15. Over-certification of cheques is strictly prohibited, rendering officers or clerks liable to imprisonment.

16. National bank directors are by law individually liable for the full amount of losses resulting from violations of the national banking laws.

STATE BANKS

Upon the establishment of the national banking system the greater number of the banks incorporated under the laws of the several States were organised as national banks. With others, however, the rights of issue did not outweigh some inconveniences of the national system, and as a result there is now an important class of banks, and loan and trust companies, organised under State legislation and carrying on a deposit and loan business. The regulations under which they work are necessarily diverse, and the amount of public supervision over them varies in different states. The State banks in existence when the national banking system was organised were obliged to retire their note circulation, owing to the fact that the government imposed a tax of ten per cent. on their circulation. The object of the tax was to secure the retirement of the State bank-notes to make room for the circulation of the national banks. The internal mechanism of State banks differs but slightly from that of national banks.

FINANCE, TRADE, AND TRANSPORTATION

II. SAVINGS BANKS AND TRUST COMPANIES

SAVINGS BANKS

Nearly $2,000,000,000 is deposited in the savings banks of the United States. This large sum represents the savings of about 5,000,000 people. The primary idea of a savings bank and of the post-office and other forms of saving institutions in foreign countries is to encourage thrift among the masses of the people.

The older savings banks, especially those in the eastern States, have no capital stock. That is to say, they are mutual in their form of organisation. Their capital is the accumulated deposits of a large number of people. The depositors are the owners. When taxes and other expenses are paid and a proper reserve set aside, the remaining profits go in the form of interest to the depositors. Many of the savings banks in the western States are capitalised as are other financial institutions, and on the Pacific coast they have capital stock or its equivalent in the form of a reserve fund in which the majority of the depositors are not interested otherwise than so far as it affords security for their deposits.

As these banks are the custodians of the surplus savings of large numbers of people the laws of the several States have hedged them about with many safeguards, not only for the protection of the depositors but of the institutions themselves. It is eminently right and proper that the State, through its bank commissioners or otherwise, should so far supervise the operations of savings banks as to see that they perform their part of their contract with depositors.

Safety, at best, is relative only; there is no absolute safety for the twenty-dollar piece a man has in his pocket, whether he is on the street, at his office, or by his own fireside. We are reminded that 'riches take to themselves wings' and that 'thieves break through and steal.' No savings bank can keep money on hand or deposit it or loan it with absolute safety. All is comparative. It is a peculiarity of money that each dollar requires watching; general supervision is insufficient; hence it is that the safety of moneyed institutions depends upon the capacity and honesty of those in control, and not upon adherence to arbitrary rules. No set of rules can be adopted that will bind dishonest men nor that will compensate for want of experience and ability of honest ones.

There is really no conflict between commercial and savings banks. In fact, a large number of the commercial banks of a country allow interest upon average balances and standing deposits in the same manner as savings banks. Primarily the savings bank creates wealth, while the commercial bank handles it; the savings banks are creative, while the commercial banks are administrative. The aim of the savings bank is to gather money and invest it safely and thus bring profit to the depositor; the aim of the commercial bank is to lend money at fixed charges and thus bring profit to the institution. The former opens its doors to savers, the latter to borrowers. One serves by receiving and keeping and the other by lending. The savings bank aims at making men savers as well as producers. It offers the aid of the strong, who can manage well, to the weak and inexperienced. If the 5,000,000 depositors of savings in the

United States were to hide away their own savings nearly $2,000,000,000 would be withdrawn from circulation. The savings bank invests its money. Its managers are as a rule intelligent men, competent to make safe investments in solid securities. The best savings banks are conservative and do not encourage speculation.

The rules and regulations of savings banks differ largely. In some institutions deposits of a dime at a time are accepted; in others a dollar is the limit. Deposits usually begin to draw interest on the first day of each quarter, but they are entitled to it only if they remain until the end of the half-year. Thus money deposited on the 1st of January is entitled to six months' interest on the 1st of July, though it is not entitled to any interest if withdrawn in June. Some few banks allow interest to begin on the 1st of each month. Most savings banks do not permit money to be withdrawn short of thirty days' notice. Students of this course who are interested in securing definite information upon this subject regarding any particular bank should apply to that bank for a set of its rules and regulations for the information of depositors.

TRUST COMPANIES

There has grown up in this country a class of financial institutions which take a sort of middle ground between the commercial bank and the savings bank, so far as their service to the public is concerned. These are what are known as trust companies. National banks are prohibited by law from making loans on real estate, and though State banks are not hedged in in this way, as a matter of good banking they usually avoid loans of this character. The policy of commercial banks is to make a great many comparatively small loans on short-time paper, while that of the trust company is to make large loans on long-time securities. The deposits of trust companies consist largely of undisturbed sums such as might be set aside by administrators, executors, trustees, committees, societies, or from private estates. They are such as are not likely to fluctuate greatly in amount. From the very nature of their deposits trust companies find it convenient and profitable to make larger loans and at longer periods than do ordinary banks. Trust companies not only receive moneys upon deposit subject to cheque and for savings, and loan money on commercial paper and other securities, as do commercial banks; but they also act as agents, trustees, executors, administrators, assignees, receivers for individual properties, and corporations. They frequently assist as promoters or reorganisers of corporations and in the sale of stocks, bonds, and securities. They act also as agents for the payment of obligations maturing at future dates, such as the premiums on insurance, interest on mortgages and bonds, etc. Trust companies are organised under the laws of the State in which they exist and are usually subject to all the supervision required in the case of State banks.

