ship the currency, as it would have to provide funds in the drawee city to cover the draft.

It is possible, however, that the local bank is already long on funds in the drawee city and welcomes this means of increasing its home funds and decreasing distant funds, and it may be willing, therefore, since it does not have to ship funds to cover the draft, to offer the draft at a premium less than the shipping charges, or at par, or even at a discount, depending upon how anxious it is to shift its funds homeward. Theoretically it could never get from the local retailer a higher premium than the shipping charges, nor would it offer to sell drafts at a greater discount than the shipping charges; for in the former case it would pay the retailer to ship currency himself, and in the latter case it would pay the local bank to bear the shipping charges on currency shipped home. Within these limits domestic exchange charges fluctuate from day to day and from season to season. The premium or discount is usually quoted in one center on another, as so many cents per $100.

Justification of Exchange Charges

The above justification of the local bank charging exchange on checks drawn on it and sent to it with a request that it remit payment assumes that the bank would have to ship currency. In practice the most common form of remittance is a draft on a bank in the jobber's city or reserve city; this would be considered as good as cash by the jobber's bank for it could be collected immediately. But even if the retailer's bank did remit by draft, it would be under the same necessity of providing funds in the jobber's city to cover the draft. It has four ordinary ways of making such provision:

1. Shipment of currency to the jobber's city.
2. Borrowing from institutions in the jobbing center.
3. Sending commercial paper for rediscount, or securities for sale.
4. Sending checks and collection items, payable in the jobber's city or vicinity, for collection and credit.

If it resorts to the second or third method, the interest (or discount) paid represents the cost of maintaining a balance in the jobbing center against which drafts can be drawn; this interest cost should not exceed the shipping charges on an equal amount of balance, for otherwise it would be cheaper to ship currency than to borrow in the jobbing center.

In the long run the volume of items payable in any section of the United States equals approximately the volume of its items payable elsewhere and due to it. It happens, therefore, that the items sent to and from any banking area equalize one another, and that any bank will be able to maintain its balances with a bank in another area by simply sending items payable in that area for collection and credit; it will neither have to ship currency nor borrow. Obviously such equalization of payments nullifies the excuse for charging exchange, for it relieves the remitting bank from such shipping charges (or equivalent charges of maintaining the balances). Normally no exchange should be charged; only seasonally, when there are larger movements of funds in one direction than in another, is there excuse for exchange charges. But even this seasonal charge can be obviated if the government or central bank will stand ready to bear the cost of shipments of currency which are for the purpose of maintaining balances. This is now done by the federal reserve banks.

Profits on Collections

There is another element in collection charges, namely, profits. The jobber's bank may be unwilling to undertake the collection of his check at cost, but may insist upon a net profit. And the drawee bank may be unwilling to remit at cost, but insist upon a profit. If there are two or more banks competing for business in one town, each may be forced to forego profits for collecting items lest the customer transfer his account to the bank which charges a smaller profit or none at all. Likewise, each bank may be forced to forego profits on remittances lest the collecting bank present the items through the bank charging a smaller profit or none. Competition is sometimes so intense that not only is no profit made, but actual losses are sustained.

To protect themselves it is common for the banks to co-operate and establish minimum collection charges; this is usually done through the clearing house. The rates established may or may not provide for profits. Intercity competition and competition with non-clearing house institutions prevent rates that are too high.

But in towns with one bank, or with two or more banks that abide by agreed rates, and where banking facilities are essential to the business of the area, the banks are in a position to charge collection rates that include a good profit. In fact, no small part of the livelihood of many small banks, particularly in the South and Mid-west, has come from this source. If such a bank is in a position to charge excessive rates for remitting for items payable by it or collected through it, and on the other hand enjoys a large par list and can get its items collected at par or at low rates, it profits by the situation. If rates were equal all over the country and if the collections made for it by other banks equaled those made by it for other banks, it is obvious that no net profits would accrue to any one bank, and such charges would become absurd. In any case it means that the business world would be taxed enough to support these banks whose economic service scarcely warrants their existence.

Opposition of Small Banks to Par Collection System

Naturally those banks which depend upon collection profits for part of their livelihood are opposed to the introduction of a par collection system. When the Boston Clearing House established its country department in 1899 it had to force many recalcitrant banks into the system. Likewise the small country banks have fought the extension of the federal reserve par collection system. The Boston Clearing House and the federal reserve banks have employed several devices for forcing the opposing banks into the system.

1. One device is to present items on the antagonistic bank in large aggregated amounts, thus forcing it to be ready at all times to pay over its counter large amounts of cash. The keeping of such large amount of idle till money detracts from the profits made on collections. To operate this device on a bank in a

town where there is no member bank, it is necessary for the clearing house or the federal reserve bank to collect items on non-par banks through express companies and bear the cost of shipping the items and the remittances. The Boston Clearing House tried this method in 1901, but the opposing banks retaliated by paying in silver. The government shipped silver free to these banks; but the clearing house had to pay the expressage from the banks to Boston. The express charges cost more than the exchange charges, but the clearing house debited this to General Expense. The federal reserve banks in some districts have resorted to this expedient of collecting through express companies.

2. A second device is simply for the member banks to refuse to handle checks not payable by remittance at par, and return them to depositors and correspondents. Such checks would be practically protested paper. The depositors would soon bring pressure to bear upon their banks to remit at par.

3. A third device is to appeal to the banks to reciprocate and meet the par banks half-way. Most of the banks may not charge exchange, but all have the use of this free list; it is not fair that one bank should bear the exchange charges for the other; neither bank should charge or both should. In case the non-par banks refuse to comply with this appeal to fair play, the par banks should bind themselves under severe penalty to charge for collecting checks received from non-par banks and drawn upon par banks; this would deny the non-par the use of the par list, whence come their profits.

Elements of Collection Charges

Collection charges are, therefore, separable into six elements:

1. Clerical expense and postage at the collecting bank.
2. Profits to the collecting bank.
3. Clerical expense at the drawee bank.

4. Profits to the drawee bank.
5. Interest on the face of the item for the time from date of deposit for collection to date of receipt of remittance (if immediate credit and availability are given).
6. Cost of maintaining a balance at the reserve city or of shipping funds to that city.

The first four or five elements are sometimes lumped together and called the "service charge." The last item is strict exchange. The fifth item is obviated by deferring the credit's availability. The first and third items are reduced by the establishment of country clearing houses; and the second and fourth items are eliminated by establishment of par collections. The charge for the first four items should logically be quoted in cents per item, and for the last two items in per cent of face value.

Existing Exchange Charges

The Committee of Twenty-five, who made an extensive study in 1917 of the prevailing charges for remitting to cover checks received through the mails from sources other than the federal reserve system, reported as follows:

Of National Banks	Of All Banks	Charges
18.3%	17.0%	Make no charge.
2.1	3.2	Charge less than 1/20%.
15.6	14.0	Charge 1/20%.
50.0	50.0	Charge 1/10%.
7.5	8.7	Charge 1/8%.
1.2	2.1	Charge 1/4 %.
5.3	5.0	Charge indefinitely.

The minimum rates to be charged by members of the New York Clearing House for checks and drafts, under rules effective on August 12, 1918, were as follows:

Minimum Rates of New York Clearing House Members for Checks and Drafts

State	Rate of 1%	State	Rate of 1%	State	Rate of 1%
Alabama	1/10	Massachusetts	*	Oklahoma	1/10
Arizona	1/10	Boston	*	Oregon	1/10
Arkansas	1/10	Michigan	1/20	Portland	1/20
California	1/10	Detroit	1/40	Pennsylvania	*
San Francisco	1/20	Minnesota	1/10	Philadelphia	*
Colorado	1/10	Minneapolis	1/40	Pittsburgh	*
Denver	1/20	St. Paul	1/40	Rhode Island	*
Connecticut	*	Mississippi	1/8	South Carolina	1/8
Delaware	*	Missouri	1/10	South Dakota	1/10
Dist. of Columbia	*	Kansas City	1/40	Tennessee	1/10
Florida	1/8	St. Louis	1/40	Texas	1/10
Georgia	1/10	Montana	1/10	Dallas	1/20
Atlanta	1/40	Nebraska	1/10	Utah	1/10
Idaho	1/10	Omaha	1/20	Salt Lake City	1/20
Illinois	1/20	Nevada	1/10	Vermont	*
Chicago	1/40	New Hampshire	*	Virginia	1/10
Indiana	1/20	New Jersey	*	Richmond	*
Iowa	1/10	Hoboken	*	Washington	1/10
Kansas	1/10	Jersey City	*	Seattle	1/20
Kansas City	1/40	New Mexico	1/8	Spokane	1/20
Kentucky	1/10	New York	*	West Virginia	1/10
Louisville	1/40	New York City	*	Wisconsin	1/10
Louisiana	1/8	North Carolina	1/8	Wyoming	1/10
New Orleans	1/20	North Dakota	1/10		
Maine	*	Ohio	1/20		
Maryland	*	Cincinnati	1/40		
Baltimore	*	Cleveland	1/40		

* Discretionary.

All notes or other time obligations purchased by member or non-member institutions payable elsewhere than in New York City shall be subject to a charge of not less than 1/10 of 1%, except that in the States of Florida, Louisiana, Mississippi, New Mexico, North Carolina, and South Carolina the charge shall be not less than 1/8 of 1%, provided, however, that for notes or other time obligations purchased or discounted by any collecting bank, payable elsewhere than in New York City, but with respect to which the maker, indorser, or guarantor, or any bank, banker, or trust company maintaining an account with the collecting bank, gives a written agreement at the time of such purchase or discount, to provide New York funds for the payment of such notes or other time obligations on day of maturity, the charge shall be discretionary with the collecting bank.

The minimum charges fixed at other clearing houses differ, of course, from these, but these will illustrate the system of charges prevailing at a date when the federal reserve collection system was being extended.

Defects of the Former System of Country Collections

The defects of the system described above may be summarized as follows:

1. Excessive collection charges, burdening commercial and industrial operations.
2. The absorption of collection charges by the collecting banks.
3. The indirect routing of checks to avoid collection charges, chiefly caused by clearing houses fixing different collection charges and causing the "float."
4. The maintenance of reserve balances with banks for the sole purpose of getting items on which to charge exchange.
5. The carrying of compensating balances with collecting banks solely for the purpose of obtaining par territory.
6. Paying interest on uncollected funds.
7. Paying checks drawn against uncollected funds.
8. Padding of reserves with items in transit, that is, the "float" under the national bank system could be regarded as reserves.

The federal reserve collection system corrects most of these defects.

CHAPTER XXXVI

THE FEDERAL RESERVE COLLECTION SYSTEM

Growth of the System

In Chapter XXII the chief features of the federal reserve collection system, and of its auxiliary, the gold settlement fund, were described, and a statistical statement was given of the number of members and volume of collections. The reader will find it advantageous to review those pages before reading the present chapter.

The federal reserve collection system is in one sense voluntary and in another compulsory. No member bank is required to use the collection system, nor are any formalities or resolutions required before it may be used. A member bank may send items for collection through the federal reserve bank regularly, occasionally, or not at all; or may collect them through its correspondents as formerly, or in any other manner considered advantageous. But member banks are required to remit at par for all items properly drawn against them and presented by the federal reserve bank by mail for payment.

Among others, three facts have tended to limit this option of the banks to join the federal reserve collection system.

1. After the reserves formerly carried by country and reserve city banks with reserve city and central reserve city banks had, by the terms of the amended Federal Reserve Act, been transferred to the federal reserve banks, many banks did not have sufficient funds to carry reserves with the federal reserve bank and also a balance with their correspondents sufficient to warrant the correspondents in accepting the account; and since much of the collection service formerly performed by the correspondent was now done or could be done through the federal reserve bank,

at less cost possibly, and since the bank could look hereafter to the federal reserve bank for accommodation in emergencies, the outlying bank did not feel as great need of retaining its former correspondents.

2. The force of competition between banks using and those not using par collections tends to force a reduction in collection charges (and profits therefrom) and, as it did in New England, tends to force all banks to join the system or at least takes away the advantages of staying outside it.

3. The federal reserve banks, knowing that the system works most efficiently if all banks belong, have undertaken in some districts to force recalcitrant banks to join by creating public sentiment, by appealing to the non-par banks to reciprocate, and by presenting items through express companies at the counters of the non-par banks for payment in currency. The result has been that the par collection system has come to include practically all the banks of the country.

Transit Items Collectible Under System

The federal reserve banks stand ready to receive from member banks:

1. All items drawn on member banks of all districts.
2. All items drawn on federal reserve banks.
3. All items drawn on non-member banks which are members of the clearing house situated in the federal reserve cities and branch cities.
4. All items drawn on other non-member banks which can be collected at par.

Lists of banks on which items are received are published monthly by the Federal Reserve Board.

By an amendment adopted June 21, 1917, non-member state banks and trust companies, even though too small to be eligible for membership in the federal reserve system, were permitted to avail themselves of the par collection scheme, provided they covered at par checks on themselves sent for collection by the federal reserve banks, and provided they kept a compensating balance with the federal reserve bank in an amount to be determined under the rules of the Federal Reserve Board. The object was to make the par collection system as universal as possible, and therefore as beneficial as possible to the member banks as well as to the public.

Routing and Clearing of Items

In receiving items the federal reserve bank acts only as collection agent of the sending bank and assumes no responsibility other than due diligence and care in forwarding them promptly. It is also authorized to send them for payment direct to the bank on which they are drawn or to another agent for collection, at its discretion. Items drawn on member banks in the district are forwarded directly to the member. Items drawn on non-members in the district are sent to member banks where satisfactory arrangements are made, or, at the federal bank's discretion, direct to the drawee bank for remittance. Items drawn on member and non-member banks in other districts are sent to the respective federal reserve banks of those districts for collection and settlement. If a member bank has a sufficient volume of items on certain points or districts to warrant more direct routing of such items, special arrangements are made to meet such conditions on request, if practicable. To secure direct routing, the reserve bank will not accept any item drawn on a bank outside of the district, when the item bears the indorsement of a bank located outside the district. The routings are somewhat different when the reserve bank has branches.

All items drawn on members of the clearing house in the federal reserve city or branch city and received in time for clearing are immediately credited at par by that city's federal reserve bank and are at once available as reserve or to pay checks drawn.

For all other items immediate credit entry at par is given, but such credit is not available as reserve or to pay checks drawn until the proper period indicated on the par list schedule has elapsed. These periods are based on the mail time required to reach the paying bank plus the mail time for the paying bank to get remittance to the federal reserve bank. All points of the country are grouped on this basis of average mail time into divisions of 1, 2, 4, and 8 days. The sending bank sorts the items into these divisions.

The paying bank may remit to the federal reserve bank in one or more of several forms:

1. Currency may be shipped at the expense of the federal reserve bank.

2. Remittance may be made out of the proceeds, when available, of items sent by the paying bank to the federal reserve bank for collection. The Federal Reserve Act intended that the member should be enabled to re-establish reserves by such deposits and by rediscounts. This makes the reserve very mobile, elastic, and useful.

3. The federal reserve banks will accept exchange on the clearing house banks of the federal reserve city; for instance, the Boston bank will accept either Boston or New York funds; the New York bank will accept New York funds; etc.

The Federal Reserve Act provides penalties against the infringement of reserves required with the federal reserve bank; the member bank reports monthly the average reserve required to be kept, and the federal reserve bank compares this figure with the average actual reserve shown on its books and imposes a certain penalty if deficiencies are found; the Federal Reserve Board has fixed this penalty at a rate of interest on the average impairment equal to 2 per cent above the discount rate for 90-day paper. By consulting the schedules of deferred credit, the sending bank can guard against deficiencies of reserve and the imposition of penalties.

Since June, 1918, the federal reserve banks have absorbed the expense of conducting their transit departments, an expense which up to that date had been assessed upon the member banks on a per-item basis as a "service charge." They also absorb the cost of telegraphic transfers; thus a bank anywhere in the United States can secure an instantaneous transfer to any one of the 12 federal reserve cities or 20 branch cities without any expense whatsoever, and the sum total of these transfers is settled daily through the gold settlement fund.

Non-Transit Items Collectible Under System

The collection of non-transit items was begun by some of the federal reserve banks in 1918. The regulations of the collection department of the Federal Reserve Bank of New York[1] may be taken for illustrative purposes.

The classes of items received for collection include all time items; sight and demand drafts with or without securities, bill of lading, or other documents attached; drafts on savings banks; matured bonds and coupons; and other forms of collection items. Bankers' acceptances payable at New York clearing house banks and bonds and coupons payable in New York City are not received from clearing house members. The assumption is that these will be collected through the clearing house.

Procedure in Making Collections

Each member bank lists its collection items in a separate letter and, in describing the respective items, gives the member bank's collection number, the name of the payer, instructions to protest or not to protest or other special instructions, and the date, maturity, and amount of each item sent.

Upon receiving payment of collection items, advice of payment is given by the reserve bank to the member bank originally forwarding such items, and its reserve account is credited. Ad-

[1] Circular No. 298, August 21, 1920.

vice is also given such member bank if the item is returned unpaid, and if so returned, whether protest has been made. When payment is made in New York or other exchange, credit is given subject to final payment.

By arrangements made with all the other federal reserve banks the proceeds of bankers' acceptances payable in federal reserve cities or branch cities are available, subject to payment, on the day of maturity. Proceeds of bankers' acceptances payable elsewhere are available, subject to payment, one or more days after maturity, in accordance with a published schedule.

A member bank sending a letter enclosing bonds or coupons for collection, due or past due, payable in New York City, is given immediate credit in its reserve account for the face amount, subject to final payment, and is sent an advice of credit immediately. The proceeds of any bonds or coupons not due, sent for collection, or of bonds or coupons due or past due payable outside of New York City, are credited to the sending bank's account when payment is received. The reserve bank will bear the insurance charge on registered mail packages containing such bonds or coupons for collection. Maturing coupons from United States securities and British government securities, deposited a week or ten days in advance of maturity, are paid by the reserve bank at maturity, either by crediting the member bank's account or issuing a check.

No service charge for collection of the above items is made by the reserve bank other than one of 15 cents for returned unpaid collection items payable outside the boroughs of Manhattan and Bronx which have not been protested. No charge is made on recalled items. A member bank, for presenting and remitting for collection items, may make a reasonable charge if it so desires; if made, such charge is deducted from the face amount of the item and credit is given for the actual proceeds.

Every collection item received by the reserve bank may, at its discretion, be sent for payment direct to the bank on which it is drawn, or at which it is payable, or to a bank located in the place where the item is payable, or to another agent for collection, whether or not the item is accompanied by bill of lading, securities, or other documents. The reserve bank assumes no responsibility other than for due diligence and care in forwarding such items promptly, and it becomes liable only when payment of actual funds is in its possession.

Unless otherwise instructed, all unpaid items over $10 are to be protested and returned immediately, with the reason for non-payment; and the non-payment of items of $500 or over is to be telegraphed. Payment may be made either by advice of credit or by New York exchange.

Advantages of the Federal Reserve Collection System

To the degree to which the federal reserve collection system is used, the charging of exchange is discarded. This relieves the business community, but certain banks are shorn of a source of profits. For the loss of exchange the member banks have certain compensations: they enjoy a wider par list, fewer accounts need be kept, and the legal reserves are lower.

The necessity, which previously existed, for members to keep reserve balances with city correspondents in order to get their collections made and to be assured accommodation in emergencies, has been obviated by the federal reserve banks. The keeping of reserves in both places is expensive and may be burdensome. The tendency will be to drop the correspondent exchange accounts, unless the correspondent assumes to perform new and additional services.

Under the federal reserve collection system the "float" is much reduced. Instead of the indirect routing of checks to save postage and exchange charges, the new plan substitutes direct routing, even direct to the drawee bank; the volume afloat in the mails is therefore materially reduced. The federal reserve banks also refuse to make the credits immediately available at time of deposit, but defer the availability until payment has been received or time sufficient for receipt of payment has elapsed. The float no longer constitutes part of the reserves of member banks. The new system forces the country bank and the reserve city bank to carry each its own portion of the float or to shift it, where it rightfully belongs, onto its depositors.

On balances formerly carried with the reserve correspondents, the country banks were allowed interest in most cases. The federal reserve banks pay no interest on reserve or exchange balances.

Opposition to Federal Reserve Collection System

Because of the loss of exchange, the burden of the float, and the loss of interest on reserve balances, the country banks have, in part, opposed the extension of the new system. The reserve city correspondents have felt the loss of the country bank accounts. The temporary duplication of systems has been expensive to the banks. The opposition to the new system has taken organized form through the American Bankers' Association, the state banking associations, etc.

1. A Committee of Twenty-five, appointed by the American Bankers' Association in 1916, was directed to effect amendments to Section 16 of the Federal Reserve Act and to institute proceedings to have the constitutionality of that section determined by the courts. This committee was continued in a Committee of Five during 1917 and 1918. The efforts of the original committee resulted in the passage of the Hardwick Amendment in 1917, which authorizes both member and non-member banks to make "reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks."

