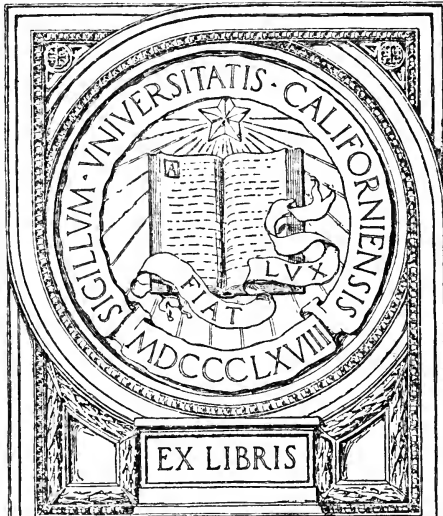


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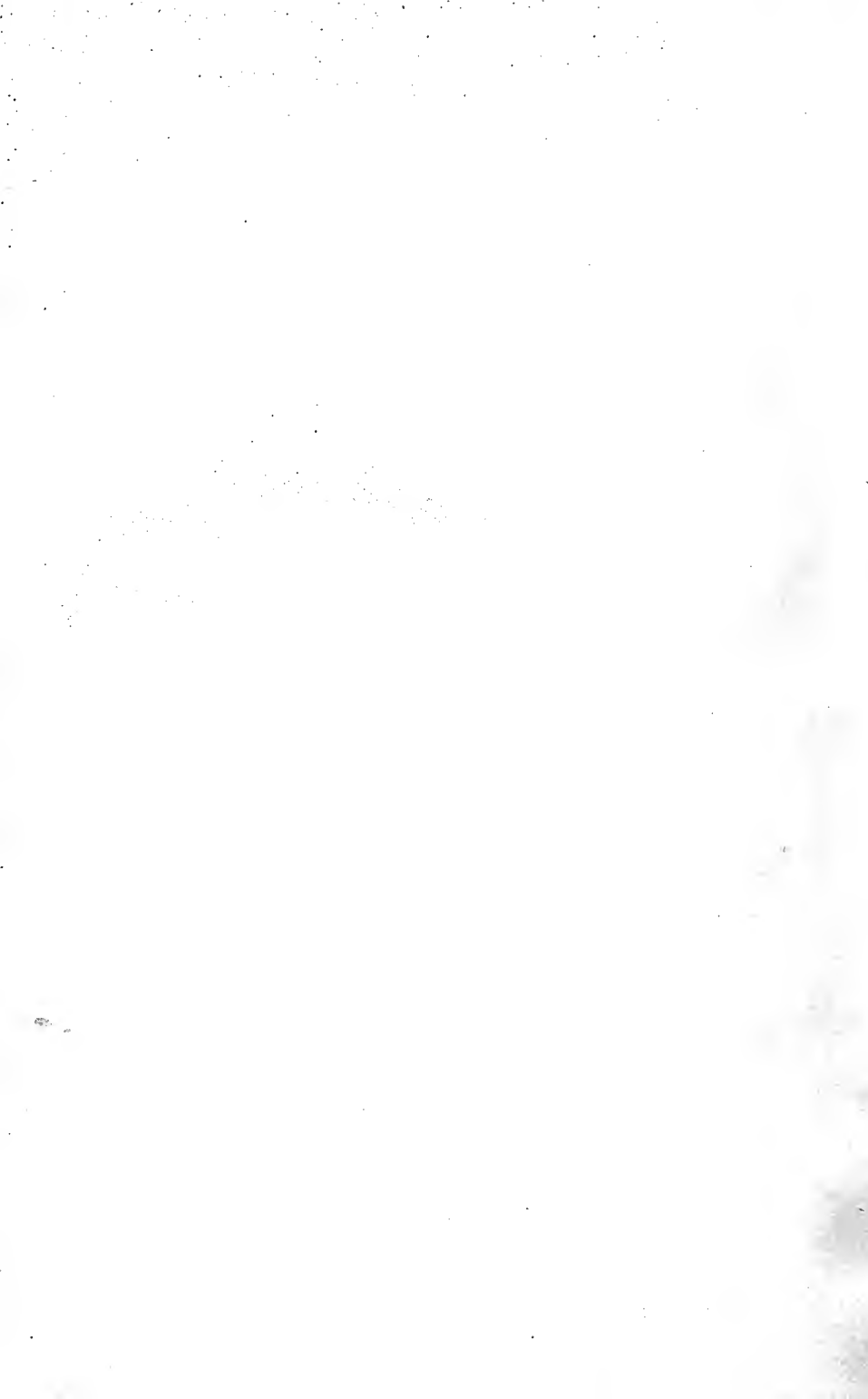


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THE BANKER'S CREDIT MANUAL

THE BANKER'S CREDIT MANUAL

A COMPLETE SURVEY OF THE CREDIT DEPARTMENT—ITS OBLIGATIONS
AND ITS OPPORTUNITIES. HOW TO SYSTEMATIZE THE WORK,
STABILIZE OPERATIONS, AND FACILITATE INVESTI-
GATIONS; TOGETHER WITH SCHEMES FOR
COMPARATIVE ANALYSES AND
MANY APPROVED FORMS
REPRODUCED IN
FACSIMILE

By

ALEXANDER WALL

Credit Manager
National Bank of Commerce
Detroit

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THE WHO
ASSOCIATION

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Gift of Mrs Berton Einstein

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THIS BOOK IS DEDICATED TO
ST. MARK'S SCHOOL, SOUTHBORO, MASSACHUSETTS, WHOSE
MOTTO, *AGE QUOD AGIS*, SHOULD BE THE MOTTO
OF EVERY CONSCIENTIOUS CREDIT MAN

FOREWORD

EVERY book should have an object, and that object, whether it be to entertain or educate, should be clearly understood at the very start so that only those to whom it would be of value may undertake its reading. The reason for this Foreword is to explain clearly in a few words the objects of this book, which are two—for it may be called A Why and How Book.

The basic reason of this book is to educate. The idea of entertainment does not enter into its conception except as some of the ideas in it may please those students of bank credit who are in love with their work and to whom it may bring the stimulating effect of giving them an opportunity to compare their own ideas with the ideas of others.

Primarily it is not meant for the more mature minds in the field of bank credit, except in some chapters, but is more widely meant for younger men—assistants who are possessed of sufficient zeal to study the technique of bank credits so that they may more readily achieve judgment and credit knowledge.

The opening chapter deals with the theoretic principle of credit very briefly. The colleges provide long courses for the deeper study of economics, but no book on credit can be complete without some discussion of the subject from this standpoint. The average man approaches this kind of study, however, in an attitude of skepticism and distrust. "Give us something practical," is the cry, and so this is written with the idea of giving as little theory as possible and as much of the practical as can be.

There are many forms; nearly all reproductions of those in actual use by representative banks, but some are adaptations and combinations made with the idea of offering suggestions. These are by no means only the forms used by the author, in his own

FOREWORD

work, but are in many instances forms received through the courtesy of friends whose departments touch other phases of credit than his own. Every part of every form, however, has been tested by actual use and serves a definite purpose.

The objects, then, are to show how and why certain things are done and certain records kept in any well-organized bank credit department with the object of making it easier for the younger credit men to learn and understand the use of their tools and to help the older man compare his method with that of others.

A. W.

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THE BANKER'S CREDIT MANUAL



The Banker's Credit Manual

CHAPTER I

SOME CREDIT ECONOMICS AND WORD DEFINITIONS

IF we are to study any subject it behooves us first of all to understand what we are to study. While the object of this book is to disclose some of the theories and practises by which a bank credit man attempts to solve his problems, yet we can not undertake the study of the machinery itself until we know what we are handling. So many business men and successful bankers have achieved their successes by dint of their own intuitive, clear-headed judgment, that they are sometimes too prone to dismiss as futile all study of the theoretical kind. The college professor and his economic laboratory are put aside as theoretic vagaries to be tolerated perhaps as a kind of plaything for the boys and girls, but not to be considered as of any practical value in the every-day affairs of business. There can be no doubt, however, as to the fact that every business success of long standing and firm foundation has become so because the man at the head of that business operated, knowingly or subconsciously, in accord with the basic laws of political economy. Some men may have developed their theories by academic study, trimmed and rounded by experience. Others may have reached success by the long, hard daily grind. But either extreme and all between, if they are to continue successful, must conduct themselves in accordance with the laws of political economy.

all the dangers that surround business. The bartering of the ancients accomplished the trade and the payment at one and the same time. The double necessity of wants tended to this. But in the modern world the product passes through many hands before it ultimately reaches him who wants it for consumption, and, while the old barter laws of want or demand, having or supply still govern value, the maker or producer parts with his product long before it reaches the hand of the consumer. The interval between is an ever-widening one, and the machinery is more and more complex, so that perhaps the most difficult part of the system to understand and at the same time the most necessary to our modern world, is credit.

Credit has been variously defined. The dictionary says "sale on trust." Henry Dunning McLeod says of credit: "Credit is the present right to a future payment." William Stanley Jevons, an English economist, says: "Credit is found to be nothing but the deferring of a payment." Professor Richard T. Ely defines credit as "A transfer of goods for a promised equivalent." Professor C. J. Bullock states, "Credit may be defined as the power to secure commodities or services at the present time in return for some equivalent promised at a future time."

There are several main points that are present in each of these definitions. First, that there must be an exchange of goods, wealth or service for which no actual final payment was made at the time of that exchange. Second, there must be an expectation of future payment based on a promise of the buyer to make such payment. Third, there must be confidence on the part of the seller that the promise of the buyer to effect a final settlement is certain of fulfilment. There should be a fourth element present where we are considering this subject from the angle of com-

mercial use; that is, there should be some expression of the medium in which, or the measure by which the future payment is to be gauged. Taking all these points into consideration and using the dollar as our accepted measure of value for the proper fourth element, the following seems to be a good definition for our purpose: Credit is the power to secure the present transfer of wealth, measured in dollars or other monetary standard, by a promise to pay at a future time, based on the confidence of the seller in the ability and willingness of the buyer to meet his obligations.

IS CREDIT A POWER OR AN EXECUTED ACT?

There is a very decided difference of opinion as to whether credit is a power or a fact. Some very able men claim that credit only exists after having been used. That is to say the transfer of goods must have been made before credit exists. Others believe that credit is a potential power to secure goods upon the conditional promise. If the opinion of the first group is correct, then there is a little difference between credit and debt. It seems more narrow and less forceful than the interpretation that credit is something vital, potential, a power and not a dead transaction awaiting only the burial. From the banking standpoint there can be little argument but that credit is a power. In its larger uses, the best firms or individuals arrange for a credit line, or a line of credit, with their bankers. This means that under certain agreements and with certain restrictions the borrower is assured that he may at any time borrow up to the amount of the line agreed upon, and certainly credit in this instance is a power which does exist prior to the actual use of the line granted. The extent of a man's credit is not measured by what he has used,

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but by the amount he is able to use. The full measure of credit is the greatest amount that may be purchased at any time with promises of future payment. This maximum may or may not be in use. That part which has been used is surely debt and that which has not been used is still a potential power for further purchases.

