

Leniency in the matter of time will depend largely upon B's instructions and the bank's attitude toward A. If the draft is a time draft—that is, if B gives A time, a certain number of days, in which to pay it—A, if he wishes to pay the draft, *accepts* it. He does this by writing the word *accepted* with the date and his signature across the face of the draft. He may make it payable at his bank as he would a note, if he so desires. He then returns the draft to the messenger, and if the time is long the draft is returned to B; if only a few days, the bank holds it for collection.

An accepted draft is really a promissory note, though it is more often called an *acceptance*. When a man pays or accepts a draft he is said to *honour* it. In the foregoing illustration A is not obliged either to pay or to accept the draft. It is not binding upon him any more than a letter would be. He can refuse payment just as easily and as readily as he could decline to pay a collector who calls for payment of a bill. Of course, if a man habitually refuses to honour legitimate drafts it may injure his credit with banks and business houses.

It is a very common thing to collect distant accounts by means of commercial drafts. A debtor is more likely to meet—that is, *to pay*—a draft than he is to reply to a letter and inclose his cheque. It is really more convenient, and safer, too, for there is some risk in sending personal cheques through the mail. There are some houses that make all their payments by cheques, while there are others which prefer to have their creditors at a distance draw on them for the amounts due.

If a business man who has been accustomed to honour drafts continues for a period to dishonour them, the banks through which the drafts pass naturally conclude that he is unable to meet his liabilities.

Some houses deposit their drafts for collection in their

home banks, while others have a custom of sending them direct to some bank in or near the place where the debtor resides. If the place is a very small one the collection is sometimes made through one of the express companies.

When goods are sold for distinct periods of credit, and it is generally understood that maturing accounts are subject to sight drafts, there should be no need of notifying the debtor in advance. Some houses, however, make a general custom of sending notices ten days in advance, stating that a draft will be drawn if cheque is not received in the meantime.

Notice the illustrations. The protest notice at the left of Nos. 1, 2, and 4 is intended for the bank presenting the draft for payment. The reason for this will be fully explained in our lesson on protested paper. (See LESSON XIII.) No. 2 shows an accepted draft payable to the order of a bank in the city upon which it is drawn. No. 1 is payable to the order of a bank in the city of the drawer. No. 3 is a sight draft payable to the order of a bank and accepted payable at a bank. No. 4 is a time draft payable to "*ourselves*"—that is, the Pennsylvania Steel Company.

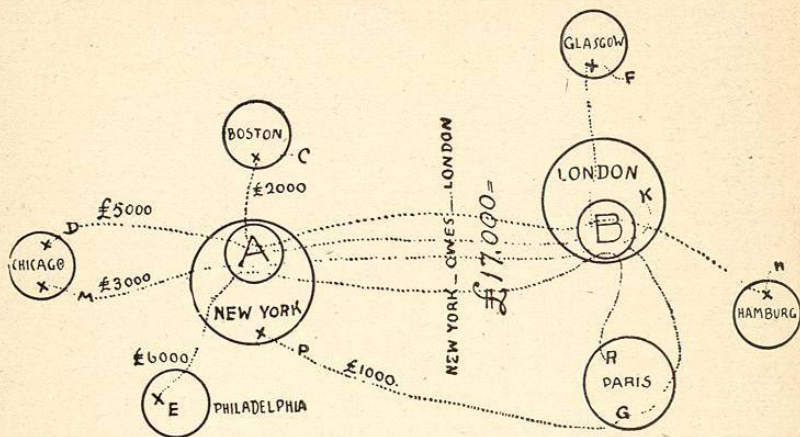
Drafts are often discounted at banks before acceptance where the credit of the drawer is good. In such cases the drafts which are dishonoured are charged up against the drawer's account.

X. FOREIGN EXCHANGE

It is quite in order that we should follow lessons on the clearing-house and commercial drafts with a lesson on foreign exchange.

We learned in the last lesson that commercial drafts are made use of to facilitate the collection of accounts.