This amendment left the control of exchange charges in the hands of the board which had stood opposed to them. Counsel for the board ruled that this amendment applied to non-member state banks that do not become depositors in the federal reserve bank and thus do not avail themselves of the facilities of the federal reserve clearing system. While the banks are still authorized to charge each other for collection service, they are prohibited from charging the federal reserve banks, which are required to receive from member banks at par all checks which are payable upon presentment. The federal reserve bank may, therefore, find itself in possession of checks drawn upon non-member banks which it cannot send by mail to the drawee banks for the reason that those banks decline to remit at par, and it becomes necessary, therefore, as the law does not provide any penalty upon non-member banks for refusing to remit at par, for the reserve bank to devise other methods of collecting checks upon such non-assenting banks. It has presented them through express companies and personal agents. The legal right to collect checks in this manner cannot be disputed, for the check is by its very nature subject to payment over the counter of the drawee bank upon presentment. Hence, whether the country bank becomes a member or not, it is forced to lose exchange on items presented through the federal reserve bank, and as the system spreads the compulsion to join gains force.

The employees and agents of the federal reserve banks have encountered various obstacles in making presentment of checks, such as the tender of payment in a manner calculated to take as much time as possible, or the refusal of payment in reliance on the inability of the agent to find a notary public willing to make protest. The Federal Reserve Board was advised of one instance where a duly appointed agent had within a few days after appointment given notice to the federal reserve bank that he would no longer act as agent for fear of injury to his business. Other banks, including some member banks, have resorted to the device of stamping legends on their blank checks to the effect that the check is not valid if presentation is made through the federal reserve banks. In New York for a short period of time certain recalcitrant banks stamped their checks as not payable through the express companies.

The Federal Reserve Board, in its annual report for 1920, argued as follows upon the possibility of the federal reserve banks paying 10 cents per $100 on collections made through them:

> The total volume of transactions through the gold settlement fund in the year 1919 was approximately $74,000,000,000, and the total cost, including the expense of the leased wires, was about $250,000. This cost was borne by the Federal Reserve Banks and does not represent any expense whatever to the member banks or their customers. Thus it will be seen that the basic cost of making domestic exchange in the year 1919 was 0.3 of a cent for each $1,000 transferred. A charge of 10 cents per $100 on the amount cleared through the gold settlement fund would have involved an expense of $1 for each $1,000 transferred, or about $74,000,000 for the entire amount.
>
> The intradistrict clearings made by the Federal Reserve Banks, eliminating duplications, amounted to about $135,000,000,000, and the total expense of these transfers was borne by the Federal Reserve Banks. Had the Federal Reserve Banks been obliged to pay for these transfers at the rate of 10 cents per $100, it will be seen that the total expense would have been $135,000,000, which amount is far in excess of the total earnings of the Federal Reserve Banks and therefore could not have been absorbed by them. If not absorbed, the charge would have had to have been transferred to the depositors of the checks, so it will be seen that a charge of 10 cents per $100 upon the business handled by the Federal Reserve Banks would have involved last year a cost to the commerce and industry of this country of at least $135,000,000.

2. In May, 1920, there was organized the National and State Bankers' Protective Association, to combat the efforts of the Federal Reserve Board for the enforcement of universal par

clearance of out-of-town cash items. Its membership includes both the non-assenting banks and the members who have joined reluctantly. They are pressing Congressional legislation to remedy their grievance.

3. The legislatures of six states, namely, Mississippi, Louisiana, South Dakota, Georgia, North Carolina, and Alabama, have enacted laws for the express purpose of preventing the federal reserve banks from collecting, at par, checks drawn on banks located in those states. The Mississippi law purports to require all banks within the state, including national banks, member banks, and non-member banks, to make charges "for collecting and remitting" cash items which "are presented to the payer bank for payment through or by any bank, banker, trust company, federal reserve bank, post-office, express company, or any collection agency, or by any other agency, whatsoever." The laws of the five other states are not mandatory, but merely purport to give all banks within the respective state the right to make similar charges. The laws of Mississippi, Louisana, South Dakota, Alabama, and North Carolina prohibit any officer of the respective state from protesting any check for non-payment, when such non-payment is on account of the refusal of any such agency to pay exchange, and the laws of Mississippi, Louisiana, North Carolina, and South Dakota further provide in terms that "there shall be no right of action, either at law or in equity, against any bank in this State for a refusal to pay such cash item, when such refusal is based alone on the ground of the non-payment of such exchange." The North Carolina law further authorizes the banks to pay checks drawn upon them in exchange on their reserve deposits when any such checks are presented by or through any federal reserve bank, post-office, or express company, or any respective agents thereof, unless it is specified on the face of the checks that they are not so payable.

The Federal Reserve Board has taken the position that these laws are clearly unconstitutional in so far as they purport to require national banks, and state banks which have joined the federal reserve system, to make exchange charges against federal reserve banks. The enactment of these laws has necessitated that the federal reserve banks notify their members that checks on banks in the states that deny the right of protest will be forwarded by the reserve banks subject to the omission of protest; and that the time required for collecting such checks may be slower for the reason that they may have to be presented in an unusual manner. The Federal Reserve Bank of Richmond attempted to collect checks on the non-par North Carolina banks over their counters; but the non-par banks procured a temporary restraining order completely tying the reserve bank's hands, for the time being, and forced it to notify the banks of its district that it could no longer handle checks on North Carolina banks that charged exchange. Many banks of the district thereupon refused to receive checks on such banks for collection.

The Universal Numerical System

In 1910 the transit managers from a number of the clearing houses of the leading cities, under the auspices of the clearing house section of the American Bankers' Association, devised a system of numbering the banks, universal in scope, for transit purposes. It is called the "universal numerical system" and was adopted in 1911. Numbers are assigned to states, cities, and the Treasurer of the United States; to certain post-offices, express companies, railroads, and firms upon which checks are drawn; and to every bank, banker, and trust company in the United States authorized to do a general banking business. The local banks may carry the system further and assign numbers to its customers.

Numbers called "prefix" numbers are assigned to cities and states. Forty-nine such numbers were assigned, in the order of population in 1910, to the leading collection centers including the reserve and central reserve cities and Buffalo and Memphis.

Brooklyn is considered part of New York City; Kansas City, Kansas, of Kansas City, Missouri; and South Omaha of Omaha.

The states were divided into five sections, the eastern, the southeastern, the central, the southwestern, and western. In each section the state containing the leading collection centers was placed at the head and the other states arranged in alphabetical order. The prefix numbers from 50 to 58 inclusive were assigned to the eastern section, beginning with New York; and since New York City, Buffalo, and Albany had numbers as reserve cities, the number 50 applies to Rochester, which was fourth in population, and to cities of smaller population. The southeastern section was assigned numbers 60 to 69 inclusive, beginning with Pennsylvania, and again the number 60 began with the largest city not included in the reserve cities already numbered, namely Scranton. The central section was given numbers 70 to 79, beginning with Illinois and Peoria; the southwestern section numbers 80 to 88, beginning with Missouri and Springfield; and the western section, numbers 90 to 99, beginning with California and Oakland. The numbers 59 and 89 were left should it become necessary to number the banks of our national dependencies. The idea in grouping the states is to aid in memorizing the numbers; the idea in assessing the first number to begin with the leading city, not otherwise numbered, in the state was to make possible the designation of 99 cities and the states as well with the 99 numbers, and to give the round number to this state and city; the idea in numbering the cities in the order of their population was that the digits might be assigned to those cities upon which checks are most common.

The banks in the 49 reserve cities and in the 48 other cities heading the list taking the state number were numbered according to their clearing house numbers. These numbers have usually been assigned on the basis of seniority; it would be a better arrangement if the numbers were assigned on the basis of size, so that the largest banks would have the digit numbers. The number 1–8 is the National City Bank, as the number assigned New York City is 1 and this bank is number 8 in the clearing house numbering. The number 50–5 is the Merchants Bank of Rochester, since 50 is the state prefix for New York State and the city Rochester leads the list and this bank is number 5 in the Rochester Clearing House.

The rest of the banks of the country were numbered as follows: The first numbers were given to the banks in the largest cities and were continued in the relative order of the population of the cities in each state; and each bank was numbered in order according to seniority in each city. The one-bank towns were numbered last, and the banks in them were numbered in alphabetical order according to towns. Certain blank numbers were left in cities with populations of 50,000 and higher, the larger the city the more the blanks; these will be filled as the banks are founded. A "Key to Numerical System of the American Bankers' Association" is published by the Association.

This is a labor-saving device. Every bank has a distinctive number, and the transit number may be substituted for names and addresses in making transit or other records. It is used in varying degrees by the different banks, but reaches its maximum usefulness only when all checks, drafts, and indorsement stamps bear the numbers so that any bank desiring to use the system may do so. One common use is the "No protest" instructions; the cash letter may contain the instructions to protest items above a certain amount unless they bear an imprint of the "No protest" stamp; this stamp would read "N.P. 50–5," if used by the Merchants Bank of Rochester. By this means the sorting of items by the collecting bank is greatly facilitated.

CHAPTER XXXVII

THE TRANSIT DEPARTMENT

General Functions and Organization of the Transit Department

The department which handles the operations incident to collecting country items is commonly called the "correspondence," or "transit," department. The work of this department naturally divides into four parts:

1. The collection of cash items.
2. The collection of non-transit items.
3. The analysis of accounts.
4. The sale of domestic exchange.

The department may specialize into four more or less separate departments, following these lines of cleavage and known as the "transit" department, the "country collection" department, the "analysis" department, and the "domestic exchange" department. The work of the four is so intimately related that efficiency is best attained by co-ordination under one person, the transit manager. Numerous subdivisions of these four departments may be created; for instance, the sorting of items may be delegated to a special rack division. The department may also be organized to fit: (1) the number of avenues by which the department despatches items for collection, and (2) the general divisions of the ledgers of the check desk department. To give a rounded exposition of the transit department, a scheme will be considered which is assumed to employ in the collection of items the facilities of: (1) a country clearing house, (2) a federal reserve bank, and (3) its own correspondents. Such a threefold scheme is, of course, becoming unusual as the country clearing houses are being abandoned and the collections are largely made through the federal reserve collection system.

Collection of Cash Items—Work of Night Force

Cash items are received from the receiving teller, the mail teller, the note teller, the paying teller, the city collection teller, the foreign division, and some few from other departments. The routine work of the transit department is cut into two quite distinct parts, that performed by the night force and that by the day force. The night force commences the sorting of checks at the analysis desk. The checks are sorted into groups according to the exchange charge to which they are subject, and are entered on sheets for interest delays and exchange charges. If checks were collected universally at par, assorting on the basis of exchange charges would, of course, no longer be necessary. The checks then pass to another sorting table where they are sorted into packages to conform with the sections into which the department work is divided. These sections are based upon the avenues by which the department despatches items for collection and according to the city at which the items are payable.

The items to be despatched through the federal reserve bank are divided into sections according to the length of time that credit is deferred, that is, immediate credit, one-day, two-day, four-day, and eight-day credit. Those to be despatched through the clearing house country collection department are sorted into sections according to states. Those items to be despatched to the bank's own correspondents are sorted into sections according to the place of payment and correspondent; certain large cities or parts of a city to which many items are usually sent are given individual sections, and the other cities are grouped alphabetically; for example, Chicago would have a section by itself, but Woonsocket would be put in the T–Z section if the bank had a correspondent in Woonsocket, but otherwise in the Providence section, as the items would then be collected through the Providence correspondent. The breaking of the items into sections represents a highly complex and technical arrangement of detail and a comprehensive knowledge of all the routing arrangements is required in order to handle it. These packages of checks are listed and proved against the slips and letters on which they are received. Finally the night force ends its work by preparing and writing the cash letters for the federal reserve bank and country clearing house.

Collection of Cash Items—Work of Day Force

The day force sorts these items into the racks. The racks are divided into, say, five parts to correspond with the general divisions of the national bank ledgers of the check desk department, that is, A–C, D–H, I–M, N–R, and S–Z. The packages from the above sections are distributed among these racks, each rack receiving the items going for collection to the bank's correspondents in cities or towns whose initial letter is in its particular group. Each rack is practically independent and makes up its own proof for the day. A parallel division is made of the work of the analytical department. Certain clerks sort the checks of their rack into pigeonholes provided for each bank to which items are sent. Other clerks sort and prove, in small batches, such checks as come from the mail department in the morning mail. Still other clerks prepare the early letters for the bank's uptown correspondents; these letters contain all checks and drafts for small amounts, say, less than $500, payable in parts of the city not reached by the city collection department and received the previous day or the same morning in time to be included in these early letters.

For ready reference as to the routing of checks a set of route books, one for each state, is kept, in which all banking points in that state are listed alphabetically. Opposite each point is written the place through which it is collected, if it is not collected direct. As soon as the checks left by the night force have been sorted into their racks, the proper routings for those checks which are drawn on points where there is no regular correspondent are determined. When correct routings have been determined, all missorts are deducted from the charge to the rack, reassorted, and charged to the proper section.

Form letters are prepared in duplicate, the originals to be sent forward to the collecting banks with the items, and the carbon copies to be kept as a permanent record of the items handled. These letters contain the amount of each item, the name of the bank on which each item is drawn, and the carbon copy contains in addition the name of the indorser to the sending bank. As soon as all the letters in any particular section have been written, their totals are listed and the result proved against the slips on which the items were received, allowing of course for such deductions as may be occasioned by missorted items. When proof is obtained, the original letter is separated from the carbon copy and sent forward to the collecting bank with the items. The duplicate or carbon is retained as a permanent record of the items handled.

During the afternoon the transit department gathers from the other departments of the bank all the mail which they have addressed to banks, and this is enclosed in the outgoing letters, thereby saving postage. The afternoon work includes all large checks, say, over $500, received during the day from the different tellers and from the uptown banks for which the bank collects, and also includes all checks which have been missorted in the transit department itself or other departments during the day.

It is assumed in this description that the transit department reaches the drawee bank through three channels:

1. Through its own correspondents. The process of handling these items has been described above.

2. Through the country collection department of the clearing house. These items are deposited in batches throughout the day, are listed and described upon a special letter form, and the totals shown for items payable in different states; a due bill is received for the amount deposited and this is clearable on a certain morning after its date.

3. Through the federal reserve bank. These items are listed and described in the letter and a separate total is made for each period of deferred credit.

At the end of the day the racks tender their separate proofs. These are combined in the general proof of the department, the credit side of which shows the amounts received through the various tellers, both in the morning and the afternoon, and the debit side shows the charges to all the ledgers, the charge to the city collection department for items sent there as missorts, and the items deposited in the federal reserve bank.

Collection of Non-Transit Items

The non-transit country items include notes, time drafts, acceptances, coupons, dunning drafts, documentary items, such checks and sight drafts as the collecting bank wishes to know absolutely were paid, and such items as the collecting bank is unwilling to handle as cash. These collections are not credited to the accounts of the depositors until they are actually paid, and they are sent forward with instructions to the collecting bank not to credit the sending bank's account until actual payment has been received.

The department handling these items is sometimes separated from the transit department and operated as the country collection department.

Items are received from the mail teller, the city collection teller, the note teller, the discount department, and the foreign division. A collection clerk from the transit department assists the mail teller with the morning mail and signs for all collection items on the incoming letters. They are entered and described in the collection register and stamped with the collection number as assigned them in the collection register. A memorandum is attached to each item carrying special instructions. Items from the afternoon mail and those received over the bank's counter are entered in the collection register by the note teller.

A debit and credit ticket and an advice of payment are prepared for each item handled. The carbon of the letter of advice is filed. The debit ticket is filed alphabetically as to the names of the correspondents to which the items are sent. The credit ticket is filed alphabetically according to the name of the owner of the item. It is, therefore, easy to tell at a glance how much business is being held by a collecting bank, or, when the bookkeepers come around with their overdraft slips, to tell how much money is in process of collection for any customer and when returns therefrom may reasonably be expected. When an advice of payment and credit or a remittance to cover is received from the collecting bank, the tickets are taken from the files and sent to the general bookkeeper and the advice of payment sent to the customer. The collection charge is either deducted from the amount of the credit, or charged to the customer either in his account or in a book kept in the note teller's department for payment over the counter.

Discounts handled for the discount department are credited to the Bills Discounted account on the day they fall due and charged to the account of the collecting bank. Discounts require special care in the handling. Notes discounted for a correspondent are in practically all cases sent to that correspondent for collection. Some banks object to having their rediscounts either numbered or indorsed by the bank to which they discount; in such cases the country collection department puts the collection number on a sticker attached to the item.

The Analysis of Accounts

The work of the analysis desk or department is primarily cost-accounting, to determine the profitableness of the various accounts. It concerns itself, therefore, with the income and outgo from collection charges arising from the account, the average size of the balance, the interest paid on the balance, etc. For purposes of explanation, the work may be divided into four heads:

1. Accounting the exchange charges.
2. Analyzing the accounts.
3. Watching the balances of accounts.
4. Marking the mail.

1. *Accounting the Exchange Charges.* Checks received from the various tellers by the transit department go first to the analysis desk so that they may determine what items require an exchange charge upon them. The development of par collections has greatly reduced, if not entirely eliminated, this work. Each check is carefully examined and where an exchange charge is necessary, the item is entered upon a sheet provided for the purpose (Figure 24).

If a correspondent forwarded the following checks for collection—

$3,000 check on the First National Bank of Albuquerque, New Mexico
$2,000 check on the American Exchange Bank of Superior, Wisconsin
$4,000 check on the First National Bank of Kalamazoo, Michigan
$1,000 check on the Market National Bank of Cincinnati, Ohio
$3,000 check on the Security Trust Company of Stroudsburg, Pennsylvania

and the rates of the New York Clearing House as of August 12, 1918 (see Chapter XXXV, page 670), were used, the date on which the charge is made would be entered in the Date column; the city domiciling the drawee (paying) bank, in the second column; the charge, if any, on the Stroudsburg check, in the Discretionary Charge column; the calculated minimum charges, in the next column; the amount of the Cincinnati check in the "1/40" column, of the Kalamazoo check in the "1/20" column, of the Superior check in the "1/10" column, and of the Albuquerque

EXCHANGE CHARGE SHEET																	
Date	Place Where Payable	Discretionary Charge	Minimum Charge	Cost of Collection per cent					Days Required								
				1/40	1/20	1/10	1/8	1/4	1	2	3	4	5	6	7	8

Figure 24. Exchange Charge Sheet

check in the "1/8" column; and the check is entered in the proper column according to the number of days required for collection. The exchange on this batch of checks would be 1/40 per cent of $1,000, 1/20 per cent of $4,000, 1/10 per cent of $2,000, 1/8 per cent of $3,000, if the minimum rates were charged.

Monthly footings are made of the Minimum Charge column, and the amount represents the exchange charge to the customer for that period. A statement of the daily charges is made up and serves as the voucher from which the charge is made to the customer's account, such statements being either mailed to the customer or filed with the canceled checks. When a customer wishes to pay the exchange in cash, an entry of the amount is made in a book kept by the note teller, and he receives the payment for it.

2. *Analyzing the Accounts.* Cost accounting is fast attaining a scientific basis in most lines of business, but in banking it has made relatively little headway with respect to determining the profitableness of accounts. The common objections to adopting a complete and exact system for banks are:

(a) Its cost is not an economical expenditure.

(b) Accounts are likely to grow into profitable ones, or accounts which are unprofitable so far as direct financial returns are concerned may be profitable because of their influence in getting or keeping other profitable accounts and because of their advertising value.

(c) A bank is so highly complex that it is impossible to allocate, with any degree of exactness, the overhead and general expenses among the departments and the customers.

If it could be concretely shown that an account, with a certain degree of activity, must carry a certain balance, the bank could more easily convince customers of the justice of requiring big balances, of not paying interest on balances, and of assessing upon small accounts a monthly service charge. Cost accounting also gives bank officers concrete facts supplementing those of the credit department as to the desirability of certain accounts and as to quantity or lines of service that may be extended to the customer.

Cost of Handling an Account

To give in detail a cost accounting system applicable to bank accounts is beyond the compass of this book; a brief suggestive outline only may be given. The problem is to find the costs occasioned to the bank by each depositor and the profits resulting from that account. The costs embrace the special expense occasioned by handling the account plus a proper proportion of the general and fixed expense of running the bank. Certain departments serve directly certain depositors, and the expense of these can be allocated to those depositors upon the basis of:

(a) The labor expended for each depositor.
(b) The number of items handled for each.
(c) The balance to be administered for each.

Other departments, however, are run for general service and their expense cannot be so readily allocated.

Dividing the expense of any department of the former class by the number of items handled gives the unit of cost of handling each item in the department; to determine the expense of any department would require adding the direct expense of the department and a fair proportion of the fixed, overhead, and general expenses of all departments of this class. What is a fair proportion would be based on floor space, desk room, officers' time, the ratio of the direct expenses of the department to the total direct expense of all departments of the class, or some other criterion. The rest of the general and fixed bank expense would be divided by the total average balances of all depositors. This quotient added to the quotients, found in the manner described above, for the various departments would give the total average cost of handling an item. Multiplying this item cost by the number of items handled for a depositor would give the cost of the account to the bank so far as these items are concerned. To this amount must be added the exchange charges paid for handling the country items for the account and the interest paid on the average balance, if it be an interest-bearing account.

Profit on Handling an Account

To determine the profits of an account to the bank, two sources are to be considered: (1) the amount of exchange charges earned by the account, and (2) the available loanable balance multiplied by the average loan rate of interest. To find the available balance, certain deductions must be made from the average ledger balance: (1) the sum of immediate credit entries for items deposited must be reduced by the average amount continually outstanding in process of collection; and (2) the average cash reserve required by law must be subtracted. The sum of the exchange charges and of the interest and of any other profits accruing directly from the account is the gross earnings of the account.

