

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.

United States of America.

\$250⁰⁰

Pittsburg Nov 5 1896


Four months after date we promise to pay to
the order of James Markham Payne _____
Two Hundred and Fifty _____ \$100 Dollars
without defalcation, value received
(Signed) Ohio River Wax Co.
James Cameron, President.

Indorsed:
James Markham Payne.
Frank C. Thomson

Be it KNOWN, That on the day of the date hereof, at the request of
THE FIRST NATIONAL BANK, PITTSBURG
the holder of the original Promissory Note, of which a true copy is above written, I, THE UNDERSIGNED, Notary
Public for the Commonwealth of Pennsylvania, by lawful authority duly commissioned and sworn, residing in the
City of Pittsburg during the usual hours of business for such purposes, called at 999 N. 3d.
Street and demanded the payment thereof which was refused, and answer
made Ohio River Wax Co out of existence and left no money to pay this note.

Whereupon, I, the said Notary, at the request aforesaid, have Protested and do hereby solemnly Protest
against all persons and every party concerned therein, whether as Maker, Drawer, Drawee, Acceptor, Payer, Endorser,
Guarantee, Surety, or otherwise howsoever against whom it is proper to protest, for all Exchange, Re-exchange,
Costs, Damages and Interest, suffered and to be suffered for want of payment thereof:—Of which demand and
refusal I duly notify the Endorsers.

Thus done and Protested in City of Pittsburg, aforesaid,
the Fifth day of March, 1897.



J. A. McDonald
Notary Public.

A protest.

To make the indorser's liability absolute it is necessary to demand payment at the specified place on the last day of the period for which the note was given, and to give due notice of non-payment to the indorser. For, as the contract requires the maker to pay at maturity, the indorser may presume, unless he has received a notice to the contrary, that the maker has paid the obligation.

Ordinarily a notice of an indorsement by a partnership need not be sent to each member. Even after the partnership has been dissolved a notice to one partner is sufficient to bind the other members. If the note is owned jointly (that is, by parties who are not business partners) the indorsers are not liable as partners but as individuals. In such a case the notice of non-payment should be sent to each.

Our illustration shows a facsimile of a protest notice.

XIV. PAPER OFFERED FOR DISCOUNT

ONE of the most valuable parts of a banker's education is to learn whom to trust. Every bank should have a well-organized and thoroughly equipped credit department, in charge of some one who can be relied upon to investigate carefully all names referred to him by the officers. A banker has the right to expect the fullest confidence on the part of the borrower, and the borrower should furnish him with a complete and detailed statement of the condition of his affairs. It is safe to conclude that when a borrower refuses absolutely to give any information as to his financial condition his credit is not in the most favorable shape.

Many of the banks have blank forms which they, from time to time, ask borrowers to fill out. These statements show in detail the assets and liabilities of the firm in

question; they show the notes which are outstanding, the mortgages on real estate, and many other particulars, including the personal or individual credit of members of the firm, if a partnership.

In estimating the value of paper offered for discount the following points should be considered:

1. The total net worth of the borrower.
2. The character of his business; whether it is speculative or staple.
3. The borrower's record and standing in the community and his business habits.
4. Whether he is in enterprise abreast with modern ideas and methods.

5. The character of the merchandise owned by the borrower. What would it bring under the hammer? Groceries and raw material can usually be turned into cash at a forced sale at very small discount from current prices. Not so with hardware, glass, dry goods, boots and shoes, books, etc. Machinery and fixtures are not a bankable asset upon which to base credit.

The banker should note his borrower's bills payable. Why did he give notes? Are they met promptly? Many houses prefer to sell their own paper in the open market, and keep their banks open for accommodations when they are unable to secure outside credit. The insurance carried should be considered; also the volume of business done. A large business on moderate capital, with long credits, will naturally have large liabilities, while a small business with a liberal capital and short credits should have small liabilities.

Paper offered for discount is of a variety of kinds. The larger proportion of it is from customers of the borrower who have extended their credit by paying their accounts in notes instead of in cash. Such paper is really, though having two names, very little better than

single-name paper, for it is not the maker's credit, but the payee's, which the bank usually considers. Many very small notes offered for discount usually indicate a very needy condition.