Modern business is transacted in this country almost entirely by instruments based on credit and depending upon the credit judgment of commercial and bank credit men for the soundness of these instruments. The system is intricate in the extreme and the space afforded here can not begin to cover the various phases of credit in all its ramifications. It can only touch upon a few of the high spots to bring the matter out in relief or suggestive form so that the student may perhaps have his desire stimulated to dig deeper into that most interesting subject, credit.

BANKS—THE MANUFACTURERS OF CREDIT

The place occupied by banks in the credit scheme is distinctly peculiar. They are in fact manufacturers and jobbers of credit. Unlike their commercial brothers, they have no merchandise wares which they sell for cash or on credit terms. They have only one main staple article for sale and that is credit itself. The demand for this commodity is dependent upon the activity of business, and at the same time the activity of business is the source of the supply. Credit is an endless circle when viewed from the bank man's standpoint. In every stage of development from the production of the raw material until the time it reaches the ultimate consumer there are a series of endless circles whose perimeters touch first one banking office and then another. Here they are loans, there they create deposits and in the end one oper-

ation washes another, one credit wipes out another, and one deposit goes to build up another.

It may be interesting and illuminating to take as an example a single commodity and trace it through its most important stages. A man with a few thousand dollars and some land starts as a farmer and plants a crop of corn. He owns his land free and clear and has enough cash to carry him through the planting season up to the harvest. First he may deposit his cash in a bank to buy his seed corn—he draws checks against his account, and continues to draw until the harvest time. Harvest time finds him short of money to pay the harvest hands. He goes to his bank and demonstrates to the loaning officer that he is good for a certain amount of credit. He gives his note and secures a credit against which he can continue to draw so as to pay for the expense of harvesting. Then he sells his corn to the country elevator. The elevator company has not enough funds to pay for all the corn they wish to buy. After the first few carload lots are purchased the elevator company sells to the grain dealer in the central city. The corn is loaded, consigned to the city purchaser and the railroad company issues a bill of lading. The country elevator man goes to his banker and by drawing a draft against the purchaser of the corn and attaching the bill of lading and discounting the draft with his banker is put in funds to buy more corn. He repeats the operation many times. These drafts are forwarded to the city in which the purchaser is located. The purchaser takes up what he can with his own money and then arranges to have the bank with which he does business extend him credit based on the corn represented by these bills of lading. The bank of the original grower has been paid by the farmer when he received payment from the country elevator. The coun-

try elevator pays its bank when its drafts are paid by the city dealer and the city dealer pays his bank when he finally sells the corn to the consumer. In all these operations very little cash figures; possibly none at all. The banks have provided the credit which has taken the form of a credit to the checking account of the customer and the credit has been passed along and washed by transfer of ownership of the corn and the issue and execution of checks and notes.

BANKS—THE ACCUMULATORS OF CREDIT

Banks are the accumulators of credit through the receipt of deposits. The deposits so received are either transferred into liquid credit directly by the bank's machinery or are used as the basic reserve for the manufacture of credit. If a bank has to keep a ten per cent. reserve against deposits and, for argument's sake, is keeping exactly such a percentage, then for every ten thousand reserve funds the bank would be allowed to receive one hundred thousand deposits. Therefore a bank having received a ten thousand dollar deposit from some customer of funds that could be used as reserve would be in the position of being able to manufacture one hundred thousand additional deposits by expanding its credit machinery. This could be done by granting loans of one hundred thousand dollars, the results of which were credited to the borrower's checking account. As a practical matter it is this principal of loans resulting in bank balances that binds the loans and deposits so closely and that in the past caused such strain and stress on the bankers and on credit machinery.

BANKS—THE TRUSTEES OF CREDIT. PERCENTAGE OF LOSS

This position of the loans being so closely connected with the deposits puts banks in a rather peculiar position in that the bulk of the funds they lend are in truth the funds of their depositors. The position is in reality akin to a position of trust. It is well to keep this in mind as a danger sign against being too liberal in making loans or too superficial in making credit investigation, as the loans are from funds held in trust and therefore worthy of careful handling. However, this condition should not make the credit man timorous. A certain amount of loss is bound to occur; except in an air-tight policy, and it is very difficult to make any policy air-tight enough to stop all loss. There is such a thing as a fair percentage loss, and if the bank falls much below such a fair percentage then it is either extremely fortunate, or, more probably, too conservative and losing good business through fear of "taking it on," as the phrase goes. If a bank can operate on a one-fifth of one per cent. of its loan turnover as a loss it is safe. If this percentage be reduced to one-eighth of one per cent. it probably has good credit management. If it falls to a one-tenth or a twelfth of one per cent. the bank is becoming conservative, and if it gets much below this it is a pretty certain thing that the bank is losing good business by being afraid to take a fair banking risk. A normal risk will be accompanied by a normal loss. Therefore if the loss is far above or below normal the risks taken have tended to be too great or too narrow.

The grain loans referred to differ in security, if not in economic effect, from the ordinary commercial loan in that there was security back of the loan at all times. Not the general credit of the borrower, but the actual grain itself having at all times a

known market. In the case of commercial loans this condition does not exist and it is more with this class of loan that the credit man of a bank is directly interested. Loans in which he is most deeply interested are the non-collateral loans based entirely on credit and business performance. However, in any case the circle between credit and deposit works in the same manner, and when a loan is unusual the credit study becomes more acute, more difficult and more interesting.

BANKS NOT PARTNERS

In making a straight loan the bank man must realize and impress upon the borrower the fact that the bank in no way expects or intends to become a partner in the business. In this kind of loan the function of a bank is clear and distinct. There is no doubt as to just what a bank is supposed to do when it is engaged in commercial business. The only mistake is that too often the borrower does not understand the proper use of his credit line and gets into bad business practice. This is so often the case that it is worthy of comment, and perhaps a full economic understanding by the bank man himself may put him in a proper position so that he will feel stronger in making his side of the story perfectly plain at the very start.

PEAKS OF BORROWING

In either a manufacturing plant or a jobbing house there is nearly always a seasonal condition of the inventory or the receivables. By this is meant a time when the house stocks up in inventory either raw material to be manufactured and sold or a stock of merchandise to be jobbed. There is a peak load in inven-

tory running maybe for several months before the selling activity reduces it to a normal or sold-out state. It requires a greater amount of investment to carry this inventory over this period than the funds of the company are capable of handling. To meet this condition a large quantity of goods is sold with the option of paying for them in sixty or ninety days under the supposition that a certain amount of selling will have resulted in sufficient liquidation from the goods to permit of payment. These long terms are almost always accompanied by a proposition allowing a discount for cash payment within a comparatively short time. The wise man in good credit standing arranges for a credit line with his bank to enable him to secure funds with which to pay his debtor on the cash basis so that he may get the full advantage of this discount. He in turn should then so arrange his business that he will use the proceeds of the sale of the goods to reduce his bank loan, paying out when the inventory has been worked down again.

From another angle a manufacturer may justly and with proper economic foresight use his bank credit to secure a proper amount of raw material, pay manufacturing costs and merchandise the completed product. This is a proper use of bank credit. But the operation should run in cycles and there should be expansion and contraction, not just expansion nor even steady borrowing.

LIQUIDITY OF CREDIT ESSENTIAL TO GOOD BANKING

Bank credit is designed to be used only in a liquid manner and should not be used as a permanent partnership capital at any time. This latter is the affair of the stockholder or owner of the

business and permanent capital should be the result of investment or earnings.

There should be a minimum and maximum of need to carry merchandise, or perhaps accounts, and the difference between these is the real field of the bank loan. From the minimum down the carrying should be a matter of investment and not commercial borrowings. One of the greatest causes for financial stress and the trials and tribulations accompanying commercial panics is, beyond question, the transforming of commercial credit that should be liquid and liquidating into a semi-moribund form of capital or non-liquid credit extensions.

The thought of keeping credit at all times in a truly liquid state should always be foremost in the minds of bank men in particular, as it is through the instrumentality of banks and bank loans that this fluid force is moved from industry to industry as the demands of commerce shift and change. The best proof of liquidness is occasional liquidation.

CHAPTER II

BANK CREDIT DEPARTMENT FUNCTIONS

THE function of a bank credit department is not as simple as some may at first suppose. It has a much wider scope than merely preventing loss through the failures of certain names that may be owing the bank money. Of course these departments are primarily intended to investigate carefully all applications for credit with the idea of throwing out or rejecting those unworthy of support and credit extension. But there is a field beyond the mere rejection of loans, and that bank credit man is not always the best who, at the end of the year, can point with pride to his loss record and say we have had less loss than ever before. It is not such a difficult thing to become a human negation, saying no at every turn of the wheel. The really valuable credit man must have vision. He must be able to see the dangers, estimate the risk and have enough courage to steer a course on the outside stormy seas as well as in the land-locked harbor. It is far easier to cry "Wolf, Wolf," and run to cover than it is to stand at the front line taking the knocks for some struggling, striving producer, who, left alone, would go down carrying ruin to himself and loss to others with him. It is the man who, with the courage of his true convictions, takes a decided stand for real development and pockets his losses that makes a real credit man. It takes backbone and some mental and moral fiber to be a developer, to make a credit man. With nothing but "NO" from bank credit

men there would be little development in business, and as a class there is none other that has a greater task or a more wonderful opportunity for big things than bank credit men.

QUALITY, NOT SIZE, THE MEASURE OF GOODNESS

The true function of a bank credit department is to investigate minutely all requests for loans, assemble all possible data and make such an analysis of conditions that the fair banking risk may be assumed by that bank of which the credit department is a component part. No matter should be too small to investigate, no case so big as to allow its mere bulk to overawe and secure accommodation to which it is not entitled. It happens far too often that loans are made to large interests just because they are large and because the credit man may be intimidated by mere size. It happens quite as often that small loans are turned down because they appear insignificant and their Lilliputian size alone gets them a negative answer.

The bank man should never lose track of the fact that all capital, all wealth of every kind is economically the certain result of saving. At its inception all wealth was small and many of the largest industries of to-day are the outgrowth of very small beginnings. All cases, both large and small, should be considered on their merits and if things are reduced to a relation or percentage basis, the small risk may often show up more advantageously than the big one that takes so much more space in the sun. Therefore it would seem that the truest and first function of a credit department is fearless, impartial investigation and decision.

PROPER PRESENTATION OF ESSENTIALS TO DISCOUNT COMMITTEE

The second function is a proper presentation of the case to the discount committee, or such other part of the bank organization as exercises the decision of making or rejecting loans. To do this in a right manner means a proper keeping of records indicating the history of the account in the bank, the use of all the sources of credit information at the disposal of a bank credit man and an analysis of the information received so that it may be condensed and appear before the loaning officers, or discount committee, in as short a form as is consistent with a complete assembling of all essential information.

WHEN SHOULD CREDIT INVESTIGATIONS BEGIN

While some credit men and executives do not agree, the fact seems, to the writer, to be patent that the proper time to start a credit investigation is at the moment any account is opened. There are of course a large number of accounts that are accommodation accounts, such as those of the families of officers of large corporations, friends of depositors carrying large accounts and a great mass of people who wish to avail themselves of the advantages of paying bills by check, etc. Among these there are many that will never be borrowers in the strict sense of the word. That is, they may never offer a note for discount or ask that kind of credit accommodation. It may seem idle or useless to keep any record of these accounts in the credit department. The occasion often arises, however, when such an account may through error or otherwise issue checks in excess of its balance and create an overdraft. The question then arises as to whether or not such a check should be paid, allowing the overdraft; or

whether it should be thrown out for "not sufficient funds." Its relation to other accounts then plays a most important part in the decision and this should certainly be a matter of record somewhere, and the proper place is in the credit department.