Because of the difficulty and expense of apportioning the fixed and overhead expenses, and even the operating expenses, very few banks bother with a detailed cost accounting system; and so they delegate the work of finding a rough approximation of profits of the accounts to the analysis desk of the transit department, because of its close contact with items received and sent. The analysis sheet of this desk usually contains some such tabulation as that shown in Figure 25.

The average amount outstanding during the month is figured by multiplying the footing of each column of the analysis sheet by the number of days for that column, and dividing the whole total of all the columns by the number of days in the month. The balance available for loans is found by deducting the average amount of items outstanding and the reserve required.

3. *Watching the Balances of Accounts.* The analysis desk watches carefully the balance of accounts, comparing those of

the current period with those maintained in the past. When an account shows an unusual falling off in its balance, that fact is brought to the attention of the officer in charge of that district.

TRANSIT DEPARTMENT ANALYSIS SHEET	
Depositor	Month
Total amount of country items deposited......	
Total number of country items deposited......	
Average balance from check desk ledger........	
Less: Average amount outstanding............	
Charge for exchange........................	
Income from loanable funds at %.........	
Cost of exchange..........................	
Interest allowed..........................	
Gross profits..............................	

Figure 25. Analysis Sheet of Transit Department

Sharp increases are similarly reported. The reports are statements drawn to show the average balances maintained over a period of six months or more immediately preceding, the balance on the day reported, and enough of an abstract of the accounts to show, if possible, the cause of the fluctuation.

4. *Marking the Mail.* All incoming letters containing cash items are carefully examined by a special clerk to determine how much of the total letter interest credit must be deferred. To do this work requires a comprehensive knowledge of the manner in which every item handled is collected, and great care must be exercised to protect the bank against loss by paying interest on funds which are in process of collection.

A list of all sight drafts and country checks deposited over the counter is also sent to the analysis desk for the same purpose. Report of interest delays is made to the general bookkeeper's department.

Nature of Telegraphic Communications

A reserve city bank uses codes to cover almost all transactions with correspondents. These codes serve:

1. To reduce the cost of telegraphic communication.
2. To provide a certain secrecy for the operation.
3. To provide against errors in communications.
4. To assure proper authentication.

This work corresponds to that of the cable department of the foreign division, which handles codes, cables, and telegrams arising from foreign business. The codes are furnished to correspondent banks and to some individuals who frequently request the bank to make payments or transfers for them. This bank, in turn, holds the codes of other banks furnished by them. The codes and test words are devised and handled by a special clerk or department. Great caution is taken to keep them secret; the issuing bank requests the correspondent to keep the code where it will be accessible only to the officers of the bank or other persons authorized to use it. When the account is closed, the code is recalled. It is essential that the test words be figured and used correctly; neither the correspondent nor the bank will pay or act upon a telegram not properly authenticated by test words, and at once wires for information; this causes delay and expense.

All outgoing telegrams for all departments of the bank are handled by this specialized clerk or department. The messages are coded and then retranslated and carefully checked with the translation. Telegrams requesting payments or transfers of money and all those in which special instructions or advice are given require test words. These are supplied by the officer in charge of them, upon an order initialed by the person sending the telegram and by the department in charge of the codes.

In the morning the incoming telegrams that have accumulated from the close of business the previous day as delivered by the telegraph companies are received and time-stamped, and the open messages separated from those in code. The coded messages are translated by a clerk and the translation checked by another clerk to reduce the possibility of error. Test word telegrams are sent to the officers in charge of test words, for checking the test words. The department then distributes the telegrams to the proper departments against signed receipt bearing a number; as the receipts are returned, they are time-stamped and filed with the relative stub. The same procedure is followed for other telegrams arriving during the day.

Bills are rendered once a month by the telegraph companies for messages sent and received; these are checked by the telegraph operator and all differences adjusted before settlement is made. A clerk in the department allocates these charges, and, where the agreement with the client runs to that effect, puts through tickets charging the account or prepares and sends a bill to him; otherwise they are charged to the Correspondents' Expense account.

Telegraphic Payments, Transfers, and Deposits

With this department will naturally be lodged the work of making payments, transfers, and deposits on telegraphic instructions. For instance, bank A of Chicago telegraphs the bank as follows: "Charge our account and pay to bank B of New York $10,000 for credit of bank C of Lynchburg, Virginia." This telegram is time-stamped, translated, and checked against the translation, and then tickets are prepared charging A and crediting Cashier account $10,000. A telegraphic advice is sent to A and a letter of advice sent by mail. A cashier's check is then drawn payable to B for credit of C, and to it is attached a form requesting that the bank's messenger be given a letter of advice by B. A hold is put against A's account. A's balance is obtained from the bookkeeper. The debit ticket goes to the general bookkeeper and later to the check desk department. The cashier's check is delivered by messenger to B. B's letter of advice is checked against the telegram; and, if in order, B's advice and the bank's advice are enclosed and sent to A. Payments to individuals are handled in a similar manner.

Letters are also received requesting the bank to make payments and wire transfers and also to make payments on the bank's own books. These letters are sent to the signature department for verification of signature and to the bookkeepers to have the amount held against the account. If everything is in order, the instructions are carried out.

If the bank is requested to make payment outside its messenger district but still within the city, the department communicates, if possible, with the payee by telephone, otherwise by mail, and requests him to call at the bank with papers establishing his identity and receive payment. When the payee appears at the window, caution is exercised to make sure that he is the proper person and that the payment is in order; he is questioned as to the amount he expected and the city or bank from which the instructions were to come, and he establishes his identity by lodge cards, railroad tickets, letters addressed to him, passports, monogram on jewelry, etc.

The bank is requested frequently to transfer money by telegraph. Such transfers are made through the bank's correspondent in the city where payment is to be made. The correspondent's account with the bank is credited. If the bank has no correspondent at the desired place of payment, a bank is selected in that place by means of the "Bankers' Directory" and the transfer is then made through its New York correspondent. All charges are prepaid unless the department is otherwise instructed, the money being obtained from the paying teller and reimbursement had by a ticket charging the account that ordered the transfer.

Telegrams are also received from country banks having no New York correspondent, requesting the bank to make payments for them. Such wires usually state that they are remitting to the bank by mail funds to cover. Every request of this sort is referred to the officer in charge of the area in which the requesting bank is located; if the bank would make a desirable correspondent, the officer will most likely have the payment made, as this service is an avenue of approach and may lead to the opening of an account. Such payments are usually of small amounts.

Cashier's Checks and Exchange Drafts

The authority to draw cashier's checks is conferred upon certain officers and departments, but for systematic control and expedition their issue is largely concentrated in a specialized clerk or department. They are issued to customers desiring them, to other departments of the bank not authorized to issue them, and to employees of the bank.

At times a person who has no account with a bank requests a check or draft on one of the bank's correspondents. The bank avoids selling exchange whenever possible, and unless the applicant has had some dealings with the bank or has an account with one of its correspondents or is a person of some importance, his application will be turned down. Banks in the large reserve cities have been reluctant to sell exchange on their correspondents because:

1. It might greatly embarrass a small interior bank to pay the draft when presented.

2. The reserve city banks carry as few funds as possible with their interior correspondents, and hence any drafts drawn would have to be paid from the correspondents' own funds.

3. Exchange is not always favorable. The reverse reasons help to explain the interior bank's readiness to sell exchange on the reserve bank.

Formerly a charge was usually made for such service, but now the draft is usually drawn on the federal reserve bank of the district in which payment is to be made, and since the federal reserve bank does not charge for the service, no charge is made to the applicant and no profit is made. If charges are made for drawing a draft, they are fixed by an officer, and he takes into consideration the conditions in the drawee city, the size of the applicant's account, who the applicant is, and the amount desired.

In case a draft is drawn on a correspondent, an advice officially signed is always sent to the drawee stating that a draft No....... in favor of ...... for $..... has been drawn, and requesting the drawee to honor it and return it on date of payment.

Commercial Paper of Correspondents

Another phase of relationship between reserve city banks and their interior correspondents is that the reserve bank buys and receives commercial paper for account of the correspondent. This sort of service is now also done by the federal reserve banks for their member banks. The actual purchase is usually conferred upon the credit department because of its familiarity with commercial paper names. But the receipt, payment, and despatch of this paper is allocated upon another specialized clerk or department.

When paper is purchased by the credit department, the purchased-paper clerk (or department) is furnished with information as to the party from whom purchased, maturity, rate of discount, amount, and whether subject to an option. These items are carefully watched, and if the delivery is in order the correspondent's account is charged and either a cashier's check is given to the broker, or his account is credited, as he desires. The paper is sent to the correspondent by registered mail.

Occasionally a note is delivered to the department secured by collateral consisting of metal certificates or warehouse receipts. When the bank is requested to hold this collateral for substitution purposes, it is turned over to the loan department and the note is sent on to the correspondent, together with a list of the collateral held by the department. But if no instructions are given as to the disposition of the collateral, it is sent to the correspondent.

Paper is sometimes purchased by correspondents under an option, and they sometimes exercise the privilege of returning it. When this is done, the code department makes record accordingly and returns the paper to the brokers, with a statement attached. requesting them to give the bank's messenger their check for the proceeds. The check, when received, is credited to the correspondent.

Sometimes the instructions are to pay the broker against delivery of a certain amount of paper, and on orders of this kind the department accepts whatever is delivered. On very large orders the delivery may not be completed in one day, and in such cases the order is held open either until it is completed or until the broker advises that he is unable to complete the order; upon such advice the correspondent may be notified and requested to instruct the bank to cancel the order for the balance.

The Law of Collections and Acceptance

The managers of the transit, country collection, and city collection departments must be versed in the law of collections. The law, common and statutory, prescribes many restrictions as to the time and place and method of presentment, delivery of documents, protest and notice of dishonor, method of payment, indorsements, guaranty, and right of lien; and unless the collecting bank is guided carefully by these rules of law, it involves itself in needless litigation and losses.

Responsibility of Collecting Bank as Agent

The statutes do not specifically confer upon banks the power of acting as collection agent, but the courts have consistently held that the banks had that power and that they could charge for the service, directly or indirectly; but that, on the other hand, if a bank undertakes collections for the indirect profits or advantages which may be expected from the account, it is prevented thereby from availing itself of the plea that its contract is without compensation.

A bank receiving paper for collection becomes generally the agent of the party from whom it is received, but not the agent of the maker of the paper or of the debtor who pays. Some courts are disposed, however, to regard the collecting bank as bailee rather than agent. The nature of the agency contract is variously interpreted by the courts; some hold that it is a contract to make the collection, others that it is a contract to have the collection made. This gives rise to contrariety of opinions as to the responsibilities of subcollecting agents to the depositor. The collecting bank contracts to use due diligence in the business of collection, "due diligence" being interpreted to mean reasonable care and skill and the exercise of discretion, where specific directions are not given, always in the depositor's interest. If the collecting bank selects subagents to assist in making the collection or notaries to protest for non-acceptance or non-payment, due diligence must be used in the selection of these parties.

The contract covering collections is often varied by express agreement and various devices are used by banks to make known the terms; placards hung in the bank or imprints on the deposit tickets or on the pass-books have been employed to give depositors notice that in accepting the items the bank acts as agent only and assumes no responsibility beyond the use of due care and diligence in selecting subcollecting agents and notaries. The bank obligates itself to act in the depositor's best interest and, therefore, to preserve the liability of all parties prior to him on the item; for the bank to fail in this duty and cause loss to the depositor is to incur a liability for the loss.

Responsibility for Selection of Agent

A confusion of court opinions exists as to the duty and liability of the several banks preceding, in the chain of transmission, the last one, which has to effect the actual collection. If a depositor puts an item in bank A for collection and bank A engages bank B as its collecting agent, and bank B in turn engages bank C, which does the final collecting, the question arises as to the responsibility of banks B and C to the depositor—are they his agents, and responsible to him?—and as to the relations of banks B and C to bank A.

In all cases a bank is held liable for negligence in the selection of its correspondent. A bank is commonly held to be negligent if it makes the bank upon which a check or draft is drawn, or a bank where a bill or note is payable, an agent in the collection of that item; in other words, it is negligence to send a bill directly to the drawee bank or the bank where it is payable. This is the commonly accepted rule in almost every state, but it is not universal. It rests upon the reason that it is imprudent and indiscreet to employ a debtor bank to collect against itself; that the drawee bank usually remits its own paper in payment and may fail before such paper is presented for payment, whereas if the item had been originally sent to a correspondent it might have been presented and payment in money received before the drawee bank failed. Some states vary this rule by not holding liable a bank which sends items directly to the drawee bank, if the drawee bank is the only reliable bank in the town; but other states hold the sending bank liable even though the drawee bank is the only one in the town; in such cases the sending bank may elect to assume the business risk or may collect through an express office, notary, or other agent.

An express contract between the first bank and the depositor determines the liabilities of the first bank and its subagents. In a state where the matter has not been judicially determined, usage may determine the question of liabilities. The New York rule is that the first bank is responsible for the negligence of its correspondent and its agents, and that these agents are agents of the first bank. The New York rule is also held in numerous states and by the United States Supreme Court, and is based on the principle of agency that the first agent is liable for the acts of all the subagents employed by him. The Massachusetts rule is that when the first bank transmits the item with due care to a correspondent selected with due care, it has done its duty and is not responsible for the negligence of the correspondent or its agents. This rule prevails in a still larger list of states, and rests on the premise that the general rule that the first agent is liable for negligence of the subagents employed by him finds exception whenever there is authority expressly given or fairly implied from the usage of trade or the exigencies of the case to employ such subagent, and that the substitute appointed by any agent, who has this power of substitution, becomes the agent of the original principal.

Restrictive Indorsement of Items

The question of the nature of the agency relations of the depositor and the bank is inextricably bound up with the question of title to the deposit. When items are deposited for collection, credited to the depositor on general account, and *drawn against*, the bank is holder for value and the items are part of its assets. The bank acquires title to the items on an implied agreement to pay an equivalent consideration on demand by the depositor; the bank is assumed to treat the items as a deposit of cash and to assume toward the depositor the relation of debtor, and not that of bailee, and the customer assents to that arrangement by drawing checks on the credit. If, however, the item is indorsed restrictively "for collection," such indorsement does not give the bank title to the paper and is notice to all parties that the collecting bank does not own the proceeds and cannot keep the proceeds to pay a debt of the bank that forwarded the paper; nor does the bank owe that amount until the item has actually been collected. Items which bear this restrictive indorsement are not clearable through the New York and most other clearing houses according to a rule adopted in 1898, when a court decision was handed down that a bank receiving such paper was a mere agent and not responsible for genuineness after payment of the proceeds to its principal. The banks at once frowned upon restrictive indorsements since they wished to protect themselves by the warranties of a general indorsement. The clearing houses exclude all paper restrictively indorsed unless the sending bank guarantees all previous indorsements.

Instructions for Collection

The collecting bank is to be governed in all matters concerning presentment, demand, and notice, by the laws and customs which prevail in its locality. If the transmitting party sends special instructions which differ from local practice, the bank is bound to conform to these instructions; but in the absence of such instructions the transmitting party is assumed to consent to the local law, rules, regulations, and practices.

It is a disputed point whether the usages, either express or implied, of the bank must be specifically made known to the persons depositing items for collection, but in general such persons are bound by the usages of the bank, whether the usages are known to them or not. Such usages can only vary the details of presenting, demanding, and notifying, and cannot justify the omission of any of these fundamental acts or the substitution of any other act as equivalent for any of them. To illustrate: If it is the custom of banks in a city to accept certified checks on members of their clearing house association instead of actual money in payment of collections, that would be a legitimate bank usage.

When instructions are given by the customer as to the method to be pursued in collecting and protesting his items, the bank is bound to carry out in detail those instructions, and, if it appoints subcollecting agents, is bound to forward fully and accurately to those agents these instructions as well as others which the local law requires for the protection of the customer. If the bank disregards any of these instructions and loss is incurred, it is liable. These instructions are given in the remitting letter or on a ticket attached to the item. If a bank misreads its instructions it is liable, but if really doubtful instructions are given and the bank errs by a reasonable interpretation, it is excusable in court.

If a time draft, drawn by consignors of goods on consignees, is forwarded to a bank without instructions but with bill of lading attached covering the goods, the bank is justified in assuming that the consignor intended that the bill of lading should be surrendered upon acceptance of the draft rather than upon the final payment; business usages or high perishability of the goods and other evidence would confirm this conclusion. Court decisions differ, however, on this point.

However, if the bill of lading is made deliverable to the consignor or his order, the bill should not be delivered upon acceptance but held until payment. Bills of lading accompanying a sight draft should not be surrendered until the draft is paid.

Time of Presentment for Acceptance or Payment

Drafts payable at a future day must be presented promptly for acceptance; failure to present a draft promptly is regarded as a breach of the due diligence required from the bank. Promptness in presenting for acceptance is important, since if the draft is accepted it binds the drawee, but if it is not accepted the owner may commence action against the drawer or indorser on notice and protest, without waiting for the day of payment. All bills payable at sight or after an uncertain event, as after sight or demand, must be presented for acceptance. Demand bills need not be presented for acceptance.

The bills must be presented for acceptance during business hours of the prospective acceptor, and they must be presented to the drawee or some person authorized to accept or refuse acceptance on his behalf. The presenter should exhaust every reasonable means to find the drawee or his agent. Presentment must be made at the place of business or the domicile of the drawee, and if the drawee is not at his office or home, the presenter should wait a reasonable time for his return. Under the Uniform Negotiable Instruments Law, the drawee is allowed twenty-four hours within which to decide whether to accept the draft or not.

If it is accepted, it becomes a direct obligation of the acceptor; if it is not accepted, the presenter must protest it and notify the drawer and indorsers and may then sue them without waiting until maturity of the draft. If the drawing of the bill was a fraud on the holder, or if the residence of the drawee cannot be discovered with reasonable diligence, the bill is treated as dishonored.

Items must be presented for payment within business hours. If payable at a fixed time, they must be presented on the day of maturity. Where days of grace are allowed, the items must be presented on the next business day following their receipt if the drawee is in the same place as the payee; but if in a different place, they must be sent forward to a subcollecting agent by regular mail on the day following receipt, and this agent in turn must present them on the day after he receives them. This is the general rule as to reasonable promptness but may be varied as circumstances warrant. In the case of drafts with bill of lading attached, drawn payable "on arrival of goods" or "on arrival of car," some banks make daily inquiry of the transportation company to learn the time of arrival, so as to insure prompt presentment of the draft and avoid any liability that might be incurred through delay. This procedure becomes quite impossible in a very large bank handling great numbers of such items, and the bank depends upon the maker or drawee to give notice.

Place of Presentment for Acceptance or Payment

If the paper names a place of payment, presentment for payment must be made at the place designated. If several places are named, the presenter may elect the place. When no place of payment is named, presentment at the place of date is sufficient demand to charge the drawer or acceptor after notice of protest. When a bill or note made payable at a bank is present there, with the knowledge of the bank and ready to be delivered upon payment, such mere presence is a sufficient demand. Banks in certain places have a custom of sending notices by mail to the payer a little before maturity, requesting him to come and pay at maturity; if the bill is payable at the bank, such mail notice (or no notice at all) is sufficient; if the bill is not payable at the bank, such mail notice is held a proper presentment in some states but not in others; if it is the prevalent practice among the banks of the place and not simply the practice of a particular bank there, the usage would in principle bind persons of the place, provided the paper is payable in that place.

Person to Whom Presentment for Acceptance or Payment Is Made

Presentment for payment must be made to the person who is to pay or to his authorized agent; if he is absent or inaccessible and has authorized no agent, presentment to his clerk, wife, or other person found at the place is sufficient. If joint promisors are partners, presentment to any one is sufficient; otherwise it is necessary to present to each and every promisor.

Protest

Where a bank, acting as collection agent, holds an indorsed check or draft, payment or acceptance of which has been refused, it is its duty, unless otherwise instructed, to have it protested. In this matter the bank uses its discretion; items are customarily not sent to protest if deposited and indorsed by its customers, since the bank wishes to save the customer from the expense of protest fees; but those sent from a distance for collection are protested unless there are instructions to the contrary. The bank also takes care to give payers every opportunity to save their paper from protest and protect their good names and credit, in this way gaining the favor of its customers. The purpose of protest is to bind the maker and indorser and secure reliable evidence of dishonor. The item is turned over to a notary who personally makes demand again and gets a refusal to accept or pay. The notary certifies that he had presented the document at such a place on such a date and that acceptance or payment was refused, for such a reason, or for no given reason, and makes a formal and solemn protest under his seal and signature. On that day or the next he gives notice of the facts to all indorsers in person or by mail. He then returns the item under protest to the bank. The bank returns it, with the certificate of protest, to the bank from which it came, and this bank in turn returns it to the depositor, who is charged with the protest fees, postage, and other charges incurred by the collecting bank and its agent.

The notice of protest consists of a statement sent by the holder to the maker or any indorser of a check, draft, acceptance, bill, or negotiable note, that the paper has been dishonored and that the person notified is looked to for payment. The notice may be verbal or written and may be sent by messenger in all cases and by mail if the person notified resides elsewhere. It is not conclusively determined yet in the courts whether the bank is obligated to give notice of dishonor only to its principal, that is, the party from whom it received the paper for collection, or to the makers and all indorsers thereon, but it is safe to assume that notification to the principal is sufficient to acquit the bank. This may be varied by special agreement; for instance, the depositing bank may by express agreement waive its right to demand of payment and notice of non-payment, or it may require notice to be given to all the parties, or to any particular party, on the paper.