There are many firms which carry two or more bank accounts, and others who sell their paper to out-of-town banks. In buying paper it is important to ascertain whether the firm is in the habit of taking up paper at one bank by floating a loan at another.

Paper may be classified for purposes of discount as follows:

1. Bills drawn by shippers on the houses to which the goods are shipped.
2. Bills drawn by importers against commodities placed in brokers' hands for sale.
3. Bills arising out of our manifold trades and industries.
4. Drafts with bills of lading attached.
5. Paper having personal indorsements.
6. Paper secured by collateral.
7. One-name paper.

XV. CORPORATIONS

STOCK companies are in a sense corporations, but the name CORPORATION has in its common application a broader meaning. PUBLIC CORPORATIONS are those which are created exclusively for the public interest, as cities, towns, counties, colleges, etc. PRIVATE CORPORATIONS are created wholly or in part for the pecuniary benefit of the members, as railroad companies, banks, etc. Corporate bodies whose members at discretion fill by appointment all vacancies occurring in their membership are sometimes called *close corporations*. In this country

the power to be a corporation is a franchise which can only exist through the legislature.

In municipal corporations the members are the citizens; the number is indefinite; one ceases to be a member when he moves from the town or city, while every new resident becomes a member when by law he becomes entitled to the privileges of local citizenship.

The laws which corporations may make for their own government are made under the several heads of by-laws, ordinances, rules, and regulations. These laws may be made by the governing body for any object not foreign to the corporate purposes. A municipal corporation, for example, makes ordinances for the cleaning and lighting of its streets, for the government of its police force, for the supply of water to its citizens, and for the punishment of all breaches of its regulations. A railway corporation establishes regulations for signals, for the running of trains, for freight connections, for the conduct of its passengers, and for hundreds of other things. But such by-laws and regulations must be in harmony with the charter of the corporation and with the general law of the land. For instance, a municipal corporation could not enforce a by-law forbidding the use of its streets by others than its own citizens, because by general law all highways are open to the common use of all the people. Again, a railway corporation could not make a rule that it would carry goods for one class of persons only, because as a common carrier the law requires that it carry impartially for all.

As a general rule private corporations organised under the laws of one State are permitted to do business in other States. It is quite often to the advantage of a company to organise under the laws of one State for the purpose of doing business in another. For instance, there are many companies chartered under the laws of

Maine with headquarters in Boston. The Massachusetts laws require that a large proportion of the capital be actually paid in at the time of organising, while the Maine law has no such provision. For similar reasons many large companies doing business in New York or Philadelphia are organised under the laws of New Jersey.

A corporation may make an assignment just as may an individual. If all the members die the property interests pass to the rightful heirs, and under ordinary conditions the corporation still exists.

A **FRANCHISE** is a right granted by the State or by a municipal corporation to individuals or to a private corporation. 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 the ordinary property of the corporation.

An **UNLIMITED LIABILITY** corporation is one in which the stockholders are liable as partners, each for the full indebtedness.

A **LIMITED LIABILITY** corporation is one in which the stockholders, in case of the failure of the corporation, are liable for the amount of their subscriptions. The name *limited* is required by law to appear after the name of the company. If a subscription is entirely paid up there is no further liability — that is to say, the property of a shareholder cannot be attached for any debts of the company. Understand clearly that the name *limited* printed after the name of a company does not indicate in any way that the capital or credit of the company is limited, only that the liability of the shareholders of the company is limited to the amounts of their shares.

A **DOUBLE LIABILITY** corporation is one in which, in case of failure, the stockholders are further liable for amounts equal to their subscriptions. All national banks are double liability companies. If A owns \$5000 stock in a


national bank, and the bank fails, he loses his stock; and if the liabilities of the bank are large he may be obliged to pay a part or the whole of an additional \$5000.

XVI. BONDS

WHEN a railroad company, or a city or any other corporation desires to borrow money it is a common practice to issue instruments of credit called BONDS. A bond means something that binds. Bonds bear the same relation to the resources of a corporation that mortgages do to real estate.