Another matter that enters very largely into the payment of a small overdraft check is the normal condition of the account, which is most surely shown in the average balance that the account has displayed during its life in the bank. This is also a very important thing in connection with all accounts, as the average balance is the customer's contribution to the welfare of the bank and in a degree determines the consideration, at least, which his association with the bank is entitled to receive.

The start then of credit records should be made at the interview that the officer opening the account has with the customer. It is a simple matter for that officer to ask a number of questions and to make a note of such general information as comes to his attention at this time. However, it is not enough for the officer to make inquiries and accumulate the information for himself only and then attempt to carry this information in his own mind. All credit information should be a matter of record for the use of all officers of the bank and should be properly tabulated and filed so as to be readily available. This should be part of the records of the credit department.

The form and manner in which this information should be filed has been, and must necessarily be, largely a matter of choice in the different departments of the various banks. Most banks have adopted one of two or a combination of two methods: the use of a folder containing the whole information, the use of card files, or a combination of card file and folder. There is much to be said in favor of any one of these three methods. The writer him-

self believes in the combination plan, using the folder for the more bulky material and the card file for the less bulky or the digested matter.

THE CREDIT FOLDER

As the folder is to be the resting place of much credit information a discussion of its style should come first in our efforts to standardize or prepare for the proper handling of information. As a matter of expense it is wiser to accept as a size for the folder such dimensions as will fit into some standard filing device. The one most used is a vertical folder that will accommodate the ordinary letterhead size sheet without folding. Many men use a folder capable of holding full legal size sheets, but this is more cumbersome to handle and in addition wastes much space because letters are usually on a standard sheet and most reports come on sheets of about the same size. It seems but a matter of good sound judgment to decide that any information that is worth filing at all is worth filing in such a manner that it will not become lost, and the best way to accomplish this is to have it attached to the folder. Some credit men have adopted the plan of having the information put on sheets that can be fastened on the margin. Others have it fastened on the top, others at the bottom. Some folders have elaborate indexes as part of their equipment.

Another point to be considered is the subdivision idea. Too many subdivisions tend, in the writer's opinion, to make a file cumbersome and unwieldy. For himself he has adopted the file with two main divisions. One for information received direct from the customer and the other for information received from other sources. The attaching of the information to the file is

accomplished by having two ears turned in at the bottom of the file, one on each side.

Each ear at the bottom being folded in and punched with two holes makes it possible to attach, by the ordinary brass spreader-pins to be found in any office supply store, all sheets or memoranda that the credit department wishes to keep.

Another very good folder form has a central leaf to each side of which information may be easily attached by the same kind of spreader-pins. This may be more desirable as it makes possible a larger division of types of information. It, however, is a much more costly file and the advantages gained may or may not warrant the expense as the needs of the department determine.

In any case the method of attaching the information sheets having been decided upon the subsequent forms used by the department should be designed with this in mind.

If we are to use the two-sided form of folder with attaching space at the bottom, the form on the opposite page is suggested as a serviceable sheet for collecting information when an account is opened, using ordinary letterhead size as mentioned, the cut here being reduced in size, for obvious reasons.

This is at least a beginning and gives the credit man authentic information as to when an account was opened, how it came to the bank and what kind of an account it is supposed to be. It forms at least a starting point that will be helpful for future investigations.

Name.....	Date.....
Address.....	
Occupation.....	
Other bank accounts.....	
Reason for opening this account, <small>Personal</small> Commercial	
Will the account be <small>Borrowing</small> Non-borrowing	
Approximate balances \$.....	
Introduced by.....	
Account accepted by.....	
References for possible credit investigations.....	
.....	
.....	
.....	
Relation to other accounts.....	
General remarks.....	
O	O

A CREDIT RECORD CARD FOR NEW ACCOUNTS

The writer has developed the idea a little further than this and uses a seven by nine and one-fourth card for this purpose that really serves two purposes. It collects the information obtained at the time the account is opened and also acts as a record of the average balances actually kept by the customer. This result is obtained by using both sides of the card, one for the opening information and the other for the average monthly balance record. A reduced facsimile of this card is shown on pages 21 and 22, indicating both back and front of card.

There are a good many adaptations of this average balance card, some in three by five, some five by eight and some six by nine sizes. For a card showing nothing but average balances, a three by five card is ample, and can carry an average balance record for eight or ten years.

But a large proportion of the accounts of a bank have another relationship than that of depositor alone. The borrowing account brings into existence a whole new set of relationships, a record of which is desirable for use by the credit department and loaning officers. The discount ledger, of course, reflects the borrowing record in detail and with complete accuracy. But the credit department can not have the discount ledgers continually, nor is it convenient or good policy for a loaning officer to drag out the discount ledger whenever a borrowing customer comes in to talk over his loan. It is desirable to have a complete survey of the borrower's relation with the bank on as small a card, as condensed as possible and still giving the essential information over as long a period as may be practical.

First of all we should determine what such a record should contain and then how this record may be best kept for ready use. We have mentioned the average balance and as this is what the customer does for the bank, we retain this as part of the record. This should be the average of the daily balances figured and registered for monthly periods. The bank loaning money to its customer is contributing to the success of his business and a record of the amounts loaned and the fluctuations in the loans should be a matter of credit department record. Inasmuch as the balances are figured on a monthly basis the loan record should be kept in parallel columns and so reduced to a monthly record. In order to measure accurately the fluctuations, the high and low

Name _____ 19 _____

Pres. _____ Address _____

Vice-Pres. _____

Sec. _____ Business _____

Treas. _____

Account will be personal, business, borrowing.

Probable average balance \$ _____ First Deposit \$ _____

Account transferred from _____

Reasons for change _____

Other bank accounts _____

Credit line extended by other banks \$ _____

Introduced by _____

Account accepted by _____

Signatures taken by _____

Refers to _____

Remarks _____

Letters of inquiry _____ Dun _____

Bradstreet _____

Com'l Credit Co. _____

Interchange Bureau _____

AVERAGE 19.....
 19.....
 BALANCE 19.....
 19.....

Name _____

Ave. Balance	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year							

Size of original 9¼ x 7

points in the loans for each month should be recorded. Loans are often of two kinds—direct and indirect, direct loans being the paper or notes of the borrower discounted and the indirect being the notes of his customers rediscounted by him with the bank, bearing his endorsement, and on which he is contingently liable. Therefore a record of both the direct and indirect loans should be kept because in both instances the customer is getting accommodation from the bank by the extension of credit and the variation and scope of this accommodation should at all times be instantly available for the loaning officers. These two records will disclose what the bank and the customer do for each other.

A CREDIT RECORD CARD FOR THE BORROWER

But a mere history of the account as to what has been done is not enough. There should be some indication on the record as to why loans were granted or on what they are based. This involves some sort of a memorandum taken from the statement (a full discussion of which comes at another point), perhaps a record of collateral pledged and certainly a memorandum of guaranty on file or endorsement. There should also be a memorandum of the kind of business the subject name is engaged in, and if a corporation, some record of who the people responsible for its running may be. The record should also show whether or not the subject has an established line of credit held open for its use. It may also be interesting to note whether there is a tendency to overdraw or whether or not insufficient funds have made it desirable to return checks unpaid. The promptness with which a company takes care of its notes or whether it allows them to run past due is also an interesting and valuable thing to have at hand when talking to a borrower about an account.

Many banks keep all this information in various kinds of records, books, cards, sheets, folders, etc. The form on pages 25 and 26 makes it possible for the credit manager, or loaning officer to have all this information and sign-posts immediately available and in accurate but inconspicuous form whenever he may be talking to a borrower. The record shown runs for three years on one side of a card and the back holds a further three years. The card is ruled so that it is turned over on a horizontal axis when looking on the reverse side. This is technically known as a tumble card and for the writer it has proved easier and more convenient to handle than a card where the top is the same on both sides. It has the added advantage of giving a new top edge for fingering after three years' use, which in cards that are frequently used is a decided advantage.

An explanation of this card is given here by references to the letters marked on the card.

A—The name of the individual, firm or corporation.

B—The kind of business engaged in.

C—The business address of the subject, sometimes supplemented by the telephone number if the business is such that telephone calls are frequent.

D—The president's full name.

E—The vice-president's full name.

F—The secretary's full name.

G—The treasurer's full name.

H—The yearly average balances for the four years previous to the record carried on the card itself.

I—The date on which a statement was requested.

J—The date on which the statement was received. This is not the date of the statement itself, but the day on which the bank received it. Over a number of years this indicates

19.....
 AVERAGE 19.....
 H BALANCE 19.....
 BALANCE 19.....

19.....
 Rec. Rec. Rec. Held
 I J K

Name A
 Business B
 Address C
 Pres. D
 Vice-Pres. E
 Sec'y F
 Treas. G

LINE L		LINE M		LINE N		LINE O		LINE P		LINE Q		LINE R		LINE S		LINE T		LINE U		LINE V		LINE W		LINE X		LINE Y					
19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....	19.....				
Net Worth	Liabilities	Excess Quick	Highest Loan	Ave. Balance	Lowest Loan	Net Worth	Liabilities	Excess Quick	Highest Loan	Ave. Balance	Lowest Loan	Net Worth	Liabilities	Excess Quick	Highest Loan	Ave. Balance	Lowest Loan	Net Worth	Liabilities	Excess Quick	Highest Loan	Ave. Balance	Lowest Loan	Net Worth	Liabilities	Excess Quick	Highest Loan	Ave. Balance	Lowest Loan		
Jan.																															
Feb.																															
Mar.																															
April																															
May																															
June																															
July																															
Aug.																															
Sept.																															
Oct.																															
Nov.																															
Dec.																															
YEAR																															

Name **A**
 Business **B**
 Address **C**

Pres. **D**
 Vice-Pres. **E**
 Sec'y **F**
 Treas. **G**

19.....
 Net Worth
 Liabilities
 Excess Quick
 Highest Loan
 Lowest Loan
 Ave. Balance

19.....
 Net Worth
 Liabilities
 Excess Quick
 Highest Loan
 Lowest Loan
 Ave. Balance

19.....
 Net Worth
 Liabilities
 Excess Quick
 Highest Loan
 Lowest Loan
 Ave. Balance

19.....
 Net Worth
 Liabilities
 Excess Quick
 Highest Loan
 Lowest Loan
 Ave. Balance

19.....
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 Net Worth
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 Excess Quick
 Highest Loan
 Lowest Loan
 Ave. Balance

19.....
 Net Worth
 Liabilities
 Excess Quick
 Highest Loan
 Lowest Loan
 Ave. Balance

19.....
 Net Worth
 Liabilities
 Excess Quick
 Highest Loan
 Lowest Loan
 Ave. Balance

AVERAGE 19.....
H
 BALANCE 19.....

Req. Rec. **I**
 Req. Rec. **J**
 Req. Rec. **K**
 Held **K**

LINE	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y
19.....	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth	Net Worth
	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities	Liabilities
	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick	Excess Quick
	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan	Highest Loan
	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan	Lowest Loan
	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance	Ave. Balance
Jan.														
Feb.														
Mar.														
April														
May														
June														
July														
Aug.														
Sept.														
Oct.														
Nov.														
Dec.														
YEAR														

the average time that elapses between request for and receipt of a statement. It helps to know this when talking to a customer and trying to hurry along a statement a little.