Acceptable Tender

Except by special agreement or prevailing usage, a bank has no right to accept anything but money in payment of paper it holds for collection. If the bank accepts a check by the drawee upon funds in the bank to his credit and the bank charges it off the account of the drawee, it is equivalent to the receipt of money. If it takes a check on another bank, it becomes *ipso facto* agent of the maker in collecting the check and has not completed its duty as agent of the customer until it has collected this check and is liable for any default in connection with it. Even if the check is certified and if it is customary to accept certified checks in payment of collections, the courts have not universally agreed that the usage justifies the taking of other things than money.

Drafts and bills payable are sometimes drawn payable "with exchange," "in exchange," "in New York exchange," "in New York funds"—expressions which signify that the paper is to bear the exchange charges, the payer either remitting in par funds or paying the collecting agent enough extra to cover the exchange charges. The courts have decided that the insertion of these phrases does not render the instrument non-negotiable on the score of indefinite amount. Unless there are special instructions to insist upon collecting the exchange, the collecting bank generally ignores it. But when the bill is drawn "in New York exchange," the collecting bank insists upon a New York draft if it is short in New York funds, but does not demand such draft if it is long in such funds. If the bank is offered a check by the payer on his local bank to cover the exchange or a check on his New York account, the collecting bank must decide whether such checks can be accepted with safety; refusal to accept may result in a quarrel with the payer and a consequent loss of patronage. Bills drawn "in exchange" have been held by some courts non-negotiable, being in terms of a commodity rather than in terms of money. On the whole, banks are warranted in refusing to handle items bearing these phrases as to exchange charges.

CHAPTER XXXVIII

SPECIAL SERVICE DEPARTMENTS

Gratuitous Services by Banks

A bank, in its competitive effort to get and retain business and good-will, will perform many lines of service for which it charges no commission or fee and which are gratuitous in the sense that they are not done on a direct *quid pro quo* basis. The service may be one performed free of charge by many banks or may be an additional free service performed by a particular bank alone. The performance of the service may require the creation of a special department, or it may be performed incidentally in connection with an existing department; for example, the industrial service department is a department specially created to advise and help customers with industrial and corporate affairs; whereas the bond department attends, as an incidental function, to the purchase of securities for customers. The department may be necessary to the officers in the execution of their general business, but it may perform also special services for present or prospective customers; for example, the customers' securities department is one created primarily for customers, but the credit department serves the officers first and clients second. Since the services are performed free of charge, the return which the bank gets must come from the general profits from the account or must be considered an investment in good-will and prestige. It is the purpose of this chapter to mention briefly some departments which perform free special services for customers or prospective customers.

The Customers' Securities Department

Activities similar to those of the customers' securities department are performed by bond houses, trust companies, and savings banks. It is legitimate for a commercial bank to undertake any service which does not involve it in risks and operations unsuited to the fundamental principles of commercial banking, and the service of acting as custodian of its customers' securities is one such proper undertaking. The creation of a specialized department to perform this service is a natural outgrowth from the development of corporate securities' operations, particularly in banks near the stock exchanges.

The customer enjoys several advantages in employing such a bank to act as custodian of his securities rather than keeping them himself:

1. The bank has special fire-proof, burglar-insured vaults in which the securities are kept.

2. Borrowing from the bank is much facilitated if the securities to be pledged as collateral are already in the possession of the bank, have been examined, approved as "good delivery" upon the stock exchange, and can be readily transferred from the customers' securities department to the loan department.

3. By having the securities near the exchange and in good-delivery condition the customer can take advantage of a favorable market if he cares to sell; whereas a bank acting as selling agent hesitates to sell securities which it does not have on hand at time of sale since, if the customer lives at a distance, there are delays and charges for mail, express, and insurance, all of which may be increased if the securities when sent to the bank are not found in good shape and must be returned to the customer for substitutions or corrections.

4. The bank looks after the clipping and collection of coupons, protects the customer's interests in dividends and subscription rights, and relieves him from all annoyances connected with these matters.

5. Convenience is also served by using the department to hold securities under escrow, for syndicate accounts, for collateral to loans of government bonds, and for other purposes.

Internal Organization

The internal organization of the customers' securities department varies, of course, with the volume of business of the sort described which is done for customers. It has a window man who receives from and delivers to customers over the counter, under specific or standing instructions where payment is involved, and also without payment from anyone who may deposit securities with the bank for the account of a customer. Securities are also received through other departments: from the note teller, when received by the bank by registered mail or express; from the loan and bond departments; and from the foreign division. Another important clerk is the "street" man, who delivers securities to other institutions in the financial district for payment, transfer, registry, sale, substitution, loan, delivery, pledge, or other purpose, and collects securities from other institutions. The street man will ordinarily stay in his cage and make his deliveries and collections through subordinate messengers. The department also has bookkeepers and vault men.

Records of Securities Department

The typical records kept in the customers' securities department embrace the following:

1. The securities received book, in which are entered all securities placed with the bank by customers for safe-keeping. The entries comprise their numbers, registered holders if any, titles, maturities, interest periods if they are bonds, the total involved, from whom received, for what account, and a correspondence number.

2. The securities delivered book records all securities passing out of the bank's custody, under stock or bond numbers, description, total, to whom delivered, for what account, and reference number.

3. The temporary withdrawal book contains a record of all securities taken from the vault temporarily and redeposited;

such temporary withdrawal is for transfer, registry, exchange, or to get definitive bonds for interim certificates. The book is examined every two or three days to see that the entries are closed out or accounted for.

4. The transient book covers all securities which pass through the department but which are not held for safe-keeping; it is primarily to reduce the entries into the ledgers and is of the size of the ledgers; the entries are about the same as those in the securities received book and are closed out within a few days; record is kept of the purpose for which the securities are sent to the bank.

5. The ledgers—for individual, bank, and foreign customers—contain a complete record of all the securities held for safe-keeping, and are posted from the securities received and the securities delivered books.

6. The bond number book and stock number book contain complete alphabetical records of all the securities held, with their description, numbers, denominations, registered holders, and the totals for each and every account.

The great majority of stocks and registered bonds in the department's custody are registered in the names of its "nominees," who are usually a couple of leading men in the department who are appointed by the bank to serve officially in this capacity. Non-dividend-paying stocks are usually not transferred to the bank's nominees, as the cost of the transfer tax would be thereby incurred. The nominee, being the registered holder, has to look out for dividends and interest as they are paid.

The stock exchange publishes weekly a list containing a record of dividends declared, amount of dividend, date of closing of the transfer books, and date of payment of dividend. Clerks in the department go over this list and check off those stocks whose transfer books close during the ensuing week; these respective stocks are looked up in the stock number book and a list of the total held for each account is prepared and proved against the ledgers. Credit tickets are prepared in advance and laid aside against receipt of the dividend checks, when the credits are put through. A record of all such credits is kept in a dividend book. If any stocks for which the transfer books are to close the following week are found standing in names other than those of the bank's nominees, the department, unless otherwise instructed, enters them in the temporary withdrawal book, takes them from the vault, and sends them to the transfer agent to be transferred to the nominees. If the department fails to have such transfer made before the books close, it is put to the necessity of reclaiming the dividend from the registered holder; this may occasion great inconvenience, especially if the holder resides at a distance or abroad; and, by custom of the Street, the holder is privileged to deduct 1 per cent of the amount of the dividend, if he so pleases, though in general this penalty is not inflicted.

Miscellaneous Duties

If the volume of bonds held in custody is large, the task of clipping coupons as they become due becomes an important part of the work of the department. The greatest amount of coupons are payable in January and June respectively. Coupon envelopes are first prepared from the ledgers, and a list of the envelopes is prepared. As the coupons are cut they are put into their proper envelopes, and the total face value placed on the envelope and the list. When the proper certificate of ownership is attached to the coupons, they are turned over to the note teller, who receipts for them on the list and in due season accounts to the owners for the proceeds. Generally powers of attorney are lodged with the bank to execute certificates at the time the envelopes are prepared; where no such power has been given, the coupons are held awaiting receipt of the certificates, and if any are missing after the due date of the coupons the owners are notified.

The department is provided with newspaper clippings affecting securities of all descriptions; these are read to ascertain if anything of importance is imminent that would directly influence securities lodged with the department, such, for instance, as calling of bonds, reorganizations, receiverships, issuances of new stock, etc. The department then procures from the proper source circulars descriptive of the proposed plans, informs the clients who have on deposit any of the stocks or bonds affected, and asks for instructions. In the case of called bonds their numbers are compared with those in the bond number book, and if any of them are held by the department, their collection and credit are cared for at the proper time. Frequently new issues of bonds and stocks are made by corporations and, as a general rule, special inducements are offered to the stockholders as of a certain date for subscribing to the new issues; these privileges are called "rights." The department acquaints the interested owners with such proposed action of the corporation and learns whether they wish to subscribe for their proportion of the new issue or to sell their rights. As a rule, these new issues may either be paid in full at the time of the initial subscription, or in instalments on certain set dates running over a period of several months; the department must keep a record of such payments and see that they are made at the proper time.

A great deal of the department's work consists in the purchase, sale, and transfer of stocks and bonds. It executes buying and selling orders for the bank's customers. A complete record of all orders and their execution is kept in an order book, and as each order is executed or canceled the entry is closed out. The bank's brokers furnish to the department, say, once a month, a statement of outstanding orders, and these are checked against this order book.

Many of the securities that go through the transient book or temporary withdrawal book are on their way to or from the transfer agent or registrar, either in the city or outside, as the case may be. The transfer and registration of securities handled for customers occasion several special activities and responsibilities to the department; for instance, the care of income, inheritance, and transfer taxes. All deliveries of securities in the home city are made by messenger and only under adequate instructions and against receipt or payment. Securities transferable in the home city are delivered at the transfer offices, which issue receipts, and the new certificates are called for on the next delivery day; those transferable out of town are forwarded to the bank's correspondents in the localities concerned, and they effect the transfers for the bank.

Relationship to Other Departments

The customers' securities department has intimate relations with several other departments of the bank. As customers lodge securities with the department for safe-keeping and later pledge them as collateral for loans, there is a more or less constant interchange of securities between the customers' securities department and the loan department. It has daily dealings with the bond department, which, as it sells securities lodged with the bank, presents an officially signed order for their release. Moreover, it has close relations with the foreign division, since many of the securities held are for foreign accounts.

The services of this department are generally gratuitous for domestic customers, but most foreign customers pay the bank small commissions. The distinction drawn between the two classes of customers rests upon the practice of foreign banks almost invariably charging the American banks for each and every service.

The Statistical Department

The statistical department serves the officers and departments of the bank and clients or prospective clients by furnishing all manner of statistical information bearing upon foreign and domestic trade and industry and corporate and public finance.

It is highly important that the officers of a bank act upon information that is strictly up to date and accurate. The statistical department, therefore, fulfils a very responsible office. The clients of the bank generally have limited facilities for gathering and filing statistical data and come to depend upon their metropolitan correspondent; in this way the statistical department contributes to the prestige and good-will of the bank.

The gathering of statistical data requires a constant watch for statistical publications by the federal, state, city, and foreign governments, by commercial, trade, and statistical associations, and by private concerns. It requires the careful reading, clipping, and filing of newspaper and periodical publications, both domestic and foreign, and demands a wide knowledge of the sources of various kinds of data and their relative validity. The presentation of these data requires an aptitude for figures, tables, charts, and diagrams. The most difficult problem of the statistician is the analysis of data, the elimination of untrustworthy data from that which is trustworthy, the weighing of related factors, and the formation of logical conclusions.

Among the output of this department may be mentioned the following:

1. All manner of statistical information requested by the officers or others in the bank or by clients or prospective clients.

2. A monthly summary of foreign trade. This summary, which is prepared from original data and appears before the report put out by the government, gives the bank and its friends advance information about the course of trade.

3. A daily digest or index of the contents of a number of daily papers. This is distributed early in the morning throughout the bank for the convenience and information of employees.

4. Any item of information which the statistician finds and knows to be of immediate importance to an officer or other employee of the bank is despatched forthwith to him.

5. The statistician makes considerable use of the financial

library, which is likewise a source of information on all sorts of economic subjects both for officers and employees of the bank and for clients and prospective clients, particularly of the home city.

The Industrial Service Department

One of the latest forms of service performed by a bank is that afforded by the industrial service department. The first bank to offer this service and to create a special department to perform it did so in 1916. Since that date several other banks have provided similar service.

One of the objects of this department is to act as a supplement to the credit department and correlate more closely the commercial bank with industrial interests. Professional bankers have steadily insisted that commerical and industrial concerns make their quick and current assets bear certain fixed ratios to their current liabilities. On the other hand, our great industrial managers have felt that the bankers do not fairly interpret their statement of resources and liabilities and do not take sufficient cognizance of or give due weight to certain industrial factors, such as management, prospects of the industry, the co-operation of employees, etc., which are of very great importance and possibly outweigh deviations from the rule of the ratio between current assets and liabilities. The industrial managers insist that loan extensions be based more upon an interpretation of "plant and equipment," "personnel of officers," "labor conditions in the factory," "type and quality of product," "profit and loss based on scientific cost," and such other factors, and less upon rigid rule-of-thumb methods of calculation.

The industrial service department aims at increasing the usefulness of the bank's facilities to business by increasing its means of recognizing and crediting merit where it is due and by bringing about a more constructive co-operation between banker and client. By advice and counsel it strives to emphasize better methods of doing business, scientific cost accounting, efficient management, etc., thereby creating more determinable bases for loans and discounts. It supplements the present credit information with facts and angles on the condition of prospective customers which should be of the greatest value to the officers of the bank in deciding upon credit extensions. These data are searched out by the industrial engineers. An industry which today is prosperous, shows a favorable balance sheet, and enjoys a high esteem, may a few years hence fail utterly because of some inherent defect in the organization, management, operations, market, or source of supplies.

The industrial engineer understands these factors and he sharpens and deepens the probe of the credit investigator. But he also is in a position to furnish remedial advice to industries that are temporarily in a difficult position and to help them to a better financial standing, putting them ultimately in such a profitable condition as will warrant extensions of credit. The bank may well take a keen interest in the sound and able conduct of the family of enterprises which are its steady customers; its prosperity is intimately interlocked with their prosperity. The bank's efforts in these lines must be co-operative and not dictatorial, reciprocal and not selfish. The industrial service department strives to gather permanently from its industries and friends many valuable facts and suggestions, and in turn to pass the information on to other customers who are in need of special advice and helpful programs. It works along co-operative and educational lines, and acts as a clearing house for the latest and best information on industrial management and kindred subjects, gathering such information from all possible sources and disbursing it by booklets, pamphlets, magazine articles, speeches, letters, and conferences.

This department also encourages and aids in every way possible all movements for the improvement of industry and commerce. Trade associations, educational institutions, and scientific societies are fostered, supported, and utilized by it. The organization of such a department consists of three divisions:

1. A division for inspection and appraisal, consisting of experienced industrial engineers who visit the plants of industrial customers or prospective applicant customers and make a keen study of the plant, its management, and determining factors, reporting to the home office their findings, conclusions, and recommendations.

2. A division for auditing and accounting, which likewise studies the accounting system in vogue and devises improvements or instals a complete system of cost accounting.

3. A clearing house division, which assembles, digests, and disburses information on cost systems, purchasing methods, production methods, traffic problems, federal and state industrial data, building design and construction, shop and office planning, machine design and construction, power and lighting methods, insurance problems, advertising problems, educational and betterment work, industrial civics, industrial service publicity problems, statistics, etc.

The Foreign Trade Department—The Commercial Representative

The foreign trade department is a recent innovation, born of our expansion in foreign trade during the past decade. The chief function of this department is to assist the merchants and manufacturers of the United States who are interested in foreign trade and to cultivate and secure the good-will and confidence of foreign business houses. The ultimate object is to secure, through service, new and larger business for the bank.

To perform these services the foreign trade organization consists of two parts: (1) the department headquarters at the parent bank, and (2) branches of the department attached to the foreign branches of the bank and consisting of a commercial representative, usually part of the credit department of the branch; if the bank has no foreign branches, the commercial representative abroad may be resident or traveling, native or American.

The branch or commercial representative collects the information in the field and sends it to the home office, where it is further digested and synthesized and then distributed to present and prospective clients by conferences, letters, publications, etc. He collects data for reports and discusses in these reports such commercial questions as trade-mark laws, customs, tariffs, and methods of securing government and other business of a public nature. He keeps track of the changes in general shipping and facilities, public works, etc., and gathers information regarding governmental, municipal, and other bond issues and other proposed financing which may affect commerce or be useful to the bond department. He sends to the home office any new periodicals and statistical books which may be of value to it or the bond department, watches for new government publications that may come out, prepares and furnishes the home office with any material which may be useful and interesting for printing in the bank's publications, interviews the visiting representatives of United States merchants and manufacturers, learning wherever possible the business that they have done. He compiles and keeps up-to-date lists of firms or individuals who are suitable to act as agents of United States concerns and lists of the names of reliable houses, by trades, suitable for the bank's customers to deal with, and co-operates closely with the credit department in the compilation of names and all other matters relating to both departments, etc.

The commercial representative tends to become a local business-getter for the local branch, and it is he who furnishes the personal touch between the manufacturer and his local clients. He must be zealous to develop his field, yet conservative in suggesting the doing of business by other than the established channels; he must be a reliable judge of business prospects, and diplomatic in turning down undesirable proposals. He may write letters of introduction for foreign business men about to visit the United States, where the home office arranges that they meet desirable clients and assists them as much as possible. In case unusually good opportunities open for particular lines of business, the representative may cable the facts to the home office and thus give the bank's clients first opportunity to avail themselves of those opportunities.

The permanent commercial reports prepared by the commercial representative cover all the leading business houses and industries in the foreign market. The data reported are the name and address of the firm, the volume of business done, the number of employees, amount of stock carried, nature of the articles dealt in, the origin of the merchandise, the facilities for distributing goods, and banking and commercial references. These are prepared on uniform forms, and copies are filed according to trade, etc. These give an idea of the commercial importance of the business community, as well as intimate and valuable information concerning each important house, and many suggestive ideas of trade possibilities; they also serve as a basis for obtaining credit information and for soliciting new accounts.

The information gathered from industrial plants covers all those that are prominent and deals with the character of the machinery and machine tools used at present and the probable demand for new machines, for tools and for replacements of those either worn or out of date. In this way American machinery finds a gradually wider market.

Elaborate files of information of all kinds are kept by the foreign representative and made accessible to local concerns and traveling representatives of United States firms, the files being classified so as to be as highly useful as possible. When a traveling representative from a United States firm visits his district, it is the duty of the commercial representative to get into intimate touch with him if possible and accommodate him in every way.

Work of Home Organization

The home organization performs a very diversified work, the ultimate end of all of which is to develop and maintain foreign business for the bank. It analyzes, files, and edits the reports sent by the commercial representative, and gives them publicity by letters, circulars, and periodicals, or personal conferences. It receives and counsels visiting representatives of foreign and American houses that are present or prospective clients of the bank. It sends to the bank's clients who have requested them the advance announcements of trade opportunities that arise. It studies the market prospects in the United States for some foreign client's products and advises him of conditions directly or through its representative. It organizes foreign or export departments for United States clients and finds competent heads for them. While it does not assume the responsibility of advising merchants or manufacturers whether they can do foreign business successfully, it does stand ready to offer exceptionally good information and a certain amount of guidance in helping them to decide for themselves. It has trade lists in each country and credit data about each name. It appoints or recommends agents abroad to carry out transactions for domestic clients or domestic agents for foreign clients, and in general answers inquiries about all phases and problems of foreign trade.

CHAPTER XXXIX

TRAVELERS' CHECKS AND LETTER OF CREDIT DEPARTMENT

General Duties and Organization of the Department

A travelers' letter of credit is a credit instrument issued principally by banks and used by travelers as a medium through which their funds are made available. It is also called a "circular letter of credit" and is to be distinguished from commercial letters of credit as used by importers and exporters. It is essentially a demand draft issued by a dealer in foreign exchange and payable in instalments by foreign correspondents of the issuer. Domestic letters of credit also are issued for travel inside the country of the issuing bank or for travel in other countries and available in the currency of the issuing country.

A travelers' check serves the same purpose as a letter of credit and is a check for a specified amount issued by a banker and payable by any correspondent of the banker. Two decades ago nearly all letters of credit carried by American tourists abroad were provided by a few large banking houses of the East. To-day hundreds of banks throughout the country issue letters of credit of their own or of some other institution on which their names appear. Travelers' checks are also issued by express companies. The result is a great multitude of forms different in detail but identical in principle.

It is the business of the letter of credit department to issue letters of credit and travelers' checks, to provide for the issuance of the bank's letters of credit through interior banks, to arrange with correspondents to honor the letters and checks and provide for their reimbursement, to make payments under letters of credit issued by other banks, and to take care of all appertaining matters.

The internal organization of the department for the handling of this work will vary with the bank and depend chiefly on the volume of work to be done. A convenient arrangement is to divide it into three sections:

1. One to handle the bank's letters of credit and clean credits opened *by* itself.
2. One to handle clean credits opened *with* the bank in favor of individuals.
3. One to handle travelers' checks.