They are simply formal demands for the payment of legitimate debts. When these formal demands are made



Foreign exchange.

upon foreign debtors they are called bills of exchange; and the process of buying and selling these drafts, the drafts themselves, and the fluctuations in price, all are included in the general name *exchange*.

To illustrate the principles of exchange let us suppose that the following transactions have occurred:

1. C of Boston has sold goods, £2000, to H of Hamburg.
2. D of Chicago has sold goods, £5000, to F of Glasgow.
3. M of Chicago has sold goods, £3000, to K of London.
4. E of Philadelphia has sold goods, £6000, to R of Paris.
5. P of New York has sold goods, £1000, to G of Paris.

C draws on H for £2000, sells the draft to a banking-house in Boston; they send to Bank A of New York, and

the New York bank to their London correspondent, say Bank B, with instructions to collect from Hamburg.

D draws in a similar way on F. E draws on R, and P on G. Suppose that M instead of drawing on K receives a draft drawn by Bank B of London on Bank A of New York; payable to M's order.

AMERICA has sold goods worth £17,000 to EUROPE.

EUROPE owes £17,000 to AMERICA
But B has paid A £3000.

B therefore owes £14,000 to A

Now it will cost B a considerable sum of money to ship £14,000 in gold to A, for all exchanges between Europe and America are payable in gold. Suppose that S of New York owes T of London £14,000, and T draws on S and takes the draft to Bank B in London and offers it for sale. Will B offer more or less than £14,000 for the bill of exchange or draft? He will offer more. It will be cheaper for him to pay a premium for the draft than to ship gold, for he can send this draft to Bank A to pay his indebtedness, and A can collect from S.

In the money market in New York there is a constant supply of exchanges (drafts) on London, and in London a constant supply of exchanges on New York.

Experience has shown that at all times the number of persons in Europe indebted to American business houses is about (though of course not actually) the same as the number of persons in America indebted to European houses. Hence when A of New York wishes to make a payment to B of London he does not send the actual money, but goes into the market—that is, to a banker doing a foreign business—and buys a draft, called a bill of exchange, which is in reality the banker's order on his London correspondent, asking the latter to pay the money to the person named. It may be that

about the same time some London merchant who owes money in New York goes to the very same London banker and buys a draft on the New York bank. In this way the one draft cancels the other, and when there is a difference at the end of the week or month the actual gold is sent across to balance the account.

These exchanges have a sort of commodity value, and like all commodities, depend upon the law of supply and demand. When gold is being shipped abroad we say that the balance of trade is against us — that is, we are buying more from Europe than Europe is buying from us, and the gold is shipped to pay the balance or difference.

The *par* of the currency of any two countries means, among merchants, the equivalency of a certain amount of the (coin) currency of the one in the (coin) currency of the other, supposing the currencies of both to be of the precise weight and purity fixed by the respective mints. The *par* of exchange between Great Britain and the United States is $4.86\frac{2}{3}$; that is, £1 sterling is worth \$4.86 $\frac{2}{3}$. Exchange is quoted daily in New York and other city papers at 4.87, 4.88, 4.88 $\frac{1}{2}$, etc., for sight bills and at a higher rate for sixty-day bills. Business men who are accustomed to watching fluctuations in exchange rates use the quotations as a sort of barometer to foretell trade conditions. The imports and exports of bullion (uncoined gold) are the real test of exchange. If bullion is stationary, flowing neither into nor out of a country, its exchanges may be truly said to be at *par*; and on the other hand, if bullion is being exported from a country, it is a proof that the exchange is against it; and conversely if there be large importations.