K—Sometimes it is better policy to have some officer ask for a statement and to hold up the more formal request from the credit department. The date this decision was made and the initials of the officer who is to handle the case are then entered on the card in this space. It then becomes the duty of the officer to get the statement and the credit department is relieved of the responsibility.

L—The amount of the limit of credit, or the credit line, is entered at this point together with the date the line was made and whether or not it is straight, endorsed, guaranteed or against collateral, or to cover all types in total.

M—The year covering the statistics up to the double heavy rule to the right is entered here. The dates of the statements are also entered in this space over the columns in which the figures are put.

N—In this space a notation of the net worth is made. This is taken from the statements rendered to the bank by the customer, or in some instances from an agency report. When taken from an agency report the figures are written down in green ink to keep this fact before the minds of the loaning officers.

O—The total debt of the subject is entered in this space. It includes all liabilities, both liquid and funded.

P—The margin between the current assets and current liabilities is entered in this space. The full explanation of these three items, their derivation and importance will be brought out in a chapter on statement analysis at a later point in this book. In these and all other entries on this card the cents are omitted as not significant.

- Q—In this space is entered the highest point reached by the direct loan for the month.
- R—This space is used to indicate the lowest point reached by the direct loan for the month.
- S—Here is entered the highest point reached by the indirect loan. These are sometimes called rediscounts by customers.
- T—The lowest point reached in the month by the indirect loan is entered in this space.
- U—It sometimes happens that a city bank sells some of the notes from its discount ledgers to country correspondents. Once a month the amount of any name so sold is recorded in this space in green. As these notes are of course sold without recourse there is no legal liability but there is a moral responsibility, and it has often been deemed wise to have some indication of these activities recorded on the ready reference files of the credit department.
- V—At times the maker of a note does not appear at the bank on the day of the maturity of the note and the note runs past due. The space here reserved is used to indicate the number of times this happens and is shown by a little green check mark. A goodly number of such marks against any name show pretty clearly habits of carelessness that react very decidedly against any one's credit standing.
- W—On the line in this space is entered the average monthly balance of the account.
- X—This whole column is used for memoranda of endorsers, guaranty bonds showing amounts, expiration dates and names of guarantors. In ordinary cases the collateral on collateral loans is also entered in this space.
- Y—The average balance for the year is figured and entered in this space.
- Z—It sometimes happens that an account is so run that balances are not sufficient to pay checks. Every day that this happens a little red mark is entered in the average bal-

ance space near the top. This happens more often on the accounts that are not borrowing accounts and is entered in the same general location on such cards.

With a record like this before him any officer has at hand, in condensed form, most of the essential points of contact between the customer and the bank and is in a position to transact business quickly and without much display of lack of confidence. A great many banks have all of this information on a number of cards, sheets, or in folders, but the compactness of this record is what makes for its greatest effectiveness. Banks that do not care for such a card can adopt parts of it and complete their records in the manner that will best suit their needs.

These cards are also useful for a quick review of loans by a discount committee or board of directors. The more detailed information needed and the types of analysis used, such as comparative analysis sheets, etc., will be discussed in succeeding chapters.

CHAPTER III

SOURCES OF CREDIT INFORMATION

THE securing of credit information of a reliable nature is of course one of the most important functions of the bank credit man. The sources from which a credit man draws his information are dual. The first is that which comes from the borrower—internal; and the second is comprised of all kinds of information derived from outside sources—external. Even though intentionally honest the first of these sources is subject to a bit of optimism that must be counterbalanced by keen analysis and judgment on the part of the credit man.

THE PROPERTY STATEMENT

The first and basic bit of information that the bank credit man wants from his customer is a signed property statement. Only a few years ago the majority of borrowers became highly indignant if asked for a statement of their affairs. This was a temperamental relic from the time the bank's cashier and each one of its customers were first-name friends and the credit department was contained in the cranium of the cashier, to live and die with him for the most part. But in the present it is more nearly the rule that all companies willingly give their statements to their bankers. In fact, we have about progressed into the second stage in which the banks will almost universally receive statements from their customers based upon an independent audit by a firm of char-

tered accountants. It is so general a custom now that there is little or no difficulty in getting statements. It becomes more a matter of routine process resolving itself into the problem of remembering when to ask for a statement and the writing of a courteous letter. The wise borrower no longer attempts to assume a haughtier-than-thou attitude but is eager to place at the disposal of the bank all information that is essential. He does this because the function of service has come to be recognized in banking circles. The bank credit man who is awake to-day and realizes that he is a producer and not a destroyer prepares his files and records so that he can be of real assistance to the borrower by putting him in touch with valuable information regarding his business. This service side has appealed to the borrower and he no longer goes to the banker as a sort of father confessor but rather as an advisory partner.

As the credit statement is the subject-matter of a separate chapter, the further discussion of the form it should take and its analysis will be deferred except the remark that a proper analysis of a property statement is probably the first and best source of credit information. This is true except where the statement is false, and whenever that condition exists the credit man is treading in a quagmire and is pretty sure to come out with a loss. In this connection the credit man should walk with great care. If there has been fraud the dishonest debtor should be made to feel the full force of the law and should under no circumstances be forgiven or allowed to offer a compromise. This is no more than an ethical stand and the bank credit man, whose sole merchandise is credit based on confidence and truth, should be most insistent that confidence and truth be not violated. There have been banks that found themselves, among a host of credit-

ors, the only ones possessing absolute proof of dishonesty, and which have steadily refused to take one hundred cents on the dollar for themselves and surrender the proofs to the detriment, or, rather, preferment, over the other creditors. In the long run it is better to be known as a man or bank that takes a loss courageously, gives credit reasonably and demands honesty invariably.

THE STATEMENT REQUEST

Success in getting anything one wants from the person who has it, is largely a matter of diplomacy. The request for a statement which a bank sends out can be worded so as to arouse a spirit of antagonism in the borrower, and it can be so worded as to place him in a reasonable frame of mind and willing to cooperate quickly and gladly. There is some difference of opinion as to whether the request for a statement should be on a printed form or a special, fully written letter; whether it should be actually signed or whether a specimen or rubber stamp signature will do. If the idea is to get the statement with the least friction and the greatest cordiality, then the closest personal form of letter is surely the best and there can be little doubt but that this is the straight letter, fully typewritten, not printed or multigraphed, and signed manually by the credit man or an officer. When a customer is giving the bank the full details of his business it is surely not too much for the bank to treat the matter as of some importance and send a real letter without the earmarks of routine. Friendliness always begets friendliness and the personal touch helps. As a matter of suggestion the following letters are offered as good examples of letters that have been and are to-day in use by some progressive banks. Only the body of these letters is supplied.

DEAR SIR :

The custom on the part of the banks to ask annually for a confidential statement from customers, is, we believe, conducive to the best interests of all concerned.

Will you, therefore, kindly fill out the *enclosed blank*, giving special attention to the questions at the foot of the page, and return it to us as soon as possible? It is important also that the statement be signed by some one in authority.

Thanking you for complying with our request,

Yours very truly,

Cashier.

DEAR SIR :

In the revision of our credit files, we observe the last statement we have from you is over a year old and, that our records may be more complete, may we ask that you furnish us with figures of a more recent date?

We enclose herewith one of our blank forms and would appreciate your using it, filling out the same as completely as possible, inserting the words "No" or "None" where you have no other answer. This will facilitate making our comparisons and it also conforms to the requirements of our finance committee.

Thanking you for your courtesy in this matter, we are,

Yours very truly,

Manager Credit Department.

GENTLEMEN :

In looking over our files we notice we do not have a copy of your latest statement, and as we are anxious to keep our information up to date,

may we thank you to fill in the enclosed blank, showing your financial condition as of _____.

Thanking you in advance for your kindness in this matter, we are, Very truly yours,
Credit Manager.

DEAR SIR:

The last statement which we have of your company is dated _____. It is of decided advantage to both your company and the bank that our files be kept up to date in every respect so that we may more fully serve you by being at all times well informed concerning the progress of your company.

Will you kindly fill out the enclosed form, as of your last inventory date, and return it to us as soon as convenient? Very truly yours,
Manager Credit Department.

STATEMENTS AND THE FEDERAL RESERVE BANKS

A new phase has come into the question of giving statements and that is the attitude of the Federal Reserve Banks. Rediscounting with them is limited to rediscounting notes that have been issued for commercial purposes, and to determine this the Federal Reserve Banks need statements. Taking advantage of this the writer has prepared a simple folder, explaining the attitude of the Federal Reserve Banks, which is enclosed in every statement request leaving his department. It has proved successful as it appeals to the borrower's natural desire to be classed with the choice or best risks. It has brought statements from delinquents and in several instances has brought the heads of business into the bank with their statements and a desire to ex-

Eligibility for Rediscount
WITH
FEDERAL RESERVE BANKS

== THE ==
National Bank of Commerce
OF DETROIT

Rediscounting

CREDIT STATEMENT

(To be attached to Each Note Offered for Rediscount.)

Commercial or Industrial

TO THE

FEDERAL RESERVE BANK of Chicago:

Name.....

Address.....

Business.....

Date of last statement.....

ASSETS:

Cash on hand.....\$.....

Bills and Accounts }
Receivable — good }\$.....

Merchandise—good.....\$.....

Real Estate and }
Buildings }\$.....

Other Assets.....\$.....

Total.....\$.....

LIABILITIES:

Bills Payable.....\$.....

Accounts Payable.....\$.....

Mortgage or }
Bonded Debt }\$.....

Other Liability.....\$.....

Capital.....\$.....

Surplus and Profits.....\$.....

Total.....\$.....

Contingent Liability.....\$.....

Annual Business.....\$.....

Profit Last Year.....\$.....

Loss Last Year.....\$.....

Purpose for which }
this loan was made }\$.....

.....Bank

.....Cashier

The Federal Reserve Banking System started a new era in banking practice in this country. It has made it possible for banks to rediscount in an orderly and acceptable way, such notes as they may have which meet the requirements of the law and the regulations of The Federal Reserve Board, made under authority of the law.

Every merchant should be informed of the law and regulations covering rediscounts by banks so that he may put the paper of his company in the class eligible for rediscount with the Federal Reserve Banks. As the system grows it is almost certain those names that are known to be eligible for rediscount will be considered the prime names.

The following quotation from the regulations of 1917, issued by the Federal Reserve Board describes the character of paper that is subject to rediscount by the Federal Reserve Bank:

“The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal Reserve Bank, has determined that:

(a) It must be a note, draft, or bill of exchange the proceeds of which have been used or are to be used in producing, purchasing, carrying or marketing goods in one or more of the steps of the process of production, manufacture, or distribution.

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.

(c) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character.

(d) It may be secured by the pledge of goods or collateral, provided it is otherwise eligible.”

The Federal Reserve Bank of Chicago has ruled that all paper offered for rediscount, by its members, must be accompanied by a statement of assets and liabilities if the amount of the note is in excess of \$5,000. This information is treated in a most confidential manner, as The Federal Reserve Banks never under any circumstances discuss credit information with any bank except the bank supplying the information. The following is the form used by the Federal Reserve Bank of Chicago in securing the information upon which they base their judgment as to the eligibility of the note.