The work of each of these sections is performed by a clerk with such helpers as may be found necessary. The whole department is supervised by a rèsponsible head.

The use of letters of credit and travelers' checks was very much disturbed and complicated by the war. The use of codes had to be abandoned, correspondents in enemy and certain neutral countries had to be eliminated, travelers' checks in foreign currencies were dropped, and so on. These conditions were temporary, and most of the practices of normal peace times have been or will likely be reinstated. The description in this book will therefore deal largely with pre-war methods.

Application for Letter of Credit

A letter of credit is both a credit instrument and a letter of introduction to the banks to which it is presented. It is especially prepared to prevent erasures or alterations and forgeries and to guard against its loss. Before the war, letters of credit were almost all issued in pounds sterling, because this exchange generally commanded the highest rate the world over. But during and since the war the use of dollar letters of credit for foreign travel increased very fast. Dollar credits are particularly advantageous in every country where exchange rates favor the United States. Moreover, if American currency is paid for a sterling credit in America and drafts drawn later under the letter must be converted into the currency in which the beneficiary is traveling, these two conversions are less desirable than the one conversion required when a dollar credit is procured. American banks also issue, when desired, letters of credit in the currency of a particular country when it is for use in that country alone.

The application for a letter of credit (Figure 26) should be somewhat after the following form:

Number............

Place.............. Date........

The........Bank of............
New York City

Dear Sirs:

Please issue your letter of credit in favor of .... for ....(amount)....good until the first day of................for use in ....(countries or cities)....to be sent......(to whom, how, address) .... Remarks....................

The undersigned hereby agrees that in case the said letter of credit or any renewal or extension thereof be either lost or stolen, immediate notice thereof shall be given you by telegraph; and in case of such loss or theft the undersigned hereby authorizes you to take such precautions as you may deem advisable for the prevention of fraud and agrees to provide immediate reimbursement for all expenses in connection therewith and for all payments made in reliance upon the said letter of credit, before actual notice of the loss thereof shall have been received by the person making such payments.

In reimbursement of all payments made under the above requested letter of credit, together with your usual charges, you will please (a) find check enclosed, (b) charge our account with you upon receipt of drafts, (c) send us statement for check.

Yours very truly,

Figure 26. Application for Travelers' Letter of Credit

The application also has spaces for three or more signatures of the beneficiary. Of the three methods of reimbursement the applicant specifies one.

Typical Letter of Credit

The front page of a typical letter of credit, drawn in foreign currencies, as used before the war (Figure 27a), ran as follows:

The............Bank of New York

Circular Letter of Credit No.... New York....(Date)

Gentlemen:

We beg to introduce to you the bearer,........................ whom we commend to your usual courtesies.

We hereby authorize..................to draw at sight in pounds sterling on The Union of London & Smith's Bank, Ltd., London, E. C., or on The London City and Midland Bank, Ltd., London, E.C., or by check in francs (1 £ equal to francs 25.20) on The Credit Lyonnais, Paris, to an aggregate amount of £................and engage that........ bills on these Banks to that extent, negotiated through you before ....shall meet due honor.

Each draft must bear the number of this Circular Letter of Credit and be indorsed on the back hereof.

Your charges are to be paid by the accredited party to whose signature on the accompanying list of correspondents we beg to refer.

Yours respectfully,

To Messieurs...... The............Bank of New York
(The bankers mentioned in the accompanying list of correspondents).

....

....

Figure 27. (a) Typical Travelers' Letter of Credit in Use Before the War (face)

The reverse side of this letter of credit is used as a record of all payments made against it. The following (Figure 27b) is a reproduction of the reverse page, bearing a fictitious indorsement:

The amount drawn against this credit not to exceed............pounds sterling.

Date	Paid by	Amount Sterling	
		Written in words	In figures
Sept. 26, 1916	Credito Italiano	One hundred pounds	£100

Figure 27. (b) Typical Travelers' Letter of Credit in Use Before the War (reverse)

The dollar letter of credit in use today (Figure 28) reads somewhat as follows:

The............Bank of New York

Letter of Credit No......... New York,.........(Date)

Gentlemen:

We beg to introduce to you and to recommend to your courtesies ...., a specimen of whose signature appears in the accompanying list of correspondents.

Kindly provide........................with such funds as may be required up to an aggregate amount of United States.......dollars ($......) against.......drafts drawn at sight in United States dollars on The............Bank of New York, New York.

We engage that such drafts negotiated by you before the first day of ....will be duly honored.

The amounts paid must be indorsed upon the letter of credit and the drafts must state that they are "drawn under The................. Bank of New York, Letter of Credit Number........., dated........."

Your charges, if any, are to be paid by the beneficiary.

Yours respectfully,
The............Bank of New York

To Messieurs........
(The bankers mentioned in the accompanying list of correspondents).

When exhausted, this letter of credit must be canceled and attached to final drafts.

Figure 28. Typical Travelers' Letter of Credit Now Used

The other side of the letter contains the statement: "Payments made under this letter of credit must be indorsed on this page and must not exceed in the aggregate............dollars, United States currency." Columns are also provided for date, paid by, amount in words, and amount in figures.

Identification of Holder of Letter of Credit

The identity of the holder is established through a specimen of his signature inserted on the front inside cover of the booklet, "List of Correspondents," issued with each letter of credit. This arrangement enables a person to carry his means of identification separate from the relative letter of credit and in case either the list or the letter is lost it is worthless to the finder. The list of correspondents consists of the names of banks and bankers in every city of importance throughout the world which will act as paying agents, and contains complete instructions with regard to the use of the letter of credit. These universal circular letters are issued reluctantly by the bank, if at all, and the traveler is asked to specify in what countries he expects to travel and is given a list of correspondents in those countries alone. The universal letter of credit contains hundreds or even thousands of correspondents as paying agents, depending upon the connections of the issuing bank.

The drafts are not drawn against these paying agents but against the issuing bank; these agents have simply agreed to honor the letter of credit and will reimburse themselves, with few exceptions, as directed on its face. When a bank's name is put into this list, the issuing bank sends it a specimen of its letter of credit, and since, as a correspondent, the newly listed bank already has on hand a current set of specimen signatures of those authorized to sign for the issuing bank, it is enabled to determine the genuineness of the letters of credit presented.

Methods and Terms of Issuance

Letters of credit are frequently issued in the joint names of two or more persons who may be traveling together, and drafts drawn by any one of them are honored by the correspondents. Letters of credit are, in the absence of definite instruction, always issued for one year. Upon request a letter of extension will be issued extending the time under which drafts may be drawn against the credit, and this letter of extension must always be presented along with the relative letter of credit.

The issuing bank prefers that the traveler take out at the beginning and carry with him a letter of credit large enough to meet all his requirements, but it provides for the issue of another letter. In case the need of another letter arises the traveler should communicate with the issuing bank directly or through friends at home in time to have a second letter forwarded to a designated place before the first one is exhausted. The first one, with a small amount unused, should be retained as a means of identification in order that the new letter may be readily delivered to the proper person. In emergencies arrangements for the issue of such additional letters of credit may be made by cable. A code, devised to meet the peculiar needs of travelers, is issued in duplicate with each letter of credit. One copy is carried by the holder and one is left at home with the party with whom he is likely to communicate by cable. The use of this code reduces to a minimum the expense incurred in such communications.

Letters of credit are issued to the public in three ways:

1. The "paid" letter of credit is issued against cash paid at the time of issue. The charges for such letter drawn in foreign currency are, say, its face amount converted at the "posted rate" for exchange, plus 1 per cent commission. The commission rate is quite uniform for all issuing banks of the Street. The posted rate is established by adding about fifty points to the cable rate; this addendum varies with the banks and conditions of exchange. If there is an unused balance, it is refunded upon the surrender of the credit.

2. A guaranteed letter of credit is issued at the request of some individual or firm, usually a bank, which guarantees that the issuing bank's charges for drafts drawn against it will be duly honored on presentment. These charges are, say, the face of the draft converted at the posted rate, plus 1 per cent commission and interest for 15 days at 6 per cent. This interest item is to reimburse the bank for the loss of interest from the time the drafts are charged to its account in London or Paris until settlement is made in New York. Either such drafts are charged to the account of the depositor and the amount advised, or the guarantor may remit upon receipt of statement for the amount of the draft.

3. A letter of credit may be issued against the deposit of marketable securities as collateral; a certain margin, say, 20 per cent, is required, depending upon the character of the securities. The same charges are made for this form as for the guaranteed form. If the beneficiary has an account with the issuing bank he will probably instruct it to debit his account with the charges; if not, he will instruct it to present them to the institution with which he has made arrangement for their protection. In the event of inability to secure reimbursement from any other source, the bank may sell such portion of the securities as will satisfy its claim. This method of obtaining letters of credit is the least frequently used.

The dollar letter of credit is also a sort of domestic letter for use in the United States, Canada, Mexico, Central and South America, and the West Indies. The conditions governing their issue are the same as prevail in the issuance of the foreign currency letters. The list of correspondents embraces the correspondents in the countries named. The common commission charge on such letters of credit is ½ per cent net to the issuing bank.

Upon the issue of a letter of credit a special letter of advice must be sent to the prospective drawee banks (in the case of the sample letter given above, the three banks in London and Paris), giving all the particulars of the letter of credit—its number, amount, date of expiration, name of beneficiary, and a specimen of the beneficiary's signature. With this information and signature the London and Paris banks are prepared to honor the drafts drawn on them under the letter of credit. The banks mentioned in the list of correspondents do not receive direct advice of each letter of credit issued, but a list of all letters issued during the preceding month is sent in the early part of every month. This list provides the correspondent with a permanent reference record of all credits issued and enables the correspondent to tell whether or not a letter of credit under which a draft is presented for payment is in order.

The Issuance of Travelers' Checks

Before the war travelers' checks were issued by American banks in denominations of $10, $20, $50, and $100, and stated on their face the exact equivalent which would be paid in the foreign currencies. These conversions were made at fixed arbitrary rates, the rates being such as would protect the issuing bank and allow it a fair profit; for instance, the sterling conversion rate was put at $4.90 plus ½ per cent, or $4.925, whereas the gold export point scarcely ever exceeded $4.8925. Although a letter of credit might be bought at the cable rate plus, say, fifty points, the buyer of travelers' checks paid at the rate of $4.90; but he bought the latter because there was greater convenience in cashing them. The letter of credit could not in general be cashed except by the correspondents mentioned in the list, but travelers' checks could be cashed anywhere by anyone willing to take them, and they were readily accepted by banks, hotels, railroads, etc. By their terms they are cashable through named correspondents, but in practice they enjoy quite general acceptability. An extensive list of correspondents is prepared by the issuing bank for use with the checks but is seldom given out because it is not needed.

Figure 29 is the legend of a sample pre-war $10 traveler's check.

When a check of this kind was cashed in America it could be used as sight exchange on New York. The check might specify other banks in other cities against which it could be used as sight exchange; the issuing bank would have made arrangements for the protection of its travelers' checks by these banks. Through the new federal reserve collection system, such checks could be collected at par almost anywhere in the United States.

When cashed abroad the checks could be used as exchange on the nearest reimbursement office mentioned in the list printed on the back of the check. The charges of the banks cashing the checks were generally 1/8 per cent, and were paid by the reim-

TRAVELERS' CHECK

(..................) Date........ Number....
Signature of Holder

$10.00

The .... Bank of New York, through its correspondents as per accompanying list, will pay to the order of .... $10.00 (ten dollars) or equivalent as follows:

United States and Canada	Great Britain and Ireland	France, Belgium and Switzerland	Germany	Italy
Dollars 10	£ 2, Sh. 0, p. 10	Fcs. 51, Centimes 25	Mks. 41, Pf. 65	Lire 51, Cen. 25

Scandinavia	Holland	Austria	Russia	In Other Countries
Kron. 36, Ore. 70	Flor. 24, Cts. 54	Kro. 49, Hel. 00	Rubles 19, Kopecks 23	At the current rate for demand sterling exchange

When countersigned with signature of holder as shown above.

When negotiated in the United States, Canada, Mexico, Central America, or the West Indies, this check is to be considered as sight exchange on the .... Bank of New York.

(.........................) The...........Bank of New York
Countersignature of Holder ....Cashier

This signature must agree with the signature of holder shown above.

Figure 29. Typical Pre-war Travelers' Check

bursement offices, which in turn charged them to the issuing bank's account with the usual additional 1/8 per cent added for themselves.

Fluctuation of exchange rates and the restrictions of war on foreign exchange business forced our bankers to limit their travelers' checks to dollar checks. These are issued in denominations of $10, $20, $50, and $100. A specimen check of this type (Figure 30) is given on page 738.

It is probable that dollar checks will prevail for years, at least until exchange fluctuations become less pronounced.

Travelers' checks are almost invariably issued against cash, the practice of issuing them against guaranty or deposited collateral is frowned upon by the Comptroller of the Currency, for travelers' checks in circulation are much like cashiers' checks. The bank enjoys the use of this cash until the drafts are presented, and interest is not allowed. The commission charged for the issue of these checks is ½ per cent.

When the checks are sold the purchaser signs his name in the space provided in the upper left-hand corner. The other spaces in the checks are left blank until occasion arises to cash them.

Letters of Credit and Travelers' Checks Issued by Interior Correspondents

The small demand made upon many of the metropolitan banks' out-of-town correspondents for letters of credit and travelers' checks does not warrant the latter in issuing their own and maintaining a special department for that purpose. Such banks avail themselves of the system whereby some big New York bank allows them to keep on hand a supply of its letters of credit and travelers' checks against trust receipt.

Letters of credit sent out in this manner are signed, numbered, and stamped with the limit amount for which they are drawn. The common limits are £200, £300, £500, £1,000, and £2,000. When an interior bank issues these letters of credit and travelers'

TRAVELERS' CHECK

Signature of owner

Date........ Number......

....

$10.00

The............ ...Bank of New York through its branches and correspondents throughout the world will pay to the order of ....ten dollars United States Currency, when countersigned with the signature of the owner as shown above.

When not negotiated in the United States, this check is to be converted into local currency at the current buying rate for bankers' checks on New York.

Countersignature of owner

The............Bank of New York

............Cashier

....

This signature must agree with that of the owner as shown above.

Figure 30. Typical Travelers' Check Now Used

checks it advises the New York bank on blanks sent to it for that purpose, and sends, in case of a letter of credit, its guaranty and specimens of the holder's signature.

The interior banks generally issue these letters of credit and travelers' checks against cash, and the New York bank allows them, say, ½ per cent commission. This commission rate has become the general allowance by the Street.

For the convenience of the numerous members of the American Bankers' Association which do not have accounts with a large reserve city bank having a system of travelers' checks of its own, the association is in agreement with the Bankers Trust Company of New York City for the issue of "American Bankers' Association travelers' cheques." These checks are issued by the Bankers Trust Company to the member bank, which sells them to its customers. The member bank is expected to charge ½ per cent commission. The member bank then advises the Bankers Trust Company of the sale, and remits in New York, Chicago, or St. Louis exchange the face amount of the checks. When the checks are to be used outside the United States a list of correspondents of the Bankers Trust Company is provided for the purchaser. The Bankers Trust Company has supplied every bank (as well as every hotel of any size) in the United States with reduced facsimile specimens of the checks and with instructions as to their encashment; the bankers are instructed to pay the holders the face amount; the checks have been accepted at the time of issue under signature of the Bankers Trust Company. Arrangements have been made with banks in twenty-four leading cities of the United States to redeem the checks, and the redemption banker in each of these cities has notified the other members of the clearing house in his city that the checks may be presented to him for redemption. In a few places these redemption arrangements do not obviate the necessity of making an exchange charge; in all such cases the face amount of the check is paid to the holder, and the charge is added to the face amount when the checks are forwarded for collection. In all cases where a charge is thus made the items must be sent directly to the Bankers Trust Company for collection with the charges added. Arrangements for encashment are also made with banks in Canada and abroad.

The interior bank may be content to write letters introducing their applicant customers to the New York bank and may sometimes offer to guarantee the letter of credit if issued or have the charges made to its account.

Method of Using Letters of Credit

Letters of credit are issued in numerical order, and the particulars are entered in a "record of letters of credit issued." The letter of credit and travelers' code are enclosed in duplicate in wallets and given to the customer, with instructions to carry the letter of credit and the list of correspondents separately, for if either were lost it could not benefit the finder. If the traveler loses the letter of credit he follows directions on the list of correspondents and advises the issuing bank's correspondent by cable; the New York bank is then cabled by the correspondent immediately for instructions. The instructions may be to stop payment, and they are relayed also to the other London and Paris banks by telegraph and sent to all the correspondents on the list by cable or telegraph. The cost of stopping payment on a letter of credit is between $40 and $50 and is charged to the holder or guaranteeing bank.

To take a concrete instance, a traveler needs funds when he has reached, say, Naples. The correspondent in that city, as named in the list, is the Credito Italiano. The traveler presents his letter there and asks payment of £100. The bank prepares a draft for £100 to its order on the London bank and presents it to the traveler for signature, which is compared with the one on the list of correspondents. If the signature is found in order the bank pays the traveler in Italian money the equivalent of £100 at the prevailing rate for sight drafts on London. The draft states on its face that it is against the New York bank's letter of credit, No......... It is sent by the Italian bank to its London correspondent for collection and credit. The London drawee bank compares the traveler's signature with the specimen sent to it by the New York bank advising the issuance of the credit; if correct, the draft is paid and charged to the New York bank's account in sterling. The drafts are enclosed in special envelopes and sent to the New York bank. The letter of credit department receives them and charges to letters of credit the total sterling amount converted at the cable rate, plus 1/8 per cent commission and six days' interest at 6 per cent.

Method of Using Travelers' Checks

Travelers' checks are issued in numerical order under each denomination, and a numerical record is kept. The traveler signs each of the checks at the time they are issued to him. The checks are carried in a folder. A traveler, let us suppose, needs funds when he reaches, say, Marseilles; he goes to the desk of the hotel and in the presence of the clerk fills in one of his $100 travelers' checks and countersigns it. If the clerk finds that the two signatures agree he pays the traveler 512.50 francs, the fixed value stated on the face of the check. The local bank in which the check is deposited by the hotel sends it to the nearest reimbursement office named on the back of the check. This correspondent charges the draft to the New York bank's account in francs. The draft is forwarded to the New York bank whose letter of credit department charges travelers' checks with the franc amount converted at the cable rate plus 1/8 per cent commission and six days' interest at 6 per cent. The difference between the amount of this charge and the $100 paid by the traveler for the check, plus the use of the money while the check was outstanding, represents the bank's profit from the transaction.

If the travelers' check had been lost the traveler would have notified the London drawee bank, which in turn would have written to the banks named on the back of the check and asked them to stop payment. On the execution of an affidavit and an approved bond of indemnity, the face amount of the check would be refunded or new checks issued in their stead. Obviously the readiness to accept travelers' checks makes forgeries and frauds easier than in the case of letters of credit. Sometimes the issuing bank undertakes to protect certain of its paying agents abroad against any loss to them from paying forged or raised travelers' checks.

The rapid fluctuations in exchange rates since the war forced the banks to withdraw temporarily from travelers' checks the fixed equivalents at which they were accepted abroad, and they were paid at the current rates for the day of presentment. This necessity for conversion of dollars into foreign currency deprived travelers' checks of much of their convenience, for the hotels and shops had no means of determining the proper equivalents which they could safely pay. To meet this difficulty the Bankers Trust Company has arranged that the checks sold by members of the American Bankers' Association on it can be exchanged in London, Paris, or other city for like checks stamped with the equivalent in sterling, francs, or other exchange, based upon the exchange rates the date the checks are exchanged. This arrangement makes it possible to enjoy the best rates of exchange that the market allows and also to have checks in the currency of the land in which the traveler moves.

Letters of Credit Issued by Foreign Banks

The department handles three sorts of credits issued by foreign banks:

1. The Universal or Circular Letter of Credit. This is similar to the credits issued by the New York bank described above. The issuing bank sends a special advice with a specimen of the

holder's signature to the bank named as the reimbursement office.

2. The Specially Advised Credit. This is generally addressed to a single bank and the amount of the credit is available at that bank alone. Sometimes they are addressed to several banks, the names of some of the New York bank's interior correspondents having been added; in such cases the issuing bank usually sends a special advice direct to these interior banks and at the same time asks the New York bank to confirm the advice to the interior banks selected.

3. Accreditives. These are orders to hold a certain sum of money at the disposal of a person who will call and draw it out as needed. A specimen of the signature of such persons is usually sent with the letter opening the credit. These orders are to pay under various conditions; some are payable on demand, and others are payable in instalments, as daily, weekly, monthly, or quarterly.

The procedure in making a payment under a foreign letter of credit is, first, to ascertain whether the credit is in order by having the signatures verified and noting the expiration dates, etc. The manner of reimbursement must then be determined. In the case of an advised credit the instructions usually are to take original and duplicate receipts and charge the amount to the issuing bank's account. If this is the case, the receipts are prepared and the traveler signs them; the signatures are compared with the specimen and, if correct, the amount of the payment is indorsed on the credit and the credit is returned to the traveler. The duplicate receipt is signed by the department head and by an officer and is taken to the paying teller, who gives the department money to pay the beneficiary. A record is kept of all such payments. Tickets are then prepared charging the issuing bank's account and crediting the paying teller. Finally a form letter is prepared advising the issuing bank of the charge and enclosing the original receipt.