Corporation bonds are issued for a period of years. They usually have coupons attached which are cut off and presented at regular intervals for the payment of interest. A bondholder of a corporation runs less risk than a stockholder, first, as to interest: the corporation is obliged to pay interest on its bonds, but may at its own pleasure pass its dividends; secondly, the bondholder is a creditor, while the stockholder of the corporation is the debtor. On the other hand, if a concern is very successful, a shareholder may receive large dividends, while the bondholder receives only the stipulated interest. A *bond* is evidence of debt, specifying the interest, and stating when the principal shall be paid; a *certificate of stock* is evidence that the owner is a part-owner in the corporation or company, not a creditor, and he has no right to regain his money except by the sale of his stock, or through the winding up of the company's business.

The name DEBENTURES is given to a form of municipal bond in common use. Nearly all the large sums of money used by States and cities for the building of State or municipal buildings, bridges, canals, water-works, etc.,

STATE OF KANSAS.	
UNITED STATES OF AMERICA	
TITLE & TRUST	
No: 4673	
MORTGAGE COMPANY	
First Mortgage Bond	
<p>On the first day of <i>April</i> ... AD Eighteen Hundred and <i>Ninety-nine</i> for value received I promise to pay the TITLE AND TRUST MORTGAGE COMPANY or order at its office in <i>Topeka Kansas</i>, the sum of <i>One Thousand Dollars</i> and interest thereon at the rate of <i>six per centum</i> per annum payable semi-annually according to the terms and effect of the coupons and of ten coupons hereto attached.</p> <p>If any part of the principal or interest is not paid at maturity it shall bear interest thereupon at the rate of <i>twelve per centum</i> payable semi-annually and if any interest remains unpaid twenty days after due the principal shall become due and collectible at once without notice at the office of the holder.</p> <p>This Bond and the Coupons hereto attached are security as a Mortgage Bond which is the first lien and are made and executed to be construed in accordance with the laws of the state in which said Real Estate exists.</p> <p>Dated in <i>Topeka, Kansas</i> this <i>First</i> day of <i>April</i> ... 18<i>89</i></p>	
	<p><i>James Roger Lumberton</i> H. H. Burns</p>

A private bond.

are raised through the issue of bonds (*debentures*), which are sold, usually at a price a little below par, to large financial institutions, banks, and insurance companies. Generally speaking, such bonds are good *securities*, and are marketable anywhere.

At different times the United States government has issued bonds to relieve the treasury. These bonds are absolutely safe and are always marketable. *Registered bonds* have the name of the buyer registered; *unregistered bonds* are payable to *bearer*. *Municipal bonds* are issued by cities and other municipalities to raise money for local improvements. If proper precautions are taken by buyers, municipal securities may be considered among the safest and most remunerative investments.

When a new railroad enterprise is undertaken its promoters often expect to make the road not only supply the money for its construction but also give working capital in addition. This is done by the issue of mortgage bonds. Default in the payment of interest throws the road into the hands of a receiver. The securities immediately fall in value and are perhaps bought up by a syndicate of crafty speculators who are permitted to reorganise the road and its management. This is the history of many of our roads. There are exceptional cases, of course, but the investor should be familiar with the facts before buying railroad mortgages.

A *BOTTOMRY BOND* is a kind of mortgage peculiar to shipping. It is a conveyance of the ship as security for advances made to the owner. If the ship is lost the creditor loses his money and has no claim against the owner personally. It is allowable for a loan made upon such a bond to bear any rate of interest in excess of the legal rate. A vessel arriving in a foreign port may require repairs and supplies before she can proceed farther on her voyage, and in occasions of this kind a *bottomry*

bond is given. The owner or master pledges the keel or *bottom* of the ship — a part, in fact, for the whole — as security.

We have now upon the market stocks and bonds representing all conceivable kinds of property. Not only are properties of many kinds used to issue bonds upon, but many kinds of bonds are often issued upon the same property. Thus we find among our railroads not only first, second, and third mortgage bonds, but income bonds, dividend bonds, convertible bonds, consolidated bonds, redemption bonds, renewal bonds, sinking-fund bonds, collateral trust bonds, equipment bonds, etc., until they lap and overlap in seemingly endless confusion.

RECEIVER'S CERTIFICATES are issued by receivers of corporations, companies, etc., in financial difficulties, to secure operating capital; they are granted first rights upon the property and are placed above prior lien and first mortgage bonds.