On top of this card the name of the company is entered, and the address, sometimes the name of the individual officer to whom the statement is to be forwarded. In the year column under the heading is entered the date on which a request is mailed. The card is then filed in an alphabetical file under the caption "Statements asked for but not yet received." At regular intervals the credit manager looks over these cards and sends a second or third, and generally terser, request for desired information. If, after several requests at reasonable intervals, no statement is forthcoming, the next maturity date is noted and a notice may be sent asking for the payment of the loan or a reason why no statement has been sent. This leads generally to an interesting interview. When a statement is received its date, not the receipt date, is entered on the card under the heading "Date of statement" and the card is filed in a monthly index section under the caption "Statements Received." Cards for statements due in months yet to come are filed in a monthly index section under the caption "Statements not yet due." The first of each month the cards for that month are reviewed and disposition of them is made, requests being sent or held for a time as is decided best and wisest in each instance. When the date of a statement has been put on a tickler card this matter is checked by the clerk, who has handled the transaction, initialing the statement itself on the upper left-hand corner, and no statement is analyzed until so initialed. This makes the record complete and reduces mistakes to a minimum and places responsibility where it belongs.

THE PERSONAL CREDIT INTERVIEW

Next in importance to the statement is the personal interview. There are many people who hesitate to fill out questions on a

printed form who will talk freely in an interview and give a great mass of detailed information that can be secured in no other way. In this connection a questionnaire or printed memoranda pad may be very convenient to take down such information as applies to new loans. This formal memorandum is the subject-matter of a discussion in the chapter on the discount committee and suggestions concerning its use will be found there.

Another and very important source of information is the plant of the company itself. An actual visit to the plant will make the statement much more understandable and the explanations given in an interview much more valuable. Whenever it is possible a visit to the plant or place of business is very much to be desired. The personal impartial examination often eliminates a great deal of the optimism that the personal ideas of the managers of the business inject into their remarks or statements.

With the statement, the interview and the visit to the plant, the credit man has about all of the information that he can get direct from the management itself. After securing and assimilating the internal information on any specific risk the credit man should extend his investigation into the external sources where he often gets the most suggestive information—the other man's idea.

COMMERCIAL AGENCIES

The most-used and most highly-developed outside source of information is the commercial agency. In brief there are three general agencies: the national agency reporting on all kinds of business, the national agency limiting its service to one line or kindred lines of trade and the local agency covering more often individuals.

Of the national general type R. G. Dun & Company and Bradstreet's are the most generally used and the best established. Other agencies have sprung into existence attempting work on a national scope and reporting all lines of industry. These two, however, have the advantage of having started when our industrial life was not as complex as it is now and have grown in experience and scope as industries themselves have grown. It is not impossible that another great reporting agency may develop, but to date these two may be held in a class by themselves.

The service of these agencies begins with the issuance of a book that lists active business concerns according to their capital rating, or on the net worth basis, and also classifies them according to their manner of meeting payments. These books are revised four times a year and are no doubt of service to manufacturing companies and jobbers. Their ratings, however, are, of course, based on statements received from the companies rated, of which the bank has, or should have, copies in their own files, when interested in a credit way in any particular name. The rating books are also more or less obsolete by the time they reach the banker's desk simply because of the length of time necessary to revise and print them. However, they form some sort of a starting point on a new name and can be used to a certain degree as a check against the credit man's judgment. This is so because the agency supposedly depreciates values and takes a conservative stand.

The special reports, however, that these agencies issue contain much of value. They usually have a pretty fair antecedent history of the company and some word about the ability and integrity of the management. It surely is valuable to have the past

history of a company and especially the past histories of its executives. This is one of the main things the special reports get for the credit man.

Another thing these reports do is to supply a number of trade opinions. Sometimes these lead to very interesting information, but in many instances they are too much colored by the borrower himself. As a matter of routine the trade reporter asks the subject for trade references and naturally enough the subject always refers to such houses as he has been prompt with, forgetting to mention any with whom he may have been slow or had trouble. For this reason trade references must be read with a grain of caution, and if any source of buying that would seem logical has not been mentioned the credit man himself should inquire and perhaps unearth the slow record.

Both agencies supply inquiry tickets, which should be carefully filled out, and if there is any special feature the credit man wants covered it is well to make a note of it on the inquiry ticket. It is also well to make these tickets in duplicate, retaining one. The duplicate should be so filed that it will come to the credit man's attention in a reasonably short time, and if the report has not been received a second request or a delinquent ticket can be sent to the agency. A good way is to file these duplicates in an alphabetical file and make it a point to look over them all on some certain morning each week. The following forms show the tickets used by both the main agencies and a delinquent report form used by the writer to stimulate the activity of the agency. This delinquent ticket should be sent to the branch manager direct, addressed to his name, and printed on some distinctly colored paper that will be noticed.

SUBSCRIBERS TICKET

The Mercantile Agency,

R. G. DUN & Co.

Give us in confidence, and for our exclusive use and benefit in our business, viz.: that of aiding us to determine the propriety of giving credit, information respecting the standing, responsibility, etc. of

Name,

Business,

Street & No.

Town,

County,

State,

..... Subscriber.

Subscribers to sign the above themselves.

Detroit, Mich., 191..... No.

It costs nothing but a little cordiality, a kindly word and the time to talk, to get one of the reporters from these agencies to drop in once in a while and tell you what he knows. In their trips about the city they pick up a deal of general information that, fitted together by a credit man, often leads to important discoveries. It is a bad plan to be "too busy to talk this morning," for the reporter's friend often gets the news first.

The special agencies operating along trade lines transact their business in much the same manner as do the general agencies.

Local agencies reporting on the pay habits of individuals are a very important source of information. It is often a good thing to see what manner of man may be running a business. If he is

habitually slow personally these agencies will pick up this information, and men of bad personal habits can not expect to be the best executives. These are, perhaps, straws, but they are im-

Commercial Inquiry

DELINQUENT TICKET

On _____ we called for report on

This has not yet been received by us and we would ask when a report on this name may be expected.

THE
National Bank of Commerce
OF DETROIT

Name

Address

Business

Requested

Bradstreet

Dun

Interchange

Com'l. Cr.

Bank

City

This request for credit information is from

The National Bank of Commerce of Detroit

Kindly use due diligence so as to secure this information for us as soon as possible.

For general agency inquiries. Folded at the serrated line it makes possible a carbon copy for the check-up to show whether a report has come in

portant straws and should be heeded, as should the reports of the larger agencies.

THE INTERCHANGE BUREAUS

A new agency which is advancing rapidly is the Interchange Bureau of the National Association of Credit Men. There are some seventy-odd of these bureaus operated by local branches of the National Association of Credit Men. Their one aim is to check on the method of pay by means of cooperative interchange. By a system of inquiry sheets and reply tickets the members of these bureaus give one another the benefit of their combined ledger experience. The member wishing to get the experience of the other members fills out an inquiry ticket, giving his own experience in advance. The form on page 47 shows the character of this ticket and the information given.

The names coming from all members are assembled each morning on a sheet and the complete sheet is sent to every member. See form, page 49.

In addition to sending this sheet to every member, a copy is sent to the central interchange bureau, where a card record is kept showing all bureaus interested at any time in any name. By reference to this card index the central bureau can tell the local bureau where people selling the name under inquiry are located. This makes it possible to secure the experience of every member interested from any bureau. As there are over ten thousand members in this system it can readily be seen that a very great deal of information can be gathered in this manner. It has the advantage, too, of being information from people interested but not referred to, and its percentage of slow pay uncovered is ahead of the referred method by a substantial margin.

When the information is in it is put on to an assembly sheet and every one who has contributed to its compilation is supplied with a copy. On page 51 is a reply ticket for the individual interested, and on page 53 a specimen of the assembly sheet :

If the member is in a hurry, and so states, advance reports may be sent him supplemented at last by the complete report. This speeds up the information and gets more rapid action.

Banks have another means of getting information that is not as readily available for commercial houses. This is in a manner like the interchange bureaus, only it comes from very direct clues and brings accurate, as well as speedy, returns. This is known as trade-checking the customer.

TRADE-CHECKING THE CUSTOMER

As the method of pay is a most interesting and instructive indication of the risk it behooves the bank credit man to apply this test at times. It is rather ineffective to ask the borrower for a list of references, because, as already stated, those given are the best. The bank credit man has an excellent method of getting references. It is an easy matter to have some one watch the check files and discover to whom any customer has been paying money. By making more or less regular inspections of the files a bank credit man can build up a fine list of references on any name he may wish to trade-check. This is not a special list to whom good payment has been made, but is a general list with a pretty good chance of shaking down the adverse opinion along with the good.

There are two ways of using this list, one direct and the other indirect. In the first the bank sends a letter direct to each name on the list. In the second the bank asks some agency to trade-check the list for him, thus concealing the bank's identity. The first method, while it may bring more direct returns

SUBSCRIBER'S INQUIRY TICKET

Date.....

No.....



Interchange Bureau

DETROIT ASSOCIATION OF CREDIT MEN

1031 Dime Bank Building

Telephone Main 4778

Please secure report on :

Name

Street No..... Business.....

Town..... State.....

Formerly at.....

Also uses style

Successor to.....

OUR EXPERIENCE:

AMOUNTS IN DOLLARS ONLY

1 If first order, give amount \$..... 2 How long sold.....

3 Amount of unfilled orders \$..... 4 Highest credit within past year \$.....

5 Owing { Open Account \$.....
Notes \$..... } 6 Past Due { Open Account \$.....
Notes \$..... }

MANNER OF PAYMENT AND COMMENTS

Place X in front of answer

- | | | |
|--|--|--|
| <input type="checkbox"/> Discounts | <input type="checkbox"/> C. O. D. or cash | <input type="checkbox"/> In attorney's hands |
| <input type="checkbox"/> When Due | <input type="checkbox"/> Secured | <input type="checkbox"/> Collected by attorney |
| <input type="checkbox"/> *Slow.....days | <input type="checkbox"/> Makes unjust claims | <input type="checkbox"/> Uncollectible |
| <input type="checkbox"/> Settles by note | <input type="checkbox"/> Unsatisfactory | <input type="checkbox"/> Declined order |

*On slow accounts, state number of days.