The cost of conveying bullion from one country to another forms the limit within which the rise and fall of the *real* exchange between them must be confined. If, for illustration, a New York merchant owes a debt in

London and exchange costs him, say, two per cent., and the cost of shipping the gold is only one per cent., it will be to his advantage to pay the debt by sending the actual coin

Original.	Exchange for	Philadelphia	March 1	1887
	£ 95-8s-6d by			
	Sixty	days after date	of this Original	
	of Exchange (Duplicate unpaid) pay to the order of			
	Messrs Robert Hare, Powell & Co, the sum of			
Ninety five pounds eight shillings and six pence				
Value received, and charge the same to account of Steamship Cardiff				
For supplies				
To Wales Navigation Company				
95 Strand				
No 78	London, Eng.			
				J. L. Stewell Master

Duplicate.	Exchange for	Philadelphia		188
	£ 95-8s-6d by			
	Sixty	days after date	of this Duplicate	
	of Exchange Original unpaid) pay to the order of			
	Messrs Robert Hare, Powell & Co, the sum of			
Ninety five pounds eight shillings and six pence				
Value received, and charge the same to account of Steamship Cardiff				
For supplies				
To Wales Navigation Company				
95 Strand				
No 78	London, Eng.			
				J. L. Stewell Master

A bill of exchange (private).

across. A favorable *real* exchange operates as a duty on exportation and as a bounty on importation.

It is to the interest of merchants or bankers who deal

in foreign bills to buy them where they are the cheapest and to sell them where they are the dearest. For this reason it might often be an advantage for a New York

1	Exchange for <u>£2000</u> (Philadelphia) <u>March 1 1897</u>
	<u>Sixty</u> days after sight of this <u>FIRST</u>
	of Exchange (Second unpaid) pay to the Order of
	<u>C. H. Bannerman and Company</u>
	<u>Two thousand pounds</u>
Value received and charge the same to account of	
To <u>Brown Bros & Sons</u>	NAME OF BANK
<u>London</u>	SELLING EXCHANGE
<u>No. 376</u> <u>Eng.</u>	HERE

2	Exchange for <u>£2000</u> (Philadelphia) <u>March 1 1897</u>
	<u>Sixty</u> days after sight of this <u>SECOND</u>
	of Exchange (First unpaid) pay to the Order of
	<u>C. H. Bannerman and Company</u>
	<u>Two thousand pounds</u>
Value received and charge the same to account of	
To <u>Brown Bros & Sons</u>	NAME OF BANK
<u>London</u>	SELLING EXCHANGE
<u>No. 376</u> <u>Eng.</u>	HERE

A bill of exchange (banker's).

merchant to buy a bill on London to pay a debt in Paris.

Two illustrations of bills of exchange are given in this lesson. Each is drawn in duplicate. The original is sold

or sent abroad, while the duplicate is preserved as a safeguard against the loss of the original. When one is paid the other is of no value. Notice the similarity between bills of exchange as shown here and commercial drafts as shown in our last lesson.

The first form shows a draft made by a coal company upon a steamship company to pay for coal supplied to a particular steamer. Suppose that the steamship company has a contract with Robert Hare Powel & Co. of Philadelphia to supply coal to their steamers. The steamer *Cardiff*, when in port at Philadelphia, is supplied; the bill is certified to by the engineer; the master (captain) of the vessel signs Powel & Co.'s draft (and in doing this really makes it the captain's draft); the bill is received. Now Powel & Co. sell this exchange (draft) on London to a broker or banker doing a foreign business. It is forwarded to London and presented in due time at the office of the Wales Navigation Company for payment.

The second form shows a bill of exchange drawn by a Philadelphia banking house upon a London banking house and payable to the order of the firm buying the draft. C. H. Bannerman & Co. will send this bill (the original) to pay an account in Europe. The first form bears the same relation to a commercial draft that the second does to a cashier's cheque.

XI. LETTERS OF CREDIT

THE usual instruments of credit by means of which travellers abroad draw upon their deposits at home are known as CIRCULAR LETTERS OF CREDIT. These forms of credit are of such common use that every one should be familiar with their form. We reproduce here a facsimile

SMITH BROS. Bankers.
CIRCULAR LETTER OF CREDIT

No. A39468.

New York May 31 1897

Gentlemen:

We request that you will have the goodness to furnish Chas. Dix the bearer, whose signature is at foot, with any funds he may require to the extent of £1000- (say One thousand pounds sterling) against his drafts upon Mess^{rs} SMITH BROS., LONDON: each draft must bear the number (No. A39468) of this letter, and we engage that the same shall meet due honor.

Whatever sums Mr. Dix may take up you will please indorse on the back of this circular letter, which is to continue in force until March 1, 1898 from the present.