Records of the Department

The records ordinarily kept in such a department consist of the following:

1. For letters of credit issued by this bank:
   (a) A card index of beneficiaries, alphabetically arranged, containing sufficient information to enable the department to reply immediately and intelligently to inquiries about the identity of the beneficiary or the nature of the transactions with him.
   (b) A list book, being a record of all tickets made out for drafts drawn under letters of credit. Entries are made from this into the journal.
   (c) Journal.
   (d) Ledger.
   (e) Record of letters of credit issued, containing a complete description of each letter of credit: number, amount, date, date of expiration, terms under which issued, specimen of holder's signature, whether ever held under trust receipt, drafts drawn under it.
   (f) Letters of credit held under trust receipt, a record of the letters of credit held in trust by interior correspondents.
   (g) Letters of credit guaranteed, a record showing the letters guaranteed by any firm, the amounts for which issued, and the date of expiration.
2. For travelers' checks:
   (a) Journal.
   (b) Ledger.
   (c) Numerical record of travelers' checks, being a full descriptive record of travelers' checks issued, with a book allotted to each denomination.
   (d) Record of travelers' checks held under trust receipt, giving those held by interior banks in trust.

3. For letters of credit of other banks:
   (a) A book containing a record of accreditives opened and letters of credit drawn on the bank by foreign banks.
   (b) A book containing a record of letters of credit issued by domestic correspondents in which this bank has been named as the reimbursing office.

CHAPTER XL

THE GENERAL BOOKKEEPER'S DEPARTMENT

Importance of Bank Bookkeeping

In no other line of business is exact and comprehensive bookkeeping so absolutely indispensable as in banking. Accuracy is enforced by business necessity and by government or voluntary regulation, and the necessity is intensified as the size and scope and number of banking operations increase. Banking is such a sensitive business and so intimately bound up with commercial, industrial, agricultural, social, and political life, and one bank with another, that credit extensions based on remote, false, loose, or misleading accounting are a positive menace to public welfare. Good accounting is essential to efficient administration; the departmentalization of routine operations means the delegation of duties and responsibilities, and interdepartment accounting serves as an efficient check on losses which may arise from forgetfulness, carelessness, or dishonesty in any department. Moreover the president, executive manager, or cashier can manage the bank as a unit and carry out his approved policies when he has inclusive, full, and up-to-the-minute information as to the conditions of his institution.

Accounting serves several ends: It keeps a chronological record of the banking transactions which affect the rise or fall of values; at any given instant it presents a correct exhibit of the financial status of the concern as to its resources and liabilities; and it shows the results obtained during a given period of time as to profits or losses. The chronological record is kept in order that the statement of condition at any instant and the statement of gains and losses over a period may be accurately determined. The keeping of this record and the preparation of these statements are the functions of the general bookkeeper.

Development of Accounting Methods

Since the fundamental operations are alike in all banks regardless of size, the bookkeeping methods in all have a certain similarity; the differences arise in the degree and ways in which the bank is departmentalized and the books split into co-ordinate parts and certain accounts handled in specialized books ancillary to controlling books. The larger the bank and the larger the department and the more diversified its operations, the greater the subdivision of the books among specialized clerks. In every case the bookkeeping is adapted to the particular bank, and a description of the scheme used in a large bank does not in detail fit a small bank, nor that of a country bank fit a metropolitan bank; only to a certain degree are they standardized.

One powerful factor forcing somewhat uniform accounting systems among banks is government supervision; this supervision can be efficient only as the accounting is detailed, careful, intelligible to the examiners, and comparable as between banks and as between different periods. When the government, central bank, or clearing house requires frequent reports of condition, the banks find it financially profitable to keep their records in such a way as will allow the easy preparation of these reports.

Another factor that is bringing about uniform accounting methods is the use of machines and other labor-saving devices. The manufacturers of such articles can find a wide market only when uniform methods obtain among the banks. They have therefore devised bookkeeping systems which are as simple and perfect as they can be made, and have striven to have them adopted as widely as possible. Of course, such systems include the use of particular machines and other devices. The combinations of typewriters and computation machines are indeed most ingenious. The machine method of bookkeeping also promotes the use of the loose-leaf book.

To a considerable degree each bank has worked out a system of records adapted to its peculiar needs. The system is an historical growth; it has evolved by the process of trial and improvement. Sometimes an expert accountant is employed to overhaul completely the accounting system, but even his perfected scheme does not annihilate the individuality of the bank's system. A detailed description, therefore, of the bookkeeping system of any one bank is not of much help in understanding the system of any other bank; but it seems best to give somewhat roughly the scheme of a large metropolitan bank rather than of a small and possibly one-line bank. Given a general description of the more comprehensive system, adjustments and adaptations to simpler conditions can be readily made.

Classes of Records

The books kept in any bank are of two general kinds: (1) the corporate records, and (2) the financial records.

The corporate records are those kept by every corporation, and are born of the fact that the bank is a corporation. They include the stock ledger, the minute book, the stock certificate book, and the stock transfer book.

The keeping of these is not an essential part of the general bookkeeper's department; in fact, few of them are usually kept there, though one commonly kept there is the stock ledger or register. In this register is kept a record of the date of transfer of stock, the canceled certificate number, the new certificate number, the number of shares of stock, to whom transferred, and the date of cancellation; an account is kept for each stockholder of record, and the sum total must equal the Capital Stock account in the general ledger of the bank, that is, the amount of capital stock authorized and issued.

The stock transfer journal, which is kept only by banks whose stock is active, contains a record of the transactions day by day and is posted into the stock ledger. The stock certificate book consists of stock certificates and stubs giving the name of the stockholder, date, number of the certificate, number of shares, name of the transferor, and the signature of the transferee. If the bank acts as its own transfer agent, these books, together with the stock transfer book, may be handled by the transfer department.

The minute book contains a chronological record of the corporate affairs of the bank. It is kept by the cashier, who acts as secretary of the board of directors and records all matters transacted by the board, such as the election, terms and compensation of officers, the issue of capital stock, the declaration of dividends, the amendment of the by-laws, the passing upon loans, the votes on important motions, resolutions adopted or rejected, reports on examinations, etc.; the stockholders' meetings are also recorded in the same manner.

The financial records are the second kind of books. These records are in a sense divided into three groups. In the first group are the books of original entry and ledgers found in the various departments of the bank and from which the department proofs are prepared. In the descriptions of the various departments discussed in this and the following volumes each book has been described and its place in the department shown. For instance, in the customers' securities department were found the securities received book, the securities delivered book, the bond number book, the order book, and others, and their uses were explained.

The second group of books is used in connection with the work of the check desk department, where the accounts current, both personal and impersonal, are handled and various debits and credits to the several accounts are made.

The third group is kept by the general bookkeeper's department and consists of the *controlling* books of the bank. The first and second groups are antecedent, preparatory, and adapted to these controlling books. The whole process is one of concentration and summation into the general ledger of the bank. The division of the books between the check desk bookkeepers and the general bookkeeper as described in this volume is, of course, so arranged because it facilitates the work, and it is a common arrangement in the large metropolitan banks; in smaller banks the books would all be kept in the general bookkeeper's department.

Organization of the General Bookkeeper's Department

The general bookkeeper's department must be handy to the active departments of the bank and to the cashier; inquiries come all day long to the general bookkeeper from the department heads and bank officials, for information about matters which are in the general bookkeeper's custody. It is, therefore, necessary that this department be located within easy reach of the more frequent inquirers. If a large department, certain statistical, filing, and other subdivisions of its records which are less frequently referred to, may be located in more out-of-the-way places.

The work of the general bookkeeper's department is divided, on the basis of the books kept, among more or less specialized clerks. The general ledger clerk, with one or more assistants in the busy morning hours, handles the general ledger and other related books, such as the statement book, the suspense ledger, the weekly averages book, the borrowed bond book, the rent book, etc. The general journal and the handling of the double tickets require a number of clerks most of the day. The interest balance book and interest disbursement book are likely to be kept by the same set of clerks and to engage their time for a good part of the day. The various other books require fewer clerks each, and the keeping of one or more may be assigned to one clerk or a set of clerks. The objects in view are to fix responsibility, to expedite the work that requires immediate attention, to keep the clerks usefully employed at a fair proportion of the total work, etc.

The most important, most comprehensive, and the controlling book of the bank is the general ledger. To facilitate posting to this ledger a recapitulation book is kept, and extracted from this ledger is the statement book for the daily use of the officers. The size of the general ledger is very much reduced by keeping special books for certain accounts which have voluminous entries, and by carrying their totals to the general ledger. Furthermore, the special books can be adapted to the peculiarities of the account and in this way a much fuller record kept. With this idea in mind, clarity of presentation will be served by describing some of these ancillary books before the ledger and statement books.

The Cashier's Check Book

Every cashier's check drawn in the bank must be accompanied by an offsetting credit. The initial record is made from the credit ticket which bears the number of the check issued, the name of the party to whom drawn, and the amount. In the cashier's check book there are columns of record as follows: date paid, to whom drawn, number of the check, amount paid, amount drawn, date drawn, and remarks.

As a department issues a cashier's check, it affixes its initial, for example:

B for bond department.
D for discount department.
L for loan department.
GB for general bookkeeper.
S for customers' securities department.

Upon presentation of the cashier's checks, they are sorted first alphabetically and then numerically, the indorsements are carefully examined and passed upon, and due care is exercised to see that the amount and the name upon the face of the check agree with the book record. The credit is then charged out and the checks canceled and filed. The total of checks drawn are proved each day against the general ledger. The outstanding cashier checks would be proved, say, weekly.

Checks issued by the mail teller and returned by the clearing house are treated in the same manner as cashier's checks. A record is kept showing the date issued, the number, the amount, and the date paid.

Certificates of deposit may also be recorded in the cashier's check book. These are of two kinds and the entries differ: The *demand* certificates are entered by date issued, date paid, number, interest to and including, amount, deposited for, deposited by, and remarks; and the *time* certificates are entered by date issued, number, payable to, amount, auditor's check rate, interest, paid to and including, notice of withdrawal, number of days and date, due, paid, transfer to demand deposits, and remarks

The Expense Ledger

The expense ledger, which, as its name implies, classifies and records the various items of bank expense, is a very useful book of record in a large institution where the control of expense is a difficult but important matter. The ledger is so arranged that under the proper date a detailed record of every expense transaction can be noted and the same amount extended under the heading to which it belongs. These extended amounts are totaled and proved and then recorded upon comparative monthly expense sheets. They are also used in further analytical computations.

Expenses are commonly divided under two heads, the building expenses and the operating expenses. The subdivisions of the building expense include such items as advertising, alterations, electric light and power, insurance, maintenance of lighting, repairing (elevator, machinery, miscellaneous), salaries (superintendent, help), steam, supplies (engineer's, superintendent's), etc. The subdivisions of the operating expenses include advertising, cab hire, carfare, cartage, clearing house membership, directors' fees, examinations, expressage, furniture and fixtures, insurance, lunches (food, help, supplies, utensils), mechanical equipment, maintenance and repairs, postage, professional services, rent, salaries (officers, clerks, superannuated), special services, stationery, surety bonds, syndicates, telegraph and cable, telephone, traveling, revenue stamps, etc.

All bills against the bank are presented to the general bookkeeper's department for payment, but a thorough auditing of the bill is made before payment is allowed. It is absolutely vital to have a proper authorization for the liability which the bill presents. This having been procured, the items and computation of the bill are checked, figured, and approved, and, if found correct, the bill is submitted for payment. As a final precaution the bill is inspected to make sure of its correctness as to heading, discount allowance, and authority, and, if it successfully passes, this inspection, it is paid by cashier's check.

Taxes

Among the expenses of the bank are taxes. Because of their number and variety these are often recorded in a special book, although they may be handled as an item of operating expense in the expense ledger. The following taxes are paid by a national bank in the state of New York:

1. *The Tax on Circulation.* The circulation tax applies only to national banks, for a prohibitive 10 per cent tax is laid by the federal government on the issues of state bank notes. National banks are required to pay ¼ per cent tax on the average amount of their outstanding circulation if secured by United States 2 per cent bonds, and ½ per cent tax on the average circulation secured by other United States bonds. The tax is payable in the months of January and July. Ten days after the first day of these months each bank is required to make a return, under oath of

its president or cashier, to the Treasurer of the United States, of the average amount of its notes in circulation for the six months preceding the first day of January or July. The tax applies only to those notes strictly outstanding in circulation. Payment may be made by depositing the amount of the tax to the credit of the Treasurer of the United States, either with the Treasurer or with any federal reserve bank or national bank depository; if no depository is convenient, payment may be made by draft on New York or by shipment of lawful money or national bank notes.

The expenses incurred by the Comptroller in counting, canceling, or destroying mutilated notes and their expressage to Washington are assessed against the issuing bank annually as of June 30.

2. *Tax on Capital Stock.* Section 5219, U. S. Revised Statutes, denies the state in which a national bank is located the right to tax a national bank as such at all, but permits it to tax the shares of stock of that bank as personal property of the owners; the legislature of the state may fix the manner and place of taxing such shares, subject only to two restrictions: (1) that the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of the state; and (2) that the shares of a national bank owned by nonresidents of any state shall be taxed in the city or town where the bank is located, and not elsewhere. The result of this law has been to effect a great uniformity of tax methods as applied to banks; the legislatures find themselves in practice restricted to one method of taxing the national banks; national banks cannot be subjected to an income tax upon corporations imposed by the state nor to a license tax in the shape of a privilege or occupation tax; and the limitation that the stock of national banks shall not be discriminated against as compared with other moneyed capital, "has been strictly interpreted as virtually (though not expressly) to mean that this method of taxing national banks is

legal only in case other banks are taxed in practically the same way."[1]

The courts are not in full agreement as to the meaning of "moneyed capital" in the statute. The bank shares are taxed by local officers under the general property tax or under some uniform method prescribed by the legislature. The latter system is the better and is best exemplified in the state of New York. The system may be described as follows: Each bank must report annually to the assessors of the local tax district the names of the stockholders, their addresses, and the number of shares of stock owned by each, the capital, surplus, undivided profits, and other data. These local assessors make the assessment on the owners in the tax district where the bank is located, regardless of their individual places of residence. The method of arriving at the value of the share is prescribed by law. The sum of the capital, surplus, and undivided profits is divided by the number of shares. The law also prescribes the rate of tax at 1 per cent of this assessed value; and it requires the bank to act as agent of the state in the collection of the tax, paying the tax out of its profits and holding a lien upon the shares of stock or other property of the stockholder in its hands. This tax is the only tax allowed in the state on the shares of stock; it is paid into the county treasury and distributed among the tax districts on the basis of their tax rates. It is assessed as of May 1, and payable on or before December 31.

3. *The Real Estate Tax.* The above cited federal statute also permits the state, county, and municipality wherein a national bank is located to tax the real property of the national bank to the same extent according to its value as other real property is taxed. In the state of New York the bank's real property is subject to local taxation and no deduction is allowed from the tax on the value of the shares of stock on account of these taxes on real estate. The 1 per cent tax on shares of stock is so far

[1] American Economic Review, Dec. 1916, p. 854.

below the general property tax rate that this double taxation is deemed to work no great injustice. This tax is payable semiannually.

4. *The Federal Capital Stock (Excise) Tax.* By the law of 1918, domestic corporations are subject to a tax of $1 for each full $1,000 of the average fair value of the capital stock for the year preceding the taxable year in excess of the exemption of $5,000. By reason of the low rate and the exemption, the total tax is not excessive. The average fair value is determined from the book or fair value of the assets, the market value of the shares, and the value of the capital stock based on capitalized earnings. Since the value of the stock depends on earnings the tax amounts to a duplication of the income tax. The capital stock tax is an allowable deduction from the gross income in determining the net income subject to the income and excess profits taxes. The tax is due in advance, and the tax returns due in July cover the average value of the capital stock from July 1 to June 30 of the preceding fiscal year.

5. *The Income Tax.* Under the Act of February 24, 1919, effective as of January 1, 1919, the normal rate applying to the taxable income of a citizen or resident of the United States is 8 per cent (4 per cent on the first $4,000), and applying to the taxable income of corporations is 10 per cent. All individual incomes in excess of $5,000 are subject to surtaxes, which range from 1 to 65 per cent, the highest rate applying to the portions of the incomes exceeding $1,000,000. The maximum total rate applicable to 1920 incomes is 73 per cent. Corporations are subject to the flat normal tax of 10 per cent but not to surtaxes.

The tax is imposed on the net income of the corporation. The gross income includes earnings from business, profits from sales of property, interest, rents, royalties, dividends, and so forth, less deductions for business expenses, losses, interest, taxes, depreciation, and so forth. In order to arrive at the net income of a bank from the full amount of gross income, which consists of the total revenues derived from the operation and management of the bank's business together with all amounts of income from other sources, the following deductions are made:

(a) The total amount of all ordinary and necessary expenses paid within the year in the maintenance and operation of the business and properties of the bank, exclusive of interest payments.
(b) The total amount of losses sustained during the year not compensated by insurance or otherwise.
(c) The total amount of interest paid on deposits.
(d) The total amount of interest received upon obligations of a state or political subdivision thereof, and upon obligations of the United States or its possessions, which are exempt from taxation.
(e) The total amount of taxes paid during the year imposed by authority of the United States or any state or territory thereof.

6. *Excess Profits Tax.* The excess profits tax law provides for taxes upon the net income of corporations, partnerships, and individuals, in excess of certain prescribed deductions, realized from trades, business, professions, and occupations. It is a graduated tax, the first bracket of which provides a rate of 20 per cent of the amount of the net income in excess of the excess profits credit and not in excess of 20 per cent of the invested capital; and the second bracket provides a rate of 40 per cent of the amount of the net income in excess of 20 per cent of the invested capital. The excess profits credit consists of a specific exemption of $3,000 plus an amount equal to 8 per cent of the invested capital for the taxable year. If the full amount of the excess profits credit is not allowed under the first bracket by reason of the fact that such credit is in excess of 20 per cent of the invested capital, the part not so allowed is to be deducted from the amount in the

second bracket. The tax may not in any case be more than 20 per cent of the amount of net income in excess of $3,000 and not in excess of $20,000, plus 40 per cent of the amount of the net income in excess of $20,000.

7. *Tax on Undistributed Net Income.* In addition to the income and excess profits taxes, banks are subject to the tax of 10 per cent upon the amount of the total net income remaining undistributed six months after the end of the calendar or fiscal year. The tax is not imposed upon that portion of the undistributed net income which is actually invested and employed in the business or is retained for employment in the reasonable requirements of the business. The purpose of Congress in passing this law was to prevent corporations from defeating the income tax laws by simply refraining from distributing their earnings, the corporation not being subject to surtaxes as are the individual stockholders on dividends received. Congress did not attempt in such cases to collect a surtax from stockholders but imposed an additional flat rate tax on the corporation itself. In order to be taxable the accumulation of earnings must be with the purpose of evasion of the tax and must be unreasonable in amount. The government permits without tax the retention in the business of profits enough for the reasonable present need and for a prospective need within the reasonably near future.

8. *Stamp Taxes.* The War Revenue Act of October 3, 1917, imposed numerous stamp taxes, some of which vitally affect banking operations. These went into effect December 1, 1917. Among the many items and tax rates specified, the act requires that stamps be affixed to bonds, debentures, or certificates of indebtedness issued on or after that date by any person, corporation, partnership, or association; on each $100 of face value or fraction thereof, a 5-cent stamp; on all indemnity or surety bonds, a 50-cent stamp; on original issues (on organization or reorganization) of capital stock, on each $100 of face value or fraction thereof, a 5-cent stamp; on all sales, or agreements to sell, or

memoranda of sales or deliveries of, or transfers of legal title to, shares or certificates of stock, on each \$100 of face value or fraction thereof, a 2-cent stamp; on drafts or checks payable otherwise than at sight or on demand, promissory notes, except bank notes issued for circulation, and for each renewal of the same, for a sum not exceeding \$100, a 2-cent stamp, and for each additional \$100 or fractional part thereof, a 2-cent stamp; on all conveyances—deeds, instruments, or writings—of real property sold, for value exceeding \$100 but less than \$500, a 50-cent stamp, and for each additional \$500 or fractional part thereof, a 50-cent stamp; on powers of attorney, a 25-cent stamp; and for parcel post packages, on which postage amounts to 25 cents or more, a tax of 1 cent for each 25 cents or fractional part thereof charged for postage.

Borrowed Bond Books

Since only United States bonds are accepted by the Treasury as security for national bank notes, banks find it convenient at times to borrow and lend these bonds rather than to buy or sell them outright. Borrowing and lending of bonds may, of course, have other occasions and be concerned with other than United States bonds. The records of these operations are kept in special books. In the case of bonds borrowed by the bank, record is kept of the parties from whom it borrows, the date of their receipt, the owner of the bonds, description, amount, rate, time, interest paid to, and date returned. When bonds are borrowed, receipts are made in duplicate, the original is handed to the loaner, and the duplicate filed in the department. Interest for the use of the bonds may be payable quarterly or in instalments, as agreed upon. Interest is figured on the amount of the securities, for the number of days in the quarter, at the rate per annum which has been agreed upon, and payment is made by cashier's check or sometimes is credited direct if the party owning the bonds has an account with the bank. A descriptive record is likewise kept of bonds loaned, showing to whom loaned, date, classification, amount loaned, amount returned, and date returned.