FINANCE, TRADE, AND TRANSPORTATION

III. CORPORATIONS AND STOCK COMPANIES [1]

CORPORATIONS

STOCK companies are usually referred to as corporations, though all corporations are not stock companies. A corporation is a body consisting usually of several persons empowered by law to act as one individual. There are two principal classes — (1) public corporations and (2) private corporations. Public corporations are not stock companies; private corporations usually are. Public corporations are created for the public interest, such as cities, towns, universities, hospitals, etc.; private corporations, such as railways, banks, manufacturing companies, etc., are created usually for the profit of the members. Corporate bodies whose members at discretion fill by appointment all vacancies occurring in their membership are sometimes called close corporations.

POWER TO BE A CORPORATION IS A FRANCHISE

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

[1] For a preliminary treatment of the subject of this lesson the student is referred to Part I. of this book, entitled "General Business Information," especially Lessons XII. and XV.

There are two distinct methods in which corporations may be called into being: First, by a specific grant of the franchise to the members, and, second, by a general grant which becomes operative in favour of particular persons when they organise for the purpose of availing themselves of its provisions. When the specific grant is made it is called a charter. In the case of private corporations the charter must be accepted by the members, since corporate powers cannot be forced upon them against their will; but the charter is sufficiently accepted by their acting under it. When special charters are not granted individuals may voluntarily associate, and by complying with the provisions of certain State laws may take to themselves corporate powers. In some of the States private corporations are not suffered to be created otherwise than under general laws, and in others public corporations are created in the same way.

A CORPORATION MUST HAVE A NAME

A corporation must have a name by which it shall be known in law and in the transaction of its business. The name is given to it in its charter or articles of association and must be adhered to. The necessity for the use of the corporate name in the transaction of business follows from the fact that in corporate affairs the law knows the corporation as an individual and takes no notice of the constituent members.

CORPORATE INTERESTS

In municipal corporations in the United States 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. In corporations created for the emolument of their members interests are represented by shares, which may be transferred by their owners, and the assignee becomes entitled to the rights of membership when the transfer is recorded; and if the owner dies his personal representative becomes a member for the time being. In such corporations also shares may be sold in satisfaction of debts against their owners.

ADVANTAGES OF CORPORATIONS AND JOINT-STOCK COMPANIES OVER PARTNERSHIPS

The following are given as a few of the advantages which are claimed for corporations and joint-stock companies over partnerships:

1. Union of capital without the active service of the investors.
2. Better facilities for borrowing. It is a common thing for a partnership to be changed to a stock company for the express purpose of raising money by the issue of bonds or stock.
3. Limited agency of directors. A partner may pledge and sell the partnership property, may buy goods on account of the partnership, may borrow money and contract debts in the name and on the account of the partnership. Directors of a joint-stock company must act in accordance with the provisions of the by-laws of the company.
4. The continuous existence of a company.
5. New shareholders are admitted more easily than new partners.
6. A retiring partner is still liable for existing debts. A shareholder may retire absolutely by selling his stock and having it legally transferred.

FINANCE, TRADE, AND TRANSPORTATION

IV. BORROWING AND LOANING MONEY[1]

THE MONEY MARKET

MONEY, like other articles of commerce, has for hundreds of years had its fields for the production of the raw products, its manufacturing establishments, its markets and exchange centres, its sellers and buyers, its wholesale and retail dealers, and its brokers and commission merchants. Out of this trade in actual coin has grown a trade in paper notes, which are really only promises to pay coin, and out of this latter trade has grown up during recent years a still further enormous trade in securities representing all kinds of property. Very often these securities are based solely upon the credit of the names attached to them, so that our modern system of borrowing and loaning money is really a system of borrowing and loaning credit. When our government borrows $100,000,000, as it did a few years ago, it gives "its bond" that the money will be paid. When States, or cities, or railroads, or other corporations borrow money they issue bonds guaranteeing payment at a particular time. When an individual borrows money he gives his "bond" in the form of a promissory note. These bonds pass from hand to hand

[1] The student is also referred to Part I. ("General Business Information"), Lesson IX.

and have a fairly constant value in the money market. They really represent the money trade to a much larger extent than does actual coin, so that the borrowing or loaning of money really means, to a very large extent, simply the borrowing or loaning of credit. If we borrow a $10 gold piece we borrow money; if we borrow a $10 bill or an indorser's name for the back of our note we simply borrow credit — in the one instance the credit of the United States and in the other the credit of the man who indorses our paper.