XVII. TRANSPORTATION

THE most common effect of cheapened transportation is to increase the distance at which it is possible for producer and consumer to deal with each other. To the producer it offers a wider market and to the consumer a more varied source of supply. On the whole, cheapened transportation is more uniformly beneficial to the consumer; its temporary advantage to the producer very often leads to overproduction. It has the effect also of bringing about nearly uniform prices the world over.

The time was when nearness to market was of the greatest possible advantage. At the present time a farmer can raise his celery in Michigan or his beets in Dakota and market them in New York City about as

easily as though he lived on Long Island. It is no longer location which determines the business to be carried on in a particular place, but natural advantages more or less independent of location. But the railroad or the steamboat very often determines where a new business shall be developed. It is this quickening and cheapening of transportation that has given such stimulus in the present day to the growth of large cities. It enables them to draw cheap food from a far larger territory, and it causes business to locate where the widest selling connection is to be had, rather than where the goods or raw materials are most easily procured. It is the quick and comfortable transportation facilities which our large cities possess that have given strength to the great shopping centres. Shoppers for thirty or forty miles around can easily reach these centres, and the result is that trade gathers in centres rather than at local points. A city of a million population in the most productive agricultural section of country could not be fed if the food had to reach the city by teaming. With this growth of trade centres comes the increased gain of large dealers at the expense of the small; with it comes organised speculation and its attendant results, good and evil.

Prior to the completion of the organisation of trunk or through lines, freight was compelled to break bulk and suffer trans-shipment at the end of each line, where a new corporation took up the traffic and carried it beyond. To prevent this breaking of bulk and to expedite the carriage of freight, fast freight lines on separate capitalisation were organised. The purpose of the interstate-commerce law is largely to prevent discrimination and corruption in freight charges, to secure for every person and place just and equal treatment at the hands of the transportation companies. The freight rates are arranged and regulated by the traffic associations, and the various

conditions and compromises necessary have made both classifications and rates about as complicated as anything possibly could be.

The name DIFFERENTIAL as applied to freight rates refers to the differences which are made by railroad companies. Certain roads are by agreement allowed to charge a lower rate than others running to the same points. To and from each of the eastern cities there are two classes of roads — the *standard* lines and the *differential* lines. The standard lines have the advantage of more direct connections; the differential lines reach the freight destinations by circuitous routes, in some instances by almost double the mileage. With a view to equalising these conditions the general traffic associations allow the differential lines to carry freight at a lower rate per mile than the rate charged by the standard lines.

The transportation business of the United States is so varied and complicated that a proper study of its freight tariffs and classifications would require much more space than can be given the subject in these lessons.

XVIII. TRANSPORTATION PAPERS

THE common transportation papers, familiar to all shippers, are the (1) *shipping receipt*, (2) *bill of lading*, (3) *way-bill*.

ORIGINAL RECEIPTS, stating marks and quantities of goods, go with each separate lot of merchandise to the freight sheds or vessels, and these are summed up in a formal bill of lading, for which they are exchanged when all the cases or bundles belonging to the particular shipment have been delivered. The duplicate receipt, or the part commonly marked *invoice*, is kept by the receiver of the freight, and the other end, commonly marked *original*,

is given to the drayman. In making ordinary shipments it is not usual or necessary to make out a formal bill of lading. Of course, when no bill of lading is made out,

TRADE DESPATCH.
TRADE & PACIFIC DESPATCH DIVISION. WESTERN DESPATCH DIVISION. SOUTH LINE DIVISION.

CHICAGO & OMAHA RD., CHICAGO, ILL. *April 12 1891.*

RECEIVED FROM *Parker Bros Co Chicago*

MARKS AND NUMBERS. *#*

CONSIGNEE AND DESTINATION. *Chas Peterson & Co Omaha*

DESCRIPTION OF ARTICLES. *7 Cases Shoes*

WEIGHT. *630*

VIA TRADE DESPATCH AND

Advanced Charges, \$ _____ Exchange for Bill of Lading, at 246 South 6th Street.

The conditions upon which the above-mentioned property is received for transportation by the TRADE DESPATCH are printed on the back hereof.