A second book contains a record of the changes in the United States bonds to secure circulation. These changes embrace:

1. A substitution of 2 per cent bonds for other than 2's, or the reverse.
2. A deposit to retire circulation, thereby permitting the bank to retake some of its bonds.
3. An application to increase its circulation, which necessitates putting up more bonds.

The Interest Balance Book

The entries in the interest balance book are made by the interest clerk from interest statements. These statements are taken off by the individual ledger bookkeeper, and, to make sure of their correctness, may be checked against the original posting on the general ledger by the interest clerk. In the largest Wall Street banks the number of such statements checked in this way daily reaches several thousands. When remittances are received for the credit of any accounts which are on a special interest basis, they are carefully checked to detect any errors in posting. The transit department prepares and provides a list for this purpose, showing the non-interest items. A card file is kept of the terms under which interest is paid to each correspondent.

The method in general use among New York banks for computing interest on daily balances is as follows: to deduct from the balances at the commencement of business each day all drafts paid against the account; to credit all remittances to an account immediately upon receipt, but not to enter the interest balance until the following day, thus allowing time to collect the remittances and convert them into loanable funds; in case of remittances which include country items, to defer the interest on any such items for the number of days necessary to collect them.

After the interest statements have been checked and entered, the interest balance book is footed to determine the total amount of the balances upon which interest is due and the amount of interest payable daily. The interest period on balances will be set by the bank, say, from the 26th of one month up to and including the 25th of the next month. In such case, on the 26th of the month, after the interest statements have been footed by the bookkeepers and proved by the interest clerk, they are turned over to the general bookkeeper, who, with the assistance of everyone else in the department, figures the interest on each statement. After the statements are checked for special interest arrangements and proved, they are listed on posting sheets, footed, proved, and called back, and on the last day of the month the posting sheets are sent to the bookkeepers.

The interest statements are carefully scrutinized to detect any large decrease in the balance of the account, and where an account is found to be running down it is turned over to the analysis department for investigation.

The Suspense Ledger

When the bank sustains a loss, it is charged to Suspense and the proper entries with a description and a record of all collateral security are made. If the probability of prolonged litigation makes the recovery of the loss a matter of the indefinite future, the amount is charged to Profit and Loss, and Suspense is credited. If an early settlement in full is expected, items placed in Suspense are sometimes not charged out immediately.

The usefulness of the suspense ledger may be illustrated as follows: Suppose bank X owing bank Y fails and is put into the hands of a receiver, and that bank Y has a long list of bills receivable as collateral for the loan. These receivables are paid off by instalments, and as each instalment is paid the receiver is at once notified. The mass of this detail must of necessity be very accurately kept by Y, for when the final liquidation of X is made Y is called upon to file a proof of claim, and much depends upon the records Y has kept to show the original loss, the payments received, and the receivables still uncollected.

The General Journal

All double tickets made by any department of the bank are sent to the general bookkeeper's department after they have been approved and signed by an officer or someone else having the necessary authority. These tickets are numbered and listed on the journal sheets under their proper ledger titles and are sent to their respective bookkeepers. A double ticket (Figure 31) consists of a debit side and a credit side separated by a perforated line; the two sides are usually printed in different colors to prevent confusion, and a color scheme may be used to indicate the department of origin.

The. . . . . .Bank	The. . . . . .Bank
of New York	of New York
No. ( )	No. ( )
New York *(date)*	New York *(date)*
Charge *(debtor)*	Credit *(creditor)*
$( )	$( )
Signed: *(Cashier)*	Signed: *(Cashier)*

Figure 31. Double Ticket for General Bookkeeper's Department

The journal sheets are then totaled and proved, and the proof is handed to the recapitulation clerk. The proof (Figure 32) is somewhat as shown on page 763.

The Recapitulation Book

The recapitulation book is divided into debit and credit and ruled in columns somewhat as follows:

General
Cash
Personal, A–F, G–O, P–Z
Impersonal, A–B, C–D, E–H, I–M, N–P, Q–S, T–Z

National, A–C, D–H, I–M, N–P, Q–S, T–Z
Trust Companies and Savings Banks
Foreign, A–B, C–G, H–L, M–O, P, Q–S, T–Z
"Our Accounts," Foreign, Domestic

Dr.	GENERAL JOURNAL PROOF	Date........ Cr.
	General Accounts:	
	Cash Account	
	Personal Accounts:	
	A to F	
	G to O	
	P to Z	
	Impersonal Accounts:	
	A to B	
	C to D	
	etc.	
	Nat'l Bank Accounts:	
	A to C	
	D to H	
	etc.	
	State Bank Accounts:	
	A to H	
	I to N	
	O to Z	
	Trust Companies and Savings Banks:	
	....	
	Foreign Accounts:	
	A to B	
	C to G	
	etc.	
	"Our Accounts"—Foreign	
	"Our Accounts"—Domestic	

Figure 32. General Journal Proof

The object of this book is to condense posting into the general ledger. A very necessary and helpful work to this end is the assembling and recapitulating of the proofs of the second, third, fourth, fifth, and foreign tellers, general journal, the certification department, the check desk, and the transit department. These proofs are supposed to be given to the general bookkeeper's department early each morning. They represent, in total, the extent to which the general ledger accounts have been affected by the preceding day's transactions. Descriptions of these proofs are given under the respective departments in this and the remaining volumes.

The General Ledger

The general ledger is the controlling book of the bank. It contains the same accounts as the statement book, with the exception that in some cases the accounts are subdivided.

The ledger clerk begins his day's work by posting the debits and credits to their respective accounts. These postings are made from various sources. The balances on the general ledger are then extended, proved, and copied into the statement book.

There is also kept in the general ledger a detailed statement of certain items, such as Capital Stock, Surplus, Profit and Loss, Bonds Borrowed, Bonds Loaned, Discount, Interest, Rent, Exchange, Commission, Losses Recovered, Tax Reserve, Interest Reserve, National Bank Notes Outstanding, the 5 per cent Fund, Demand Certificates of Deposit, and Back Dividends. These accounts are proved to the general ledger once a week, and oftener if possible; certain other accounts may be subdivided in ledgers and proved monthly or weekly, such as Expense, Bond Earnings, Suspense, Cashier's Checks, etc.

Different departments of the bank furnish ledger proofs of the individual, bank, trust company and savings bank, and collection ledgers, and also proofs of all bond accounts, loan accounts, foreign division accounts, and bills discounted accounts, and these are checked against the general ledger.

The debit and credit tickets are posted to the various accounts of which accounts current are kept. These items are fully described, and in such a way that they can be easily traced at any time.

The ledger clerk devotes much time to collecting debit and credit journal tickets, which he proves against the general journal, and to collecting credit tickets of the third, fifth, and foreign tellers, which he proves against the joint total of the third, fifth, and foreign tellers' proofs.

The Statement Book

In the statement book every account in the general ledger is represented, and it shows at a glance not only the condition of each account but also, on closer examination, the condition of the bank as a whole. For example, the amount of money loaned (with or without collateral), the amount invested, amount of cash on hand, amount of cashed checks out for collection, amount used by the different departments, expenses, profits, reserves, deposits, and the total assets are shown separately. These figures are so arranged as to facilitate the work and to impart as readily as possible the information sought. To be of value to the officers, the statement book must be complete when wanted, for the bank's capacity to make loans depends entirely upon the condition of the reserve. For instance, a credit balance at the clearing house, after the exchanges each morning, increases the loaning power of the bank, and a debit balance decreases it.

Bank Reports

From the general ledger or the statement book are prepared numerous reports and these books should be so devised as to facilitate this work. Some of the principal reports of a member bank in New York City are as follows:

I. To the Comptroller of the Currency:

1. A report of the condition of the bank at the time of "calls," which come not less than five times a year. These reports, the

most complete and extensive of all, must be published by the banks themselves. and their combined totals are published by the Comptroller in his "Abstracts of Condition."

2. Special reports whenever in his judgment they are necessary to a full and complete understanding of a bank's condition. In connection with special investigations of some feature of banks in general or of some bank in particular it is sometimes necessary or advisable to require special reports.

3. Reports, within ten days after declaring any dividend, of the amount of such dividend, and the amount of net earnings in excess of such dividend. These reports are divided into three sections dealing with: (a) the profits realized and the amounts charged off during the period since the last report; (b) the net profit or loss of the current period, the undivided profits or losses, if any, of previous periods, any amount withdrawn from surplus, authorized reduction of capital not repaid to stockholders, paid assessment for impaired capital since the last report, and any voluntary contributions to surplus or profits since the last report; and (c) the total money received from all sources and its distribution into surplus fund, dividends declared, and undivided profits on hand.

II. To the Federal Reserve Bank:

1. State member banks are required to make not less than three reports of condition at the call of the federal reserve bank on dates to be fixed by the Federal Reserve Board. They are also required to report the payment of dividends. In the amendments of June 21, 1917, to the Federal Reserve Act, the concession was made to the state banks to report to the federal reserve bank rather than to the Comptroller and to have the date of call fixed by the board.

2. Weekly reports of condition are asked from member banks in a selected list of 100 leading cities. To understand better the condition of the banks and the market and the effects and workings of the Treasury war finance operations, these weekly reports

were devised in the latter part of 1917. The report covers the United States securities owned, loans secured by United States bonds and certificates, all other loans and investments, reserve with the federal reserve bank, cash in vault, net demand deposits on which reserve is computed, time deposits, and government deposits.

3. A daily report of banks in the financial district of New York City (required by the Federal Reserve Bank of New York) covering the following items: balances of out-of-town correspondents, call loans of this bank, time loans for out-of-town correspondents, time loans to brokers, paper eligible for discount at the federal reserve bank, items eligible for use as collateral to government deposits, and the bank's reserve position. This report was also born of war finance exigencies.

III. To the Clearing House:

1. A report of condition at the close of business on each Friday. From these reports the weekly summary of the condition of the clearing house member banks is prepared for the public press. The report covers the following in detail: loans, discounts, and investments; cash in own vaults—gold, legal tenders, silver, national bank notes, and federal reserve notes; reserve in federal reserve bank; gross deposits; net demand deposits; time deposits; circulation; United States deposits; bills payable and rediscounts with federal reserve bank; per cent of reserve to net demand deposits in federal reserve bank; per cent of reserve to time deposits in federal reserve bank. To assist in the preparation of this report, the general bookkeeper's department keeps a "weekly averages book," which contains a condensed record of every resource and liability of the bank and is very useful in making up comparative figures.

2. A monthly supplementary statement to the department of inspection and examination. It covers bills payable; rediscounts; certificates of deposit, officers' checks, or other similar obligations, issued for the purpose of borrowing money; assets

sold with agreement to repurchase; the bank's own time drafts issued and outstanding; money borrowed in other forms; unused commercial and travelers' credits issued or guaranteed, for which payment has not been received; acceptances made for the bank's own account under commercial and clean credits guaranteed; loans held for customers, payment of which has been guaranteed; loans held for customers, payment of which has not been guaranteed; amount of the bank's own foreign and domestic acceptances.

IV. To the Bank's President or Cashier:

1. Certain books of record, which show important figures in thousands daily, averaged for the month and year. These constitute a ready reference for comparative figures.

2. Special reports of various kinds.

3. A "scratch statement" which is a forecast of the daily statement, prepared from statements of the net changes in loans and discounts, securities, cash, reserve, net demand deposits, capital, surplus, profit and loss, expenses, discount, interest, commission, rent, exchange. These net changes are furnished to the general bookkeeper by each department as early as possible every day. Cash paid and cash received, and large single receipts or payments are given with considerable detail and description.

V. To the State Department of Taxes and Assessments:

1. A yearly statement, showing the authorized capital stock, number of shares, par value of shares, amount of capital paid in, amount of surplus and undivided profits, and a complete list of the names and places of residence of the shareholders and the number of shares owned by each. Such a statement would be required, of course, only in states levying a tax on the capital shares of banks, as is done in New York.

Card Files

In the general bookkeeper's department are filed such documents as powers of attorney, resolutions, contracts, surrogates' certificates, comptrollers' waivers, attachments, wills, and certified copies of wills and guaranties or bonds of indemnity, and also certain correspondence and forms of the Comptroller of the Currency, the federal reserve bank, and the clearing house. The various papers are indexed on cards and are described as to date received, parties represented, date canceled, and general remarks, and the cards are filed alphabetically under each classification. Each card is numbered, and the papers referring to it are placed in an envelope bearing the same number and are kept in the safe.

CHAPTER XLI

THE AUDITING DEPARTMENT

Qualifications of Bank Auditor

An auditor is a person or firm appointed and authorized to audit or examine an account or accounts, compare the charges with the vouchers, examine the parties and witnesses, allow or reject charges, and state the balance. The audit may be made by an auditor (or auditing department) who is a regular employee, or by an independent auditing firm of public accountants. In a bank, as in other businesses, the auditor or auditing department has as its essential function the verification of, and systematic control over, disbursements. It is not an earning department, and to a large degree, except as it may co-operate with other departments, is not an operating unit of the bank; it may be constructive, however, for while performing its routine or periodic duties it is in a position to suggest changes tending to reduce errors to a minimum and to improve the system in general.

The auditor comes into intimate contact with every department of the bank, and must, therefore, be conversant with the technique, practices, and functions of every department; he must be an experienced bank man, preferably one who has risen from the ranks and who knows the bank. It is also essential that he be a highly competent accountant, whose analytical skill detects and brings to light frauds, errors, and improprieties and whose constructive genius enables the accounting of the bank to reach a maximum of efficiency with a minimum of cost. If the bank has a chief accountant and accounting department, the auditor is relieved of much of this constructive accounting work. No less important is it that he be a man of high moral rectitude and courage, as the final arbitrament of the propriety of a charge against the bank, its officers, or customers, is made by him, or at least the decision whether to report and reprove and correct irregularities rests with him. An auditor with these virtues is a tower of strength to any bank.

Duties of Auditing Department

The general duties of the auditing department may be divided into two groups: (1) those concerned with the daily routine of investigation and verification, and (2) those concerned with the periodic general examination of departments. The first group embraces, among others, the reconciling of accounts; the adjustment of errors; the supervision of the handling of requests for information by the national and state bank examiners; the making of special investigations and the compiling of statistical information for the official staff of the bank; the checking to the accounts current sheets and the filing of paid checks drawn on the bank itself; the copying of statements of accounts; the investigation of overdrafts; the checking of cables and telegrams in which an authenticating symbol is used; the checking of letters of instruction and requesting clean payments of any description, including currency shipments; the checking, by means of the stubs, of all cashier's checks, redemption checks, certificates of deposit, letters of advice, letters of credit and drafts drawn on foreign banks, and acceptances by the bank; the recording and filing of all stubs; the destruction of records which are more than, say, six years old; the auditing of expense bills and purchase requisitions; devising of systems to care for routine work; the passing upon changes in the bank records; etc. The second group embraces the activities connected with the thorough examination of the departments from time to time, and likewise of the branches of the bank, if any.

The organization of the auditing department is built on four principles of division:

1. That some accounts are domestic and some foreign, and that the foreign accounts may be "our" accounts with foreign customers or "their" accounts with the bank.
2. That the work to be done is the daily routine or the periodic examinations.
3. That the daily routine may be grouped under such heads as reconcilements, investigations, verifications, pass-books, filing, checking, etc.
4. That the examinations include both the bank and its branches, if any.

The divisions of the department are, accordingly, somewhat as follows:

1. For handling the daily routine:
   - (a) The domestic accounts reconcilement subdivision
   - (b) The domestic accounts investigation subdivision
   - (c) The domestic accounts verification subdivision
   - (d) The foreign "our" accounts reconcilement and investigation subdivision
   - (e) The foreign "their" accounts reconcilement and investigation subdivision
   - (f) The foreign account verification subdivision
   - (g) The canceled coupon verification subdivision
   - (h) The expense bills checking subdivision
   - (i) The pass-book subdivision
   - (j) The statement and check filing subdivision
2. For handling the periodic examinations:
   - (a) Subdivisions for the examination of the departments of the bank
   - (b) Foreign branches subdivision

The degree to which these various subdivisions are fused and consolidated or to which they are further subdivided and others added to handle miscellaneous duties varies, of course, with the bank and the nature and volume of its business. The above classification is, however, typical in the sense that the duties specified are incumbent upon all banks (exception may be made of the foreign accounts and branches) and the specialization of clerks and subdivisions along these lines proceeds as the bank grows in size.

The Reconcilement of Domestic Accounts

The reconciling of accounts is considered a very important feature of the department's work. The reconcilement of an account is the periodic reduction of an account to agreement as between debtor and creditor. Through error, misunderstanding of instructions, failure to receive, and to charge or credit items sent, or in numerous other ways, differences of account are very likely to arise between a bank and its correspondent or other customer. It is necessary and desirable that these differences be frequently adjusted and the account made congruent. The promptness with which reconcilements are made by a correspondent is taken into consideration when the bank extends a line of credit to it. Reconcilements provide a medium through which the correctness of entries is determined, and careful attention is, accordingly, paid to them.

Blank reconcilement forms for official signature and return to the bank are forwarded with all statements of accounts. The balance as stated on the reconcilement form by the depositor is checked with the bank's record and all exceptions are adjusted under advice. When the reconcilement forms are returned bearing a signature not on file with the bank, the bank writes to the depositor to learn whether or not the person signing has authority to do so. A record is kept of the date up to which each depositor has verified the account as rendered by the bank, and these records are examined periodically. If an account has not officially verified its balance for two or three months, a special letter is written asking that it be done. This invariably brings the desired result. In the case of small banks and individual accounts the statement will be likely to contain the injunction, "Please examine and report any errors at once to the bank, as this statement will be considered correct unless we are notified to the contrary."

The Investigation of Domestic Accounts

The usual policy and rule of action of banks is that all inquiries and complaints relative to finished business and instructions affecting an original entry are to be delivered to the auditing department for attention. A thorough investigation is promptly made of the facts pertaining to the transaction about which the complaint or inquiry is received; these facts are reported by letter to the complainant, and if the bank is at fault, through error or misunderstanding, effort is made in this letter to allay any ill-feeling that may have arisen. If in the investigation it develops that no department has made an error, but that a question of the bank's policy is involved, the matter is referred to that one of the bank's officials in whose territory the customer is located. Should the auditor of this subdivision of his department decide that the existing method affecting the particular case can be improved or should be radically changed or a substitute method provided, recommendation to that effect is made.

Errors are corrected by ticket, and when making a correction the original record of entry or any instructions are properly marked to show the method and date of the adjustment. This ticket is essential for future reference. A complete record of all errors is kept which shows the department responsible for them. In the event that a particular department shows a noticeable increase of errors, effort is made to learn the cause and to make suggestions to remedy it.

Many bank examiners' forms requesting information relative to accounts on the bank's books are received during the day. These forms are entered in a register showing the date of receipt and the name of the party inquired about, and are then routed to the various interested departments. Upon their return they are examined to see that they have been properly executed and initialed by the respective department heads. The balance reported by the bookkeeper is verified, the forms presented to the officers for signature, and the date on which they are returned to the bank examiner entered in the register.

When letters are received informing the bank that the writer is expecting funds through the bank, paid for his account in some foreign country, the letters are sent to the foreign division and shown to all the departments through which payment might possibly be effected. If no instructions are found, the letter is returned to the auditor, who then institutes a thorough investigation to determine whether any instructions have been received but overlooked or whether the remitter's account has been charged and the beneficiary's account credited with the payment. If no such instructions are found, a form letter is forwarded informing the party that the bank has no instructions to pay.

All collection tracers are answered by the auditing department. The investigator examines the collection and if returns on it are past due, a special tracer is sent to the bank's correspondent. If an overdraft is found on the books of the bank, it is reported to the officer in charge of the district in which the account is located, and on his advice the depositor may be notified by telegram stating that according to the bank's books the account appears to be overdrawn, and giving in round numbers the amount of the overdraft. A telegram of this nature sent under a misapprehension of facts would put the bank in an embarrassing position and the matter would require delicate handling. Therefore before the telegram is sent it is handed to the auditing department and a careful investigation is made in order to determine whether the account has any transactions pending from which a credit might arise or whether there is any remittance or deposit for which it has not received credit.

When called upon, the auditing department compiles certain statistics for the Comptroller of the Currency, the clearing house, and the federal reserve bank. Of the various requests for information which the department may receive the following are illustrative:

1. The amount and kinds of money shipped to the bank or by the bank.
2. The distribution of moneys on deposit with the bank as to national banks and state institutions, as to reserve cities, and as to geographical situation by states of the Union and foreign countries.
3. The number and amount of brokers' checks certified by the bank and used in the payment of loans.
4. The number and amount of drafts drawn by the bank on other cities and countries.
5. The number and amount of all checks received by the bank, the sources from which they have been received (that is, by states and foreign countries), and the places where they are payable (at the bank, through the clearing house, by presentation in the home city, or out of town by mail).
6. The volume of country checks in transit on given days.
7. The distribution of loans and discounts along geographical lines, etc.

The Verification of Domestic Accounts

The work of the subdivision of the auditing department which verifies domestic accounts consists in checking, verifying, and adjusting the debits and credits to the accounts of customers, and, with the exception of expense bills, in checking, verifying and adjusting the debits and credits of the accounts of the bank. The items checked and verified are of many kinds and are concerned with many activities of the bank. The nature of the work will appear from the following description of the transactions handled and loosely classified under a dozen or more heads.