We are respectfully, Gentlemen,

Your obedient servants

THE SIGNATURE OF

Smith Bros
Chas. Dix

To Messieurs

THE BANKERS MENTIONED ON
THE 3D PAGE OF THIS Letter of Credit

First page of a letter of credit.

of the first and second pages of a circular letter for £1000, copied with slight change of names from an actual instrument. The first page shows the credit proper authorising the various correspondents of the bank issuing it to pay the holder, whose signature is given on its face, money to the extent of £1000. The names of the banks who are authorised to advance money upon the letter are usually printed upon the third and fourth pages, though letters issued by well-known banking houses are usually recognised by any banking house to which they are presented.

The second illustration shows how the holder of a particular letter availed himself of its advantages. It gives the names of the banks to which he presented his letter, and the amounts paid by each.

With such a letter a traveller could make a trip around the world and not have in his pocket at any one time more gold or silver or bills than would be necessary to meet immediate expenses.

Suppose that A. B. is about to make a European trip. He goes to a bank doing a foreign business, say Brown Bros. & Co. of New York City, and asks for a circular letter for £1000, for which he is obliged to pay about \$4880. Copies of A. B.'s signature are left with Brown Bros. & Co., and may perhaps be forwarded to their foreign banking houses. When A. B. presents himself at a Glasgow or Paris bank with his letter of credit, and asks for a payment upon it, the banker asks him to sign a draft on Brown Bros. & Co., New York, or more likely on their London bank, for the amount required, which amount is immediately indorsed on the second page of the letter of credit, so that when the indorsements equal the face the letter is fully paid. A. B. is simply drawing upon his own account—that is, upon the money he deposited to secure the letter of credit.

Payment is usually made upon the simple identification or comparison of signatures. If a traveller should lose

DATE PAID	By WHOM PAID	TOWN	Amt in words	Amt. in figures.		
June 10	Brown Shipley & Co	Liverpool	Thirty Pounds	£	20	--
June 20	Royal Bank of Dublin	Dublin	Ten Pounds	10	--	--
" 25	Nat Bank	Cork	Twenty Pounds	20	--	--
July 1	London Westminister Bank	London	Fifty Pounds	50	00	00
" 20	Nat Bank of Scot ^d	Edinburgh	Ten Pounds	10	--	--
" 25	Spec ^l Mon ^l Tr ^l	London	Ten Pounds	10	--	--
Aug 1	John Brown & Co	Paris	Fifty Pounds	50	--	--
" 10	Hoch & Co	Hamburg	Ten Pounds	10	--	--
" 20	St. Mary's	London	Twenty Pounds	20	00	00
" 25	H. H. V. Co	Vicenna	Ten Pounds	10	00	00

Second page of a letter of credit (used).

his letter of credit he should notify at once the bank issuing it and, if possible, the banks upon which drawn.

There are several other forms of travellers' credits in use. The *Cheque Bank*, an English institution with a branch in New York City, issues to travellers a book of cheques, each of which can be filled up only to a limited

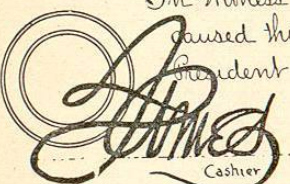
amount, as shown by printed and perforated notices appearing on the face. For instance, for £100 one can buy a cheque-book containing fifty blank cheques, each good, when properly filled up, for £2. Each of these cheques is really a certified cheque, only it is certified in advance of issue. Any of the thousand or more foreign banks which are agents for the *Cheque Bank* sell these cheque-books, and cash the cheques when presented. The amounts that may be short drawn go toward the cost of a new cheque-book, or may be returned in cash. The American and other express companies have forms of travellers' cheque-books very similar to those issued by the *Cheque Bank*.