ORIGINAL SHIPPING RECEIPT (To be returned to Shippers) * * * * *

A shipping receipt (original).

the receipt should be preserved by the shipper. The full contract is usually printed on the receipt, but it must be remembered that a receipt is not a negotiable instrument and cannot be used as security for money.

A BILL OF LADING is an acknowledgment by a transportation company of the receipt of goods specified, and contracts for their delivery at a certain place, under conditions stated thereon, upon payment of freight and expenses. Bills of lading are negotiable and may be transferred by indorsement, but are of no value apart from the goods to which they give title. A bill of lading goes with certain *named* goods and cannot be transferred to other goods, even though of precisely the same kind and price. Marine bills of lading are usually made in tripli-

cate; one is kept by the shipper, another by the vessel, and the third is sent by mail to the person to receive the goods.

The parties to a bill of lading are three—the shipper, the consignee, and the transportation company. The dec-

CLYDE'S PHILADELPHIA & NEW YORK LINE.
WM. P. CLYDE & CO., General Agents.
12 South Wharves, Philadelphia. Penn 231 & 24 East River, and 5 Bowling Green, New York.
D. D. C. MINN, General Freight Agent.

Philadelphia, *April 12 1891.*

Received by Clyde's Phila and New York Line, (The Clyde S. S. Co.) of *Phil Grocery Company* under the contract hereinafter contained, the property mentioned below, marked and numbered as herein, in apparent good order and condition (contents and value unknown), viz:

25 Cases Groceries
Weight 1840 lbs.

Assigned to *Walter Wood & Co* of *Jacksonville Fla*

Mark and Numbers. *# W.W.*

Rates per 100 lbs

Weights and Classification subject to Correction:

Freight, \$ _____

Charges, \$ _____

Insurances, \$ _____

Shippers are Requested to Read this Contract.

A steamship bill of lading.

claration of having received the goods in good order and condition, and the consequent obligation, subsequently expressed, of delivering them in like good order and condition, is sensibly lessened in its importance by the additional clause now adopted by almost all transportation companies—namely: "Contents and condition of contents

of packages unknown." Should the goods or part of them be shipped in a damaged condition, or in a bad condition of packing, a note to that effect should be made by the transportation company on the bill of lading, which ceases then to be a *clean bill of lading*.

Like any other instrument of credit, a bill of lading may be deposited with a creditor as security for money

PENNSYLVANIA RAILROAD COMPANY											
WAY-BILL OF MERCHANDISE forwarded from <u>Lancaster Pa</u> to <u>Williamsport Del</u> via <u>Harrisburg</u> <u>April 12</u> 1887											
NO.	CLASS	CONSIGNEE	SHIPPER'S NAME AND RESIDENCE	DESCRIPTION OF ARTICLES	WEIGHT	CLASS	RATE	AMOUNT OF FREIGHT	TERMINALS	PAID	TO BE COLLECTED
11970		Burus	Mrs M. E. Burus	1 Stone (white)	300	3	11	33			33
Total of Freight and Other Charges					300	3	11	33			33

Agent

A local waybill.

advanced (or it may be transferred to a buyer) by means of indorsement, and the property or goods will be thereby either mortgaged or assigned. Acting upon this principle, the shipper declares in the bill of lading that the goods shall be delivered unto the consignee or his assigns. When a shipper is unable to insert the name of the consignee at the time the bill of lading is made out, a *bill to order* is drawn up wherein the consignee's name is superseded by the words *shipper's order*, or simply *order*; it being thus understood that the goods shall be delivered to whomsoever presents, at point of destination, the bill of lading duly indorsed by the shipper. By such a simple arrangement as a *bill to order* the merchant is enabled to sell the goods while they are at sea, or in transit, and a consignment of merchandise may change hands several times before arriving at its destination.

When a case of merchandise to be shipped has been properly entered and weighed it is then ready to be *man-*

ifested or *waybilled*, as no shipment is allowed to go forward without a waybill. The WAYBILL is simply a memorandum of the consignment, together with full and complete shipping directions, giving also the number of the car into which the case has been loaded, and the point to which the car is "carded." The freight conductor has waybills for all goods which he carries. They are turned over with the merchandise to the agent of the railroad at the point of destination.

Our illustrations show (1) a *shipping receipt*—the half marked "*original*"; (2) a *steamship bill of lading*; (3) a *local waybill*.