1. *Cashier's Checks.* The stubs detached from cashier's checks by those authorized to sign are collected, sorted, recorded by numbers, and filed, and the total amount verified against the general bookkeeper's figures at the close of business each day. If there are any missing numbers, the checks are immediately located, so that under no circumstances can a cashier's check be lost or stolen in the bank itself. On each stub is inscribed the name of the account which has been charged, and on the day following its issue an investigation is made to ascertain that the proper entries have been made to reimburse the bank for the payment of the cashier's check.

Such is the procedure pursued in all payments constituting a debit against a general or capital account of the bank. In the case of letters of credit and travelers' checks which are issued against guaranty or trust receipts, the stub is held until the contract is returned signed. This is then examined to see that it bears an authorized signature and the import and export acceptance stubs, and the opening of the credit is also verified on the books of the department.

This verifying subdivision checks, records by numbers, and files all stubs, including those of federal reserve and travelers' checks, rent receipts, stubs of acceptances issued by the commercial credit departments, and the credit notes issued by the foreign tellers. These tellers' credit notes are listed, and after the totals have been proved, they are checked against the credits on the accounts current sheets, particular attention being paid to maturity (or value) dates.

2. *Commercial Acceptances.* The acceptances of the commercial credit departments are checked on the tickets for maturity dates; the files are then referred to for the proper authorization covering the acceptance, and finally the entry in the ledger is checked, primarily to make sure that the customer's credit has not been overstepped. Whenever an acceptance is made by the bank, a carbon copy of the record is forwarded to

the auditing department, which immediately checks the instrument against the various records in the commercial credit departments.

3. *Commercial Letters of Credit.* Offering slips covering the establishment of commercial letters of credit are referred to the verifying subdivision, which examines the contract and makes sure that the signatures are identified and that everything is in order.

4. *Certified Checks.* The outstanding certified checks are proved weekly with the general bookkeeper's figures. When a certified check has been outstanding for any length of time, the department communicates with the maker and endeavors to have it presented if possible, in order both to render a service to the customer and to prevent its possible mixture with other checks.

5. *Certified Balances.* The bank has standing instructions from certain depositors and also receives each month requests from other depositors to certify over an official signature the amount of their balances at the close of business on a particular date. For its own protection the bank complies with these requests by a form letter in which it states that the amount given is the balance according to its books. This amount is checked and initialed by the bookkeeper handling the account and by a member of the auditing department. Frequently a customer who is having his books examined by public accountants requests that the bank furnish his auditors with certain necessary information. Before any such information leaves the bank it is checked by the auditing department.

6. *Federal Reserve Bank Account.* The federal reserve bank renders a daily statement of the member bank's account with it, and it is one of the duties of the verifying subdivision of the auditor's department to see that all entries are properly passed through this account and also that the account is reconciled.

7. *Telegraphic Deposits and Payments.* Code telegrams advising the bank that it will receive certain deposits and copies of

those authorizing the bank's correspondents to make payments are translated and the entries resulting therefrom are checked to their proper accounts. All confirmations of cablegrams and telegrams, all money transfers and receipts for currency shipments, and all overdraft telegrams are carefully checked.

8. *Non-Payment of Collection Items.* The bank may, on its cash letters used for sending country checks to correspondents for collection, have printed instructions to the effect that the bank is to be advised by wire of the non-payment of all items of, say, $500 or over. Upon the receipt of any such advice the auditing department relays the information by telegraph or telephone to the bank's last indorser, and if the facts warrant such action, places a hold for the amount against the account.

9. *Statements and Reports.* The auditing department checks before remission the statements made to the Comptroller of the Currency at his "calls" and also the earnings reports, and the income tax statements sent to the Collector of Internal Revenue. The purchase and sales of the bond department are also checked. Another duty of the auditor is to acknowledge the service of legal papers, such as attachments, court orders, etc.

10. *Cash Letters.* With all cash letters that are charged against the reserve account or collection transfer account of a correspondent, the bank encloses a card form of acknowledgment. A record of these remittances is kept, and when the acknowledgments are returned they are checked to this record. If, however, the card is not received within a reasonable time, the letter is traced. It frequently happens that cash letters are lost in transit. From the carbon copy of the lost letter the name of the last indorser is learned, and he is notified that the letter has been lost in transit and is requested to procure duplicate checks, which are to be handled as new business, and the amount of each item enclosed in the lost letter is charged at once to the respective indorsers.

With cash letters that are charged against a collection account, an advice of receipt by the correspondent is not required, for these accounts are closely watched to see that in due course there is received a check in payment or else instructions to debit the reserve account.

11. *Exchange Charges.* By some correspondents against whose reserve account the bank debits the cash letters remitted, a monthly exchange statement is rendered. Before crediting their account with the amount charged for exchange, the statement is verified against the bank's record of the matter. Some depositors instruct the bank not to debit their account for exchange but in lieu thereof to render them a bill daily, weekly, or monthly for the amount of these charges, when they settle by check. A record is kept of all statements so rendered, and at certain intervals this record is examined and endeavor is made to collect all amounts which have been outstanding for any length of time. The remittance received in payment of items carried in collection accounts is for the proceeds after the collection charges have been deducted. The letters accompanying these payments are examined daily and the amount of exchange deducted is proved with the mail teller's daily charge ticket debiting Exchange account.

12. *Doubtful Transactions.* When there is doubt as to how a transaction will be routed through the bank, directions covering it are delivered to the auditing department. Copies of the instructions are then made and delivered to the various departments which are likely to come in contact with the transaction. All letters and telegrams which contain no direct evidence as to what particular transaction is involved are turned over to the auditing department for investigation, and the correspondence is then delivered only to the department which has authority to handle it. Copies are made of all letters and telegrams received containing notice of the closing of a bank; these copies are distributed throughout the bank, with instructions that any trans-

action pending with the closed bank is to be referred to official attention.

13. *Records on File.* Certain daily records of various departments, such as the receiving teller's deposit tickets, all cash and collection letters received, carbon copies of the bank's remittance letters, coupon advices, the note and mail teller's journal tickets, are sent to the auditing department, where they are filed numerically according to date. These records prove of great service in answering without delay the many inquiries relative to these branches of the work. The documents in the auditor's files cannot be taken from the department without the advice and consent of the auditor, and must not be altered or lost. The auditor acts as custodian of the past records of the bank. Under the National Bank Act the bank is not compelled to keep records which are more than six years old, and it is one of the duties of the auditor to see that these old records are destroyed when the time limit expires.

Reconcilement and Investigation of Foreign "Our" Accounts

The term "our" account is used to designate the accounts which one bank (for the sake of clearness to be here designated "this" bank) has in other banks, to distinguish them from accounts which other banks carry with this bank; the latter are called "their" accounts. The work of this subdivision is separable into two general groups which might be handled, if the volume of work warranted, by distinct subdivisions: first, the analysis and reconcilement of the foreign bank's statement, and second, the investigation and handling of certain letters of advice and inquiries arising out of transactions passed over "our" accounts.

Concerning the first of these it may be said that every bank with which this bank carries an "our" account must, of course, render at regular intervals an abstract of the account. It is the duty of this subdivision to analyze such abstract, verifying the interest allowed or charged this bank, checking the entries on the abstract against this bank's ledger, which should contain corresponding entries for every transaction appearing on the abstract. A thorough investigation is made of all exceptions and these exceptions are listed with proper notations in a permanent record book. The auditor does everything necessary to bring this bank's records into agreement with those of the foreign bank.

In performing the second group of duties the auditor investigates all inquiries arising out of transactions that have been passed over "our" accounts, including the adjustment of claims made by and against this bank because of loss of interest on delayed cable transfers, etc. The auditor also investigates incoming advice sheets, if the various foreign division departments, including the bookkeeping department, cannot locate the transaction on their records.

The importance of auditing these foreign accounts is increased by war conditions, with resultant loss of cables, delays, and mutilations. In normal times the "position sheet" kept by the bank at all times very nearly reflects the exact balances in the foreign countries and permits the foreign division departments to trade without unnecessary handicap; but during war only the actual reconciling of the account by the auditor shows the true position of the bank's accounts abroad.

Reconcilement and Investigation of Foreign "Their" Accounts and Verification of Foreign Accounts

In the light of the description given of the reconciling, investigating, and verifying of domestic accounts and foreign "our" accounts, the work of these two subdivisions may be easily inferred and need not be restated here. Cables play a large part in this work. The auditing department receives on the day following their use a list of the authenticating symbols supplied to the foreign division for the cables they send. The cables are delivered in duplicate to the cable companies, and the duplicates, bearing the cable company's stamp, are returned to the auditor. They are first compared to see that there is a confirmation for each cable on the list of test words. The cables are then translated and verified against the original contracts. These contracts must be officially signed and are substantiated by finding that the correct amount has been either debited or credited to the proper account.

The Verification of Canceled Coupons

The coupon paying department delivers, against signature, to the auditing department all coupons paid by the bank, together with the charge tickets debiting the respective accounts,by means of which the funds were obtained to pay each issue. The total of paid coupons of each particular kind is entered in a register and the amounts compared with the charge tickets, and then the correspondent bank is advised of the debit to its account.

A complete record is kept of the instructions governing the disposal of the coupons; and after they have been examined for cancellation and the fact has been established that the total number of coupons correspond with those shown on the charge tickets, the coupons are forwarded, together with the statement of the account, generally on the first of each month, by registered mail or express, in accordance with the instructions on file. It is also the duty of this subdivision to prove, say, once a week, the outstanding coupon checks against the credit balance on the general ledger.

The Checking of Expense Bills

All bills for purchases made by the bank in connection with stationery, furniture, or anything that constitutes expenses, are audited and proved for payment by this subdivision. No bills are paid and no purchase requisitions are honored until approved by the auditor. At frequent periods the postage stamps in the hands of the postage clerk are proved with the requisitions and purchases of stamps. Through the auditor's control of expense, the adding machines and other bank apparatus are directly under his charge.

The Balancing of Pass-Books

Accounts having what is known as a "deposit book," or "pass-book," are not balanced at any stated period, but only when the book is left for that purpose. In the event that the owner of a pass-book has not left his book to be balanced for a considerable period of time, a statement is ruled off and sent to him by registered mail requesting that the balances as rendered be verified. The receiving teller enters in the pass-book all cash deposits, but credits covering collection items are entered by the auditing department; the latter also enters credits from credit advices and deposits from duplicate deposit slips if the customer's pass-book is in process of being balanced when the deposits are made. All such credits are verified in the bookkeeper's ledger before the entries are made. To guard against the statement of the account or the pass-book and the canceled vouchers falling into the hands of an unscrupulous person, a card index is kept with cards on which are specimen signatures of all persons privileged to collect the statement or pass-book and vouchers for each account, and they are delivered only against receipt bearing an authorized signature. This subdivision also delivers blank check books to customers when the subdivision clerk knows the customer or has identified the customer's signature.

The Filing of Statements and Checks

The check desk department delivers to the auditing department, on the day following payment, the canceled checks debited to the account of the drawer. These checks are compared with the statements of accounts to verify the fact that the correct amount has been charged to the proper account. The items are then examined to be certain that they have been canceled and that they are drawn against this bank. They are then filed according to date of payment, each account having its own compartment, until returned to the depositor with his statement or pass-book.

Upon receipt of stop-payment instructions the canceled checks are scrutinized to ascertain whether or not the item has been paid since the statement of account and canceled vouchers were last returned to the drawer. This information is furnished to the check desk department, whose duty it is to refuse payment on presentation in the event that the check was not paid at the time the stop-payment was received.

All depositors' statements rendered by the bank are made in duplicate; the original goes to the depositor and the duplicate to the auditor's files. Before filing, they are examined to determine whether they have been properly headed and the correct balance has been transferred from the previous statement; the canceled vouchers are also verified against the statement. These statement files are referred to most frequently when investigations are being made in connection with the many inquiries received regarding completed transactions.

Bank Examinations

At the beginning of this chapter it was noted that the work of the auditing department is of two kinds: (1) the daily routing of reconcilements, verifications, investigations, and filing; and (2) the periodical examination of whole departments and branches of the bank. The routine operations have been described more or less fully above.

The periodic examinations conducted by the auditor are but one set of examinations to which the banks are subject; several groups of examiners conduct examinations under different authorities and for the somewhat different purposes enumerated below:

1. The directors of the bank may appoint a committee from their own number, or may engage a professional auditing company, to audit and examine the whole bank, or a certain department or departments, at regular or irregular periods. Their purpose is to fulfil their legal and moral responsibility to the stockholders and the creditors of knowing the conduct of the bank, to check up the work of the bank's officers and clerical force, and to improve the bank's accounting system.

2. The clearing houses, in an increasing number of the larger cities, have provided a special committee on examinations, which employs a regular corps of examiners to examine periodically the clearing house members. The special object of these examinations is to discover, rebuke, and reform bad banking practices which, if persisted in, may result in financial trouble not only for the subject bank but for the other members. Some of these practices may be legal and beyond the power of the Comptroller of the Currency, but yet dangerous. If pressure is brought to bear on the bank by its fellow-members, such bad practice or policy may be corrected before it matures in financial wreck.

3. The Comptroller of the Currency has under him an extensive body of bank examiners, who examine national banks and report to him. The state bank commissioner in most states has a similar force to examine state institutions. These two examining agencies seek primarily to appraise the assets of the bank to determine its solvency and to discover violations of law and regulations and penalize the same. These two groups of examiners in some states co-operate closely, holding examinations in the same place at the same time and exchanging information. To remove an obstacle to the entrance of the state banks into the federal reserve system, the examination of state member banks was taken from the Comptroller of the Currency and put under the direction of the Federal Reserve Board or of the federal reserve bank by examiners selected or approved by the Federal

Reserve Board. Whenever the directors of the federal reserve bank approve the examinations made by the state authorities, such examinations and reports may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board. The board may order special examinations.

4. The examinations conducted by the auditing department are departmental examinations and branch-bank examinations. They are held at various times, usually one or only a few departments being examined at a time. The examiners of the Comptroller and clearing house, however, examine simultaneously all departments. The time required to make the examination depends, of course, on the size of the bank and the examining force. In the largest banks some of the force may be kept busy two or three weeks. When the auditing department makes an examination of another department, it keeps in mind the following: Do the books of the department reflect the true condition of the work of the department, and are they of themselves correct? Are the systems which have been devised and adopted for the handling of the work of the department being adhered to? From an analysis of discrepancies which may be found, can a better system be instituted? Unless there is some particular reason for examining certain of the departments at regular intervals, the examinations are made once or twice a year, at no set times.

The methods by which these examining agencies proceed to make an examination of a department are practically identical. Certain minor differences of method are noticeable, such, for example, as that the national bank examiners rule off the accounts and the auditor does not, because the accounts are reconciled by the auditor monthly; but the methods are fundamentally the same. The nature of an examination can be best presented by outlining briefly the manner in which the auditing department examines a few of the departments.

To perform the examinations the auditing department has two organizations:

1. The subdivision for examining the departments of the bank. This work is in charge of a clerk called, say, "chief examiner," who has a force of clerical assistants. When the chief examiner examines any department, he calls into his subdivision the head of the subdivision or subdivisions concerned. For instance, if the coupon paying department is under examination, the chief examiner will be assisted by the head of the subdivision which verifies canceled coupons or some clerks delegated by him.

2. The subdivision which has charge of the examining and reporting of the foreign branches of the bank. The audits of foreign branches are made by traveling auditors. A bank without foreign branches would, of course, not have such a subdivision in its auditing department.

Manner of Conducting Examinations Illustrated

1. *The Loan Department.* In the examination of the loan department the totals of the various classes of loans are made up from the loan cards to see whether or not those totals agree with the figures in the general ledger of the bank. The collateral to the loans is examined to determine that all the collateral listed on the loan cards is in the custody of the loan clerk and that it has been assigned in blank and is readily marketable. If certain collateral is being held in trust for the bank by others, letters are written for a verification of the facts. The cards are examined to see that, in the light of the market values of the collateral, proper margins are being maintained. The contracts on file in the department are examined to see that a contract has been received to cover every loan made where there is no note. Letters are addressed to the persons, firms, and corporations to whom loans have been made, asking for a list of the collateral which, according to their books, the bank should have, and these lists

are checked with the loan cards. Instead of this method, lists from the loan cards may be prepared and sent to the customers for confirmation of their correctness.

2. *The Customers' Securities Department.* In the examination of the customers' securities department letters are written enumerating the securities which the books of the department show are being held for the various customers. The securities are withdrawn from the vault and are counted and checked with the copies of the letters which have been written. If everything is in agreement, the original letter is mailed with a request that, if found correct, it be signed and returned. If the customer finds a discrepancy between the list and his books and cites it, the examiner investigates and, if he too finds the discrepancy, writes an explanatory letter. In case the securities in the vault do not check with copies of the letters made from the department's books, an investigation is made. Where there are fewer securities on hand than the books indicate, this almost invariably indicates the omission of book entries when securities have been withdrawn and delivered on proper authority; on the other hand, if the books indicate fewer securities than those actually in the vaults, this invariably means that the proper book entries were not made when the securities were placed in the vaults. Care is taken to see that a letter is written to every customer having securities in the department, and also that no securities are on hand of which no records have been made.

The vaults are under the joint control of two men, one having a key and the other knowing the combination. When the examiner enters the department the key is turned over to him, which is equivalent to sealing the vaults. The deposits and withdrawals of securities for each day's business are examined, and in this way while the examination of the department is in progress the work of the department is interrupted to the smallest possible degree.

3. *The Bond Department.* In the examination of the bond department reference is made to the general bookkeeper to find

the amount which the bank has invested in bonds. In the general ledger the investments in securities are classified into: Bonds Owned and Unpledged; Bonds Loaned; Bonds Borrowed; Bonds Pledged to Secure Circulation, to Secure Postal Savings Deposits, to Secure Government Deposits, to Secure States and Other Deposits; Bonds Sold with Agreement to Repurchase; Liberty Bonds; Other United States Bonds; Municipal Bonds; Corporate Bonds; United States Certificates of Indebtedness; etc.

The examiner counts all the bonds in the vault and checks them to the records of the department. If the records show that certain bonds are held for the bank's account by other institutions, this fact is verified by correspondence. Where bonds are sold with an agreement to repurchase or are loaned or deposited to secure circulation or deposits, the receipts which are found in the department are counted in lieu of the bonds themselves. The examiner lists the various issues together with their book values and proves the total of these book values against the figures in the general ledger. He then appraises the bonds, that is, determines the market value of all the bonds at the time of the examination. If the market value is less than the book value, the difference is reported and written off.

4. *The Discount Department.* In the examination of the discount department the examiner makes up the totals of: (a) the bills discounted, (b) acceptances of other banks discounted, (c) acceptances of this bank purchased.

Since the discount department keeps separate ticklers for these and separate accounts appear in the general ledger, these totals can be checked to the ledger balances. From the notes themselves the examiner then makes up the totals of each day's maturities and proves them against the footing of the tickler for that particular day, thus determining that the department's entries in the ticklers are correct. The grand total of the various days' totals must agree with the figures of the general bookkeeper.

Where items payable out of town are not found in the note boxes, the records of the country collection department are examined and their figures used to effect the proof. The bills receivable held as collateral security are examined to determine that proper margins are maintained.

5. *Foreign Division.* In the examination of the foreign division the balances of all accounts on the general ledger which affect the foreign division are taken. Then the balances of all the foreign deposit accounts are added and made to prove, and are compared with the control figure. The balances of the accounts which the bank keeps abroad are proved in a similar way. The deposit accounts contain the control figure of the drafts, advised as having been drawn on the bank by its foreign correspondents, which have not yet been paid. These drafts are listed and the total is compared with the ledger. All the accounts in the general ledger of the foreign division are listed and compared with the control figures.

In the commercial credit departments the outstanding liability in the commercial letters of credit is proved and the outstanding acceptances are listed and proved. The foreign teller's petty cash, if there be any, is counted, and also the foreign currency which he may be holding.

A list is made of all the outstanding collections, including those received from abroad and drawn on interior points and those received from interior points and drawn on foreign countries. These lists, as well as the lists of the outstanding acceptances, of the outstanding drafts, and the various general ledger accounts, are retained by the auditing department and checked against the tickets which go through after the date of the examination. In this way the auditor knows that the moneys received are being properly applied to the respective accounts. His examination shows among other things whether the acceptances are being paid at maturity, whether the proceeds of collections are being credited to the indorsers or the items themselves are being returned unpaid, and whether the acceptances under commercial letters of credit are being paid as they mature.

As the reconcilements of the accounts which foreign correspondents keep with this bank ("their" accounts) are received by the auditing department, they are checked against the balance book in the foreign division. As the statements of the accounts which this bank carries with foreign banks ("our" accounts) are received, they are reconciled by the auditing department. When practically all of the statements have been received and checked, the balances of foreign moneys at the close of business on the last steamer-day, that is, on the date of sailing of the last steamer which will reach England before the end of the period, are taken and converted at the demand rate of exchange of that day. The difference between the dollar amount thus obtained and the dollar amount shown in the account will be the profit in trading. This profit is then charged out. As soon as this entry has been made, the various profit and loss accounts on the general ledger of the bank are analyzed, and a statement is made up showing the earnings of the foreign division. The examination of the foreign division and this final determination of profits is made at regular dates, usually twice a year.

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