XII. JOINT-STOCK COMPANIES

To organise a stock company it is necessary for a number of persons to come together and make a certificate to the effect that they propose to form a company to bear a certain name, for the purpose of transacting a certain kind of business at a certain place. The certificate states that they propose to issue a certain number of shares of stock at a certain price per share, that the capital stock is to be a certain amount, and that the company is to continue to exist for a definite period of time. Blank forms for such certificate are supplied by the Secretary of the State where the company is being organised, and when such certificate is properly filled out, signed, and delivered to him, he issues a license, or charter, to the persons making such certificate, giving them permission to open books, sell stock, and carry on the enterprise outlined.

State laws regarding stock companies differ very largely. Students of this course who desire to know the law in any particular State can easily secure the information by writing to the secretary of that State.

The usual par value of a share of stock is \$100. That is, if a company organises with a capital of \$200,000, there will be 2000 shares to sell. Each person who buys

No. 1936	SHARES: 50 =
National Deposit Bank	
CAPITAL \$200,000 2000 SHARES	
<p>This is to Certify that <i>Chas. Anthony West</i> is entitled to <u>50</u> Shares of the Capital Stock of the National Deposit Bank, transferable only on the books of said Bank in person or by Attorney on the surrender of this Certificate.</p> <p>In Witness whereof the said Bank has caused this Certificate to be signed by its  President and Cashier.</p> <p style="text-align: right;">HOLCOMB, N.Y. March 22 1897 <i>Chas. Francis Adams</i> President</p>	

A certificate of stock in a national bank.

or subscribes for the stock — that is, who joins the company — receives a CERTIFICATE OF STOCK. Our illustrations show two examples; one of a national bank, and the other of a manufacturing company. These certificates are transferable at the pleasure of the owners. The transfer is made usually by a form of indorsement on the back of the certificate, but to be legal the transfer must be recorded on the books of the company.

The men subscribing in this way become responsible

for the good management of the business and are obliged to act according to the laws of the State in which the company is organised. Usually they are not responsible

NUMBER. 315	THE Imperial Mill Company.	SHARES. 20
ST. PAUL, MINNESOTA.		
Capital Stock: \$100,000		1000 Shares
<p>This Certifies that <i>Marshall Beck</i> is entitled to <u>Twenty</u> Shares of One Hundred Dollars each of the Capital Stock of the <u>IMPERIAL MILL COMPANY</u> transferable on the books of the Company only in person or by Attorney upon the surrender of this Certificate.</p> <p style="text-align: right;">St. Paul Minn. March 22 1897.  Secretary <i>R. P. Johnson</i> President</p>		

A certificate of stock in a manufacturing company.

individually for the liabilities of the concern beyond the amounts of their individual subscriptions.

Every person who subscribes for stock owns a part of the business and is called a SHAREHOLDER. All the shareholders meet together, and out of their number they choose a certain number of DIRECTORS. The directors choose a president and other necessary officers, and in a general way direct the policy of the company. As a rule directors have no salaries attached to their positions.

General meetings of shareholders are held once a year to elect the directors and to hear the reports of the officers.

The student should be familiar in a general way with the different classes of stock and with the technical terms familiar to stock companies. The more important of these matters are as follows:

DIRECTORS. All the shareholders meet together and out of their number choose a certain number of directors. The directors choose a president and other necessary officers and fix the amount of salary which shall be paid such officers for their work.

CAPITAL STOCK. This name is given to the gross capital for which the company is organised, without any reference to its value or to whether it has been fully paid in or not. The *paid-in capital* is the amount received from the stockholders on the shares for which they have subscribed.

DIVIDENDS. The directors of the company, after paying the expenses and laying by a certain amount for contingencies, divide the profits among the shareholders. These profits are called dividends, and in successful concerns such dividends as are declared quarterly, semiannually, or annually usually amount to good interest on the shareholders' investments.

TREASURY STOCK. It often occurs that a new company finds it necessary to set aside a certain number of shares to be sold from time to time to secure working capital. Such stock is held in the treasury until it is needed, and is called treasury stock.

PREFERRED STOCK. Preferred stock is stock which is guaranteed certain advantages over ordinary stock. It is usually given to secure some obligation of the company, and upon it dividends are declared in preference to common stock. That is to say, if a man holds a share of preferred stock he will receive interest thereon out

of the profits of the business before such profits are given in the form of dividends to shareholders generally. Preferred stock can be issued only when authorised by the charter of the company. The interest on the investment in the case of preferred stock is more sure, but the security itself is not any more secure than in the case of common stock.