BORROWING FROM BANKS

It is the business of a bank to loan money to responsible persons within reasonable limits. The regular customer of the bank is entitled to and will receive the first consideration if the demand is larger than the bank can safely meet. A business man should not hesitate, when occasion requires, to offer his bank any paper he may want discounted, if in his opinion it is good, nor should he be offended if his banker refuses to take it even without giving reasons. A portion of the loans of many banks consists of investments in solid bonds, but the bulk of the loans of banks is made on commercial paper. Time and demand loans are made upon collaterals of many descriptions. The larger banks loan on an average from $50,000 to $100,000 a day. Banks *discount* paper for their depositors — and simply term the operation discounting; but when they go outside of their line of depositors in making investments in time paper they call it *buying* paper. They generally buy from private bankers and note brokers. National banks are prohibited from loaning over ten per cent. of their capital to any one individual or corporation except upon paper representing actually existing merchandise.

WHAT ARE COLLATERALS?

If a business man borrow $1000 from a bank on his note and give ten shares of stock to the bank, to be held by it simply as security, the stock thus given would be termed collateral. These collaterals are not the bank's property and the bank is responsible for their safe keeping. If coupons mature while bonds are being held as collateral, the owners are usually allowed to collect the amount for which they sell. Sometimes one note is given as collateral security for another which is discounted.

ACCOMMODATION PAPER

Notes and acceptances that are made in settlement of genuine business transactions come under the head of regular, legitimate business paper. An accommodation note or acceptance is one which is signed or indorsed or accepted simply as an accommodation and not in settlement of an account or in payment of an indebtedness. With banks accommodation paper has a deservedly hard reputation. However, there are all grades and shades of accommodation paper, though it represents no actual business transaction between the parties to it and rests upon no other foundation than that of mutual agreement. No contract is good without a consideration, but this is only true between the original parties to a note. The third party, or innocent receiver or holder of a note, has a good title and can recover its value even though it was originally given without a valuable consideration. An innocent holder of a note which had been originally lost or stolen has a good title to it if he received it for value, the law justly protecting such a holder against the fault or carelessness of others.

NOTE BROKERS

Merchants sell a great many of their notes in the open market — that is, to note brokers. The banks buy these notes from the note brokers. The assistance of the broker who handles commercial paper is a necessary and valuable aid to the purchasing bank. Fully three fourths of all the paper purchased by banks in large cities is purchased upon the simple recommendation of the note brokers. As a rule these brokers simply transfer the paper without guaranteeing by indorsement its payment. Notes bought by banks from note brokers without their indorsement are held to be guaranteed by them to be all right in all points except that which covers the question of whether they will be paid or not. The bank uses its best judgment in taking the risk. If the note dealer in selling notes to a bank makes what he believes to be fair and honest representations regarding any particular paper — statements of such a straightforward type that upon them no charge of false pretenses can be made to rest — he simply guarantees the note genuine as to names, date, amount, etc., and that in selling it he conveys a good title to the paper. As business men, however, they are very cautious and are exceedingly anxious that the paper they sell shall be paid, and as a rule they make good any losses which grow out of apparent misrepresentations on their part.

BANKERS' RATES FOR LOANS

In loaning money on demand, when it is strictly understood between bank and borrower that the money so advanced is positively minute money — money returnable at any minute when the bank calls for it — banks usually charge low rates of interest. When interest rates are high bankers prefer to deal in long-time paper. This general rule is reversed when the situation is reversed. Bankers aim also to scatter and locate their maturities so that as the seasons roll around they will not have very large amounts maturing at one time and very small amounts at another. They plan also to be "in funds" at those seasons when there is always a large and profitable demand for money. For instance, in the centres of the cotton-manufacturing interest the banks count on a large demand for money between October and January, when the bulk of the purchases to supply the mills are made. Again, among those who operate and deal in wool there is an active demand for money in the wool-clip in the spring months. The wheat and corn crops are autumn consumers of money. Midwinter and midsummer in the north are usually periods of comparative stagnation in the money market. All these things affect rates, and the successful banker is he who from observation and large experience shows the most skill in timing his money supply.

FINANCE, TRADE, AND TRANSPORTATION

V. COLLATERALS AND SECURITIES

TWO DISTINCT CLASSES OF SECURITIES

THERE are two distinct classes of mortgage securities—one class based upon the actual value and the other upon the earning value of the property. When a man lends money upon a dwelling-house he bases his estimate of security upon (1) the cost of the property, (2) its location, (3) the average value of adjoining properties, and (4) the general character of the locality; that is to say, the value of the property is the basis of the security. On the other hand, the lender of money upon railway mortgages, for instance (that is, the buyer of securities known as railway mortgages), considers the general earnings of the road rather than the cost of building and equipping the road as the correct basis upon which to estimate the value of the security. These two classes of securities differ in other particulars. The value of the mortgage upon ordinary real estate is constant and the security itself is not so likely to change ownership, while the value of the railway mortgage may vary with the success or failure of the road, and the security itself is in the market constantly as a speculative property. The whole property of a railroad company, considered simply as real estate and equipment, is usually worth but a small