NAMES OF HOUSES KNOWN TO BE INTERESTED

Name Town

" "

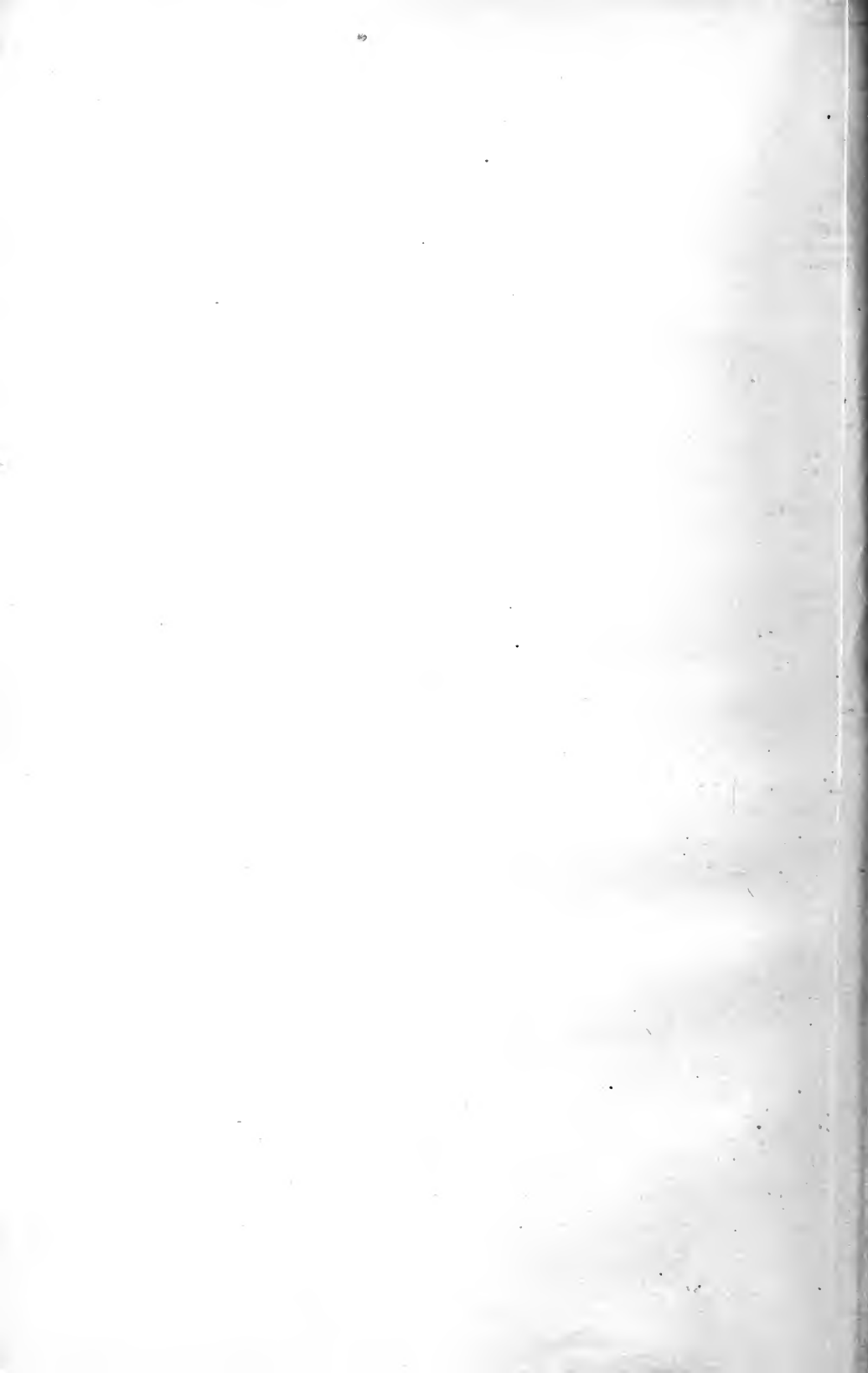
" "

Remarks.....

.....

.....

.....



DAILY INQUIRY SHEET

INTERCHANGE BUREAU

DETROIT ASSOCIATION OF CREDIT MEN

917-918 DIME BANK BUILDING, MAIN 4778

When reporting on names listed below use the SUBSCRIBER'S REPLY TICKET ONLY. Fill in at top of form, the NUMBER of NAME reported on and DATE of the LIST.

CAUTION—Use great care in getting the NUMBER and DATE CORRECT, as this is our ONLY means of identification. Give, in confidence, per rules of the Bureau, your experience with and indebtedness of parties named below.

Please examine this sheet and mail your comments on "names" interested in, at once.

JUNE 5, 1918

DETROIT

*58	W. W. BARTLETT	323 BROOKLYN AVE.	GROC.
*59	WM. BURNSTEIN	1458 MICHIGAN AVE.	G.D. & NOT'S
*60	SAM COHEN	322 MICHIGAN AVE.	GROC.
*61	CONSTRUCTION SERVICE CO.	62 MCGRAW BLDG	REAL ESTATE
*62	EMERSON MFG. CO.	110 FREMONT PL.	MACHINISTS
*63	FIDLER BROS.	262 MEDBURY AVE.	CONT. & MASON
*64	MARQUETTE PRINTING CO.	MARQUETTE BLDG.	PRINTING
*65	MICHIGAN CLO. CO.	253 GRATIOT AVE.	
*66	M. B. O'CONNOR (SUCC. TO O'CONNOR BROS)	400 PENOBSCOT BLDG.	PLB. & HTG
67	SCHWARTZ & SCHUPAN	244 WOODWARD AVE.	
*68	SPRINGMAN PAPER PRODUCTS CO.	75 W. LARNED ST.	PAPER PROD.
69	B. A. TIPPMMANN	2227 W. JEFFERSON AVE.	JEWELER & WATCHMAKER
70	ISAAC WAX	1483 MICHIGAN AVE.	D.G. & NCT.

ILLINOIS

*71	INDEPENDENT PNEUMATIC TOOL CO. (THOR BUILDING)	CHICAGO	PNEU. TOOLS
-----	---	---------	-------------

INDIANA

72	RAY FRUIT CO.	KOKOMO	FRUIT
----	---------------	--------	-------

MICHIGAN

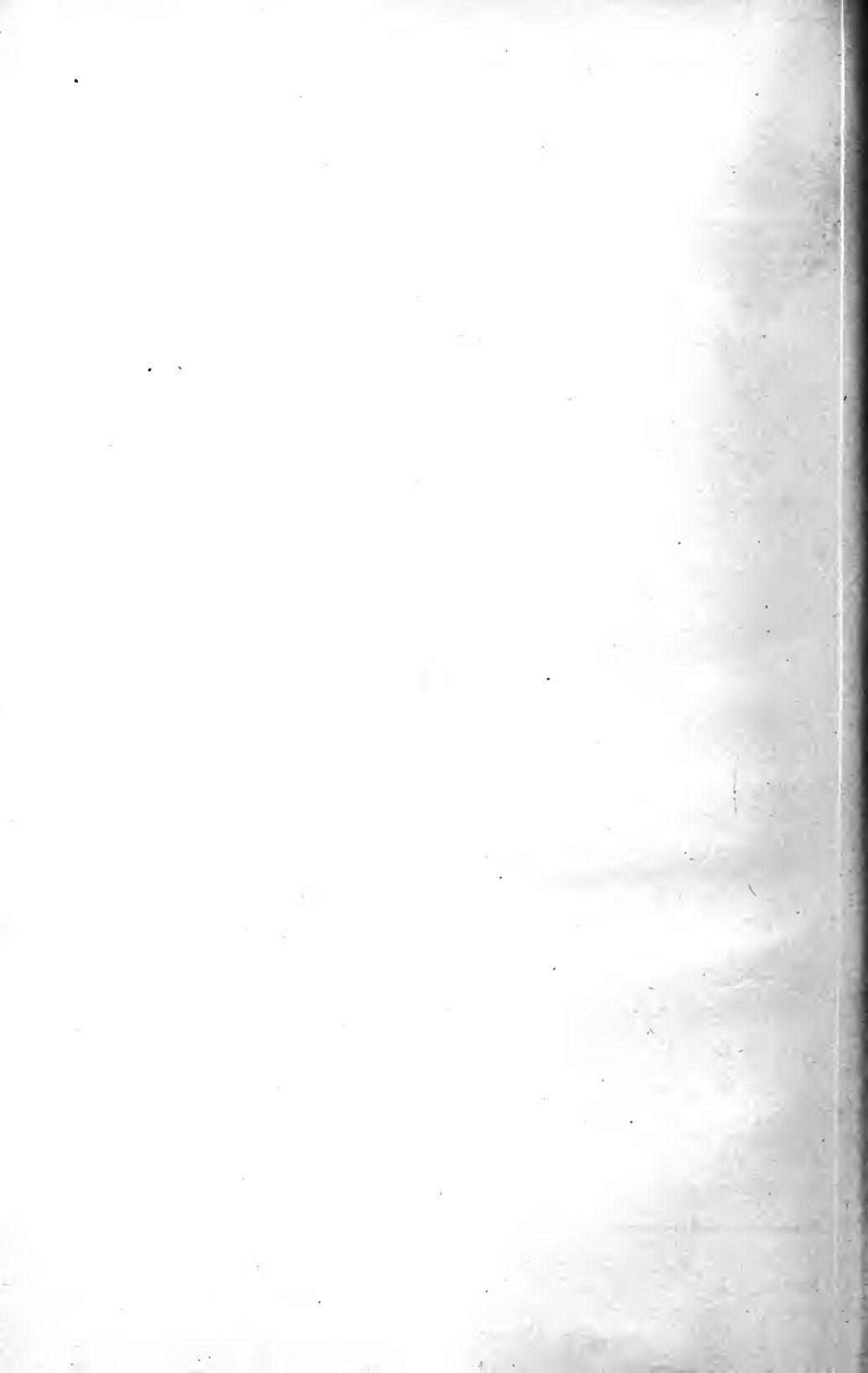
73	N. J. LALONDE	ALPENA	B. & S.
*74	BATTLE CREEK ROOFING & MFG. CO.	BATTLE CREEK	ROOFING
75	ROLLA DEHART	BUTTERNUT	
76	R. H. MERRILL	GRANT	GEN. STORE
77	SOL & LEVIN GITTELMAN	LAKEVIEW	GEN. STORE
78	BLYNN & WHITING	PONTIAC	GROC.

OHIO

79	HARRY M. SLAUTER	CLYDE	CLOAKS & SUITS
80	KEATING ELECTRIC CO. (3249 MONROE ST.)	TOLEDO	ELEC.

PENNSYLVANIA

*81	LEE F. JONES	ATHENS	AUTO.
-----	--------------	--------	-------



SUBSCRIBER'S REPLY TICKET



Interchange Bureau

DETROIT ASSOCIATION OF CREDIT MEN

1031 Dime Bank Building

Telephone Main 4778

Name No..... Inquiry Sheet dated.....

1 If first order, give amount \$..... 2 How long sold.....

3 Amount of unfilled orders \$..... 4 Highest credit within past year \$.....

5 Owing { Open Account \$..... Notes \$..... 6 Past Due { Open Account \$..... Notes \$.....

MANNER OF PAYMENT AND COMMENTS

Place X in front of answer

- Discounts, When Due, *Slow.....days, Settles by note, C. O. D. or cash, Secured, Makes unjust claims, Unsatisfactory, In attorney's hands, Collected by attorney, Uncollectible, Declined order

*On slow accounts, state number of days.

Make comments below, either by using the number on the card of comments furnished by the Bureau, or your own expressions.

Comments:.....

If a copy of tabulated report is desired, check []

Member..... No.....