GUARANTEED STOCK. Guaranteed stock differs from preferred stock in this — that it is entitled to the guaranteed dividend (interest) before all other classes of stock, whether the company earns the necessary amount in any one year or not. This right is carried over from year to year, thus rendering the shares absolutely secured as to interest.

WATERED STOCK. When stock is issued to the shareholders without increase of actual capital the stock is said to have been *watered*. A company may organise for, say, \$10,000, and may want to increase to \$50,000 without adding to the number of its shareholders. Each holder of *one* share will, in this instance, receive *four* new shares, and in future instead of receiving a dividend on one share will receive a dividend on five shares. The object of this is, quite commonly, to avoid State laws requiring certain corporations to pay excess of profit over a stated rate per cent. into the State treasury.

FORFEITED STOCK. Stock is usually sold on certain explicit conditions, such as the paying of ten per cent. down and the balance in installments at stated intervals. If the conditions which are agreed to by the shareholder are not met his stock is declared *forfeited*, or he can be sued in the same manner as upon any other contract.

ASSESSMENTS. Some companies organise with the understanding that a certain percentage of the nominal value of the shares is to be paid at the time of subscribing, and that future payments are to be made at such times and

in such amounts as the company may require. Under these conditions the stockholders are assessed whenever money is needed. Such assessments are uniform on all stockholders.

SURPLUS FUND. It is not customary to pay a larger dividend than good interest. The profits remaining after the expenses and dividends are paid are credited to what is called a surplus fund. This fund is the property of the shareholders and is usually invested in good securities.

FRANCHISE. A franchise is a right granted by the State to individuals or to corporations. The franchise of a railroad company is the right to operate its road. Such franchise has a value entirely distinct from the value of the plant or of the ordinary property of the corporation.

SINKING FUND. A sinking fund is a fund set aside yearly for the purpose at some future time of sinking—that is, paying a debt.

XIII. PROTESTED PAPER

WHEN a note is presented for payment at maturity and is not paid it is usually **PROTESTED**; that is, a notary public makes a formal statement that the note was presented for payment and payment was refused. Notice of such protest is sent to the maker of the note and to each indorser.

The bank should never hand to its notary any paper for protest until it has made sure that its non-payment has not been brought about by some error or misunderstanding. Quite often, even though the paper has been made payable at a bank, the notary sends a messenger with the note to the maker to make a formal demand for payment.

In taking in collection paper, banks should obtain clear instructions from its owners as to whether or not it should

be protested in case of non-payment. It by no means follows that a formal protest is not desired because the paper bears no indorsements. Many banks make it a rule to protest all unpaid paper unless otherwise ordered.

We often see attached to the end of a draft a little slip with the words: "*No protest; tear this off before protesting.*" This is simply private advice to the banker informing him that the drawer does not wish to have the draft protested. It may be that he does not wish to wrong or injure the credit of or add to the expense of his debtor; or it may be that he considers the account doubtful and does not wish to add to his own loss the cost of protest fees.

To hold an indorser, he must be properly notified of the non-payment of the note; and whether this has been done is a question of fact. If he was not properly notified this defence will avail whenever it is clearly proved. A great variety of defences may be successfully made by an indorser. A few of these defences are here briefly noticed: One is usury; another is the maker's discharge by the holder; nor can he be held when he has paid the note; nor when its issue was unlawful, nor when the note was non-negotiable, nor when his indorsement was procured by fraud. Finally, an indorser may avail himself of any defence existing between the holder and the maker or principal debtor. This is evidently a just principle, for the holder should have no more rights against an indorser than he has against the maker. If, therefore, the maker can interpose some just claim as a partial or complete defence the indorser should be permitted to avail himself of this claim.

In order to recover from an indorser it must be proven that a formal and proper demand for payment was made upon the maker. The formal protest is usually undisputed evidence of this. The maker is liable in any event.