INTERCHANGE BUREAU

DETROIT ASSOCIATION OF CREDIT MEN

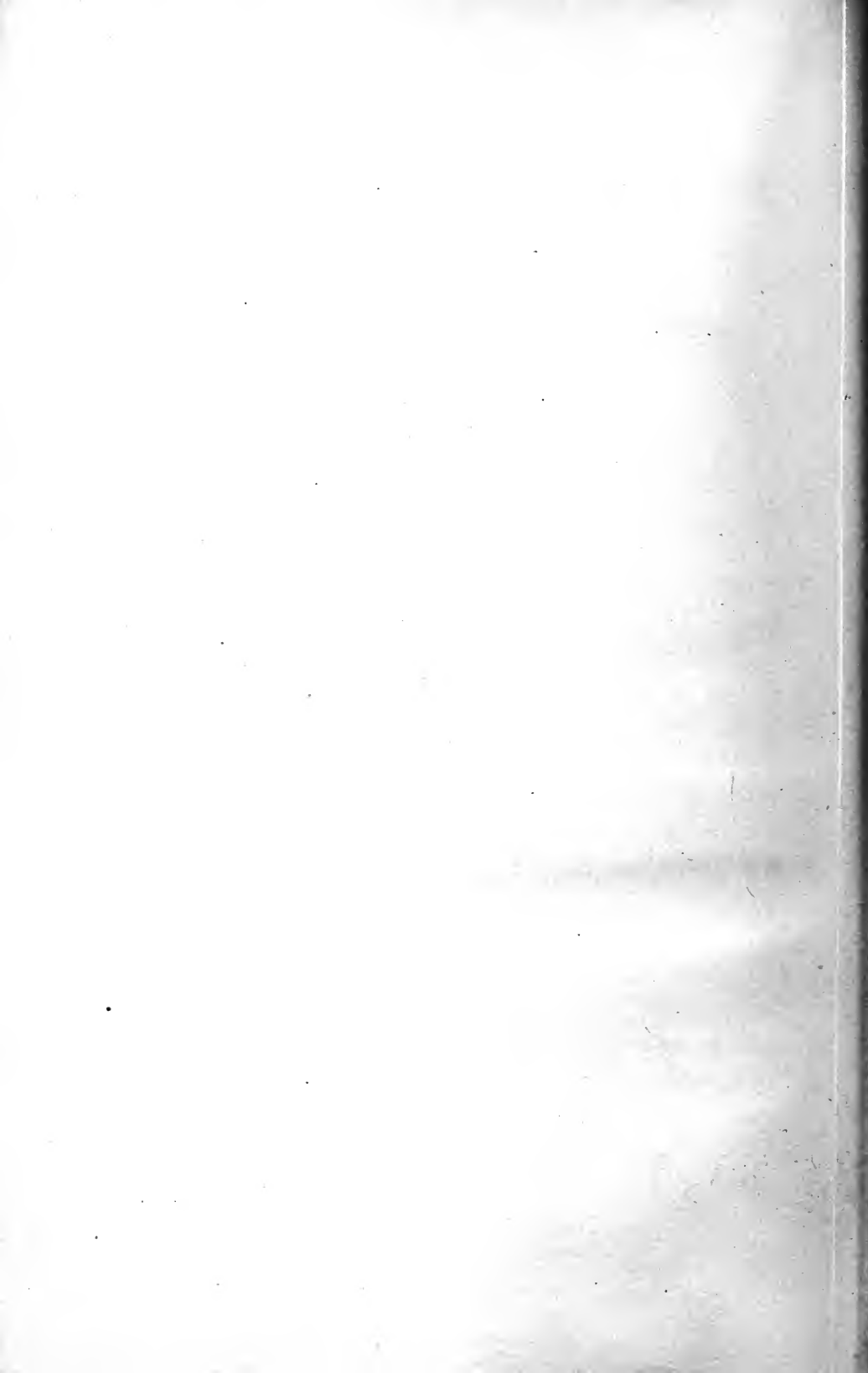
917-918 DIME BANK BUILDING

DATE

- | | |
|---|--|
| <ul style="list-style-type: none"> 1 Usually discounts. 2 Pays when due. 3 Fairly prompt and satisfactory. 4 Slow but considered good. 5 Habitually slow. 6 No regard for terms. 7 Settles by note. 8 Pays notes when due. 9 Do not pay notes when due. | <ul style="list-style-type: none"> 10 Have to be drawn on. 11 Do not pay drafts. 12 Cash in advance. 13 C. O. D. 14 Becoming slower. 15 Secured or guaranteed. 16 Kicker, makes unjust claims. 17 Deducts excessive discounts. 18 Collected through attorney. |
| <ul style="list-style-type: none"> 19 Claim in judgment. 20 Claim in attorney's hands. 21 Compromised claim. 22 Countermands orders. 23 We demand one bill be paid before another is shipped. 24 Declined to make statement. 25 Insufficient insurance. 26 Unfavorable special information. | <ul style="list-style-type: none"> 27 Refuses to pay interest. 28 Previous account too slow. 29 Previous account uncollectible. 30 Purchasing too freely. 31 Association draft not paid. 32 Refused. 33 Consign. 34 Checks protested. |

Report Upon

Bus.	How Long Sold	Unfilled Orders	Highest Previous Credit Within Past Year	Amount Owning	Amount Past Due	Manner of Payment			Comments	
						Dis.	Pays When Due	Days Slow		
Total										
Last Report										
Houses										



and perhaps more personal information, is open to criticism, for the customer may easily ascertain that the bank is checking him. By supplying the sources for checking to the interchange bureau and asking for a general checking, the identity of the bank is merged and at the same time the scope of the inquiry is enlarged by such additions as the interchange bureau may uncover from its own members.

THE PRESS

In addition to those already mentioned, there is one more potent source of information, and that is the press. This is not limited to the daily papers, although they have considerable wheat mixed up with their chaff. It includes all the printed matter dealing with business and business conditions. The morning paper has many sources of information and it is not difficult to run through it and pick out such items as may affect one's customers. There are an endless number of bank magazines dealing with banking as a science and containing items of interest pertaining to business, and there are periodicals restricted to special lines of trade, so if a bank credit man has a large line of business under his inspection he can pretty easily find some section of the press that covers that particular business.

GENERAL HEARSAY AND IMPRESSION

And, above all, remember that we were given ears to hear. Idle bits of conversation on the street-cars, bits of gossip in the clubs and the conversation of clients bring much to the surface that the active credit mind fits together into a pretty sound credit fabric. There is, of course, a great deal that must be discounted or thrown away, but there is a vast amount that can be learned.

Competitors in trade often know a great deal about one another, manufacturers can tell many things about jobbers and jobbers about retailers. To all of these things the credit man must keep an open ear. Some men have clipping books on different topics. One very successful banker and business man of the writer's acquaintance is never without a note-book in which he jots down memoranda of things that he thinks may interest him in the future. His collection of these books is a fairly accurate history of his business, and not only does the reading of these notes help him to remember, but the mere act of transcribing them fixes many things in his mind that in the future may prove helpful in making instant decisions.

CHAPTER IV

STATEMENT FORMS FOR BORROWERS

THE securing of statements as a part of bank credit routine has become an accepted fact and only a small number of houses comparatively are still able to bank on their record and ignore the just requests for real information. These few houses are largely under the control of business men of the older generations, and as these die off and the sons and grandsons take control we find an increasing spirit of American fair-mindedness, and as a result a better understanding between bank and business management. The failure to issue a statement is an indication, at least, of either old fogyism and possibly dry-rot or a wariness in giving figures that may disclose an unsound condition. The absence of any statement should be the first danger signal for the bank credit man. Sometimes it is justified because the officers or large stockholders endorse or guarantee the loan. The claim is set forth that this makes the notes good because of the standing and responsibility of the men themselves. But how is the credit man to judge any more accurately of this responsibility without individual statements than he could of the company's condition without a company statement? As a matter of fact, most men would prefer to give a company statement and eliminate personal statements, and for that reason company statements are easier to get and on the whole they are much more desirable. This is true for two reasons. First, because company statements are first-hand information, and secondly, because a large part of the individual

strength will probably lie in the investment in the company which can not be determined without a company statement.

STATEMENTS OR COLLATERAL

In the mind of the writer the only sound alternative for the issue of a statement is the providing of collateral of an acceptable type. As suggested by the name, collateral loans rest upon the pledge of some security. The character of this should be such that its marketability is a known quality and for which there is a known market. Some collateral loans, so called, are really capital loans because of the fact there is no real market for the security. This is a condition that should be guarded against in all instances by the credit man unless policy demands short loans for the developing of good business. But as a general rule the market and the marketability establish the true value of the collateral.

STATEMENTS AUDITED AND UNAUDITED

Before taking up the statement itself there is one further point to be considered and that is the difference between the direct statement of the company and the statement that has been prepared by the certified public accountant. While the direct statement may be issued with perfect honesty it is still subject to all the optimism of the management which has created the credits that go to make up the accounts and bills receivable, and it is no more than human that it should be difficult to charge these down to the bone and get absolutely basic values. This same condition maintains in the other features of the statement, such as inven-

tory, machinery, fixtures, etc. On the other hand the chartered accountant is not influenced by any of this personal element and sets up reserves or makes depreciations, without bias, designed to bring values down to a true level, and presents a statement that is made up on impartial judgment.

While the audited statement eliminates much of the optimism from receivables and usually arranges for an adequate depreciation of plant, one other feature is often not properly cared for. This is inventory. Many times it will be found that the auditors have taken the inventory as supplied by the management, and if this is the case there is still a long chance of there being old merchandise on hand at a value in excess of the real present value. This may or may not be with intent to defraud, because too many merchants hope to realize even on old stuff, or can not quite bring themselves to the point where they charge off. It is just another of the optimistic points that must be watched.

TYPICAL STATEMENT FORMS IN USE

Banks, as a rule, do, and as a matter of good analysis should, provide a form of statement for their customers to fill out. There is a very sound reason for this. By supplying forms year after year the bank will bring about a more nearly uniform and therefore more readily analyzed set of figures. Individual firms may make radical changes in their books and if left to their own devices each statement can easily be presented in such a varying form that true comparison and analysis is hampered. There should be several kinds of forms designed to meet the main types of business. There are generally three: individual, firm and corporation. But in their essentials there should be a sim-

ilarity so that any business changing from one style to another would still provide information of a like kind.

The information contained in such a statement generally starts with a notation of the name, the type of business, the address, the names of associated branches and the date on which the figures were taken from the books and presented as indicating the condition of the company as of that time. This is followed generally by some sort of a declaration concerning the real authenticity of the statement and declaring clearly and in positive language that the statement is a true and honest expression of existing conditions. Sometimes these declarations are long and sometimes short. For the benefit of those readers who may wish to insert such a clause, not having one, or who may wish to revamp one in existence, or who may merely want to know what the other fellow is doing, several of these clauses are inserted at this point. They are quoted from forms actually in use. It is to be presumed that they have been drafted by, or at least approved by, the attorneys of the banks using them, and for that reason they should serve as good guides. However, any clause so used should be passed on in every instance by the bank's lawyers so as not to injure the negotiability of notes issued under its restrictions, and still be as protective as possible. Several clauses are here introduced :

“For the purpose of procuring credit from you from time to time, direct or otherwise, I herewith submit the following true and accurate statement of my resources and liabilities, as shown by my books on _____.

“In consideration of the granting of such credit I agree that should I make a bill of sale, a mortgage or other transfer of a considerable portion of my property, without notice to you, or

should my stock be attached, or should I make an assignment for the benefit of my creditors, or should a petition in bankruptcy be filed by or against the company, then all and every claim you have against me shall become, at your option, immediately due and payable.”

“For the purpose of procuring credit from above bank from time to time for my negotiable paper or otherwise, I furnish the following as a true and accurate statement of my financial condition on _____, 19—, which may hereafter be considered as representing a true statement of my financial condition unless written notice of change is given to you.

“In consideration of the granting of such credit, it is hereby agreed that in case of the failure or insolvency of the undersigned, all obligations of the undersigned held by said bank shall become immediately due and payable.”

“For the purpose of procuring credit from you, direct or otherwise, we furnish the following as a true and complete statement of our financial condition, as shown by our books on _____.”

“For the purpose of procuring credit from time to time with you for our negotiable paper or otherwise, we furnish the following as a true and accurate statement of our financial condition on _____, 19—. We agree to and will notify you immediately in writing of any materially unfavorable change in our financial condition, and in the absence of such notice or a new and full written statement, this may be considered as a continuing statement and substantially correct; and it is hereby expressly agreed that upon application for further credit, this statement shall have the same force and effect as if delivered as an original statement of our financial condition at the time such further credit is requested.”

“To the Blank Bank :

“For the purpose of procuring and establishing credit and inducing said bank from time to time to make loans or discounts to or in behalf of the undersigned, the undersigned hereby furnishes the following and certifies that the same is a true and correct statement of the financial condition of the undersigned on the _____ day of _____, 19—, and hereby agrees, in consideration of the granting of any credit by said bank to the undersigned, as follows :

“(1) If the assets of the undersigned appearing on the following statement shall at any time be materially reduced or changed, or the liabilities on said statement are materially increased, or the ability of the undersigned to pay all claims and demands against the undersigned according to the purport and tenor thereof is diminished, the undersigned will immediately notify said bank to that effect.

“(2) In case any change shall take place in the assets or liabilities of the undersigned, as aforesaid; or in case of the failure or insolvency of, or the institution of any insolvency proceedings against the undersigned; or in case it shall appear at any time that any of the statements or representations hereinafter made are untrue; or in case any claims of said bank against the undersigned shall not be paid at the time and in the manner when due and payable; or in case the undersigned shall refuse at any time, at the request of said bank, to furnish any additional, or supplemental statement of the business or financial condition of the undersigned in such form as said bank may require; or in case any judgment shall be entered or attachment issued at any time against the undersigned, or in case any change shall occur which, in the judgment of said bank, shall materially reduce or change the assets or increase the liabilities of the undersigned, or affect the ability of the undersigned to pay all demands as and when payable, then, and on the happening of any of these events, at the option of said bank, all the indebtedness of the undersigned

shall become due and payable forthwith, and all obligations of the undersigned shall therefore immediately mature and accrue, anything in the notes or other obligations held by said bank to the contrary notwithstanding.

“(3) Said bank shall have the right at any time to apply any balance standing to the credit of the undersigned on the books of said bank in payment of the indebtedness for which the undersigned may be liable as principal, surety or otherwise.

“This statement is to be regarded as continuing until another statement in writing shall be substituted in its place.”

It can now easily be seen that the range of this declaration is very wide. Some banks are content with a moderate assertion of the fact that the statement is true, while others ask for a far wider declaration. Each type fills its required service and the adoption of one or the other depends upon the needs and experience of the bank in question and the class of customers it serves. The minuteness and extent of this declaration rests to a great extent upon what policy the bank follows and the closeness of its relation to the people to whom it loans money.

Following the declaration the statement forms, as generally designed, arrange for the listing of the assets and liabilities, a short form for an operating statement indicating profits, dividends, etc., and then from one to two pages of questions intended to bring into relief the salient features of the balance sheet.

These forms vary in almost every instance in spite of several attempts to standardize the statement form. This attempt at standardization has many excellent points, but the active credit mind of some does not demand or feel the need of information that to others may seem essential. Actual standardization would mean that every borrower should have to give every bank exactly

the same information. To the mind of the statistician this would be Utopia, as it would make it possible to make comparison studies on a tremendous scale, provided the securing of the statements was possible. But for the present such a thing is unlikely and the unification or their standardization must be at least limited to local associations of banks under the direction of local clearing houses. A good start has been made in several instances and such movements should be encouraged as distinct advances in credit technique.

Inasmuch as there is no standardized form of statements the writer has taken several very good forms and, with the consent of the banks using them, has printed them here in the hope that they may serve as guides for the making of new statement forms or the revamping of forms now in use. Each one has in it suggestive material, much of which the writer has adopted in designing his own forms. A careful study of them will do much toward credit training and making for better credit granting.

STATEMENT OF

.....

.....
DATE
.....

USE THIS FORM

**IN MAKING UP STATEMENT OF YOUR
ASSETS AND LIABILITIES FOR THE**

BANK OF BUFFALO

=====

Please answer all questions called for on Page No. 3.
If opposite any question no figures are to be entered,
the word **NONE** should be written.

To the BANK OF BUFFALO.

For the purpose of procuring credit from time to time and of borrowing money and obtaining discounts of the BANK OF BUFFALO, the undersigned declare(s) the following to be an accurate and true statement of the undersigned's financial condition on the _____ day of _____ 191____, understanding that the officers of the bank in granting to the undersigned

PLEASE credit, rely upon the accuracy of this statement.
 DATE _____ If any judgment should be entered against the undersigned, or upon any assignment for the benefit of creditors, or act of bankruptcy, whether voluntary or involuntary, by or against the undersigned, then and in either event all liabilities, direct and contingent, of the undersigned to said bank shall become immediately due and payable notwithstanding any credit or time allowed to the undersigned by any instrument evidencing any of the said liabilities. In the event of such failure, insolvency or bankruptcy on the part of the undersigned, it is hereby agreed and understood that the said bank may make and prove its claim against the undersigned or against the undersigned's estate for the full amount of the undersigned's liability as aforesaid, receiving dividends thereon and holding any collateral or other property in its hands at that time belonging to the undersigned or in which the undersigned has any interest until it shall be ascertained whether or not there be any deficit. In case of any deficit the said bank is hereby authorized to apply all or any part of any such collateral or property or of the proceeds thereof towards the payment of such deficit with interest in full, accounting to the undersigned for any surplus. It is further agreed that said bank shall have a lien upon and may apply as an offset against the undersigned's liability as aforesaid any balances which may be standing to the credit of the undersigned on the books of the bank.
 It is further agreed that these presents constitute a continuing agreement, applying to any and all future, as well as to existing transactions between the undersigned and said bank.

ASSETS.		LIABILITIES.	
Cash on Hand, \$		Promissory Notes to Banks for borrowed money,	
Cash in Bank of Buffalo,		Promissory Notes to Individuals for borrowed money,	
Cash in other Banks,		Accounts Payable, for borrowed money,	
Good Bills Receivable	<small>Promissory Notes in our possession, not pledged nor discounted.</small>	Promissory Notes, for Merchandise,	
Good Open Accounts	<small>Less than 3 months old. Not transferred nor assigned.</small>	Accounts Payable, for Merchandise, Not due,	
Good Open Accounts	<small>More than 3 months old. Not transferred nor assigned.</small>	Accounts Payable, for Merchandise, Past due,	
Stock in trade, at cost,		All other liabilities (give details)	
Total quick or current assets (without liens)			
Other Assets (give details)			
Due from Officers, Partners or Employees,	<small>On Open Account On Promissory Notes</small>		
Machinery and Fixtures,			
Real Estate as per Statement on opposite page,		Mortgages as per Statement on opposite page,	
		Total Liabilities,	
		Net Worth.	
TOTAL		TOTAL	

REMARKS:

Size of original 8 3/4 x 10 3/4

STATEMENT OF REAL ESTATE OWNED BY _____

(Attach Schedule if necessary)

LOCATION AND DESCRIPTION OF PROPERTY	Cost of Land and Buildings	Assessed Valuation Land and Buildings	OWNER'S VALUE OF LAND	OWNER'S VALUE OF BUILDINGS	MORTGAGED FOR	INSURANCE	MORTGAGE IS HELD BY
	\$	\$	\$	\$	\$	\$	
TOTAL,	\$	\$	\$	\$	\$	\$	

GENERAL INFORMATION.

(PLEASE ANSWER ALL QUESTIONS: If opposite any question no figures are to be entered the word NONE should be written.)

Notes receivable of customers discounted or sold and not included in assets enumerated in statement on opposite page.	\$		Figures from annual Profit and Loss Sheet dated,		191	
Liability on other paper as maker, endorser or guarantor,			Annual Sales, for fiscal year,	\$		
Liability on contracts to purchase plant, machinery or real estate,			Salaries and withdrawals of officers or partners,			
Have any long time leases been signed?			Charged Off, for Bad Debts,			
Are you surety on any bond or obligation?			Charged Off, for Depreciation,			
If a co-partnership—amount of liability of partners for individual debts,			Dividends Paid,			
Do you anticipate or discount your bills?			All other expenses of conducting business,			
Estimated net worth of officers or partners outside of business,			Net Earnings carried to surplus or capital account,			
			Total, (Gross Profit for Year),			
Insurance { Stock in trade,			If a Corporation, please state { Capital Stock (Paid in),			
{ Machinery and Fixtures,				{ Surplus or Undivided Profits,		
{ Buildings,						

Nature of Business, _____

Location, _____

Name and Title of each officer or Name of each member of firm in full.

The undersigned do(es) hereby certify that all the RESOURCES which are included in this statement, stand in the undersigned's own name and that no part of such resources is covered by a Bill of Sale, Chattel Mortgage or Lien of any name or nature, or in any way pledged as security for any loan or debt, except as stated.

(Please sign here) _____

(Authorized Signature)

Size of original 8¼ x 10¾

STATEMENT OF

LOCATION

DATE

PLEASE PRINT

NAME OF THE PARTY

ADDRESS

CITY

STATE

COUNTY

POST OFFICE

ZIP CODE

TELEPHONE

DATE OF BIRTH

SEX

RACE

EDUCATION

BOATMEN'S BANK, St. Louis, Mo.

For your information and guidance should the question of our responsibility for any reason arise in the course of our relations with you, we furnish the following as a true and correct statement of this bank's financial condition on 19.....

RESOURCES

LIABILITIES

	\$		
and discounts undoubtedly good, personal			
" " " " on real estate			
drafts			
(other than U. S.) and stocks at market value			
United States bonds			
premium on United States bonds			
renting house			
real estate and fixtures			
on real estate			
from banks subject to check			
checks and other cash items			
on hand (currency and specie)			
treasury fund			
from United States Treasurer			
other assets:			

	\$		
Due to banks subject to check			
Individual deposits subject to check			
Demand certificates of deposit			
Certified checks and cashier's checks			
Time certificates of deposit			
United States deposits			
Circulation			
Notes payable			
Notes receivable rediscounted			
Capital			
Surplus			
Undivided profits			
Dividends declared but unpaid			
Other liabilities:			

CONTINGENT LIABILITY: Our liability on guaranties, bonds, accommodation endorsements, etc., etc., amount to \$..... Suits pending against us amount to \$..... judgments rendered against us, \$.....

LOANS TO OFFICERS AND DIRECTORS: And to firms in which they are interested average..... per cent of total of our loans and discounts.

AFFILIATION WITH OTHER BANKS: Through joint ownership of stock, by officers, directors or principal stockholders, or otherwise, we are affiliated with.....

BUSINESS OF PRINCIPAL BORROWERS:

REAL ESTATE AND BUILDINGS OWNED: Title is in name..... Assessed at \$..... Market value is \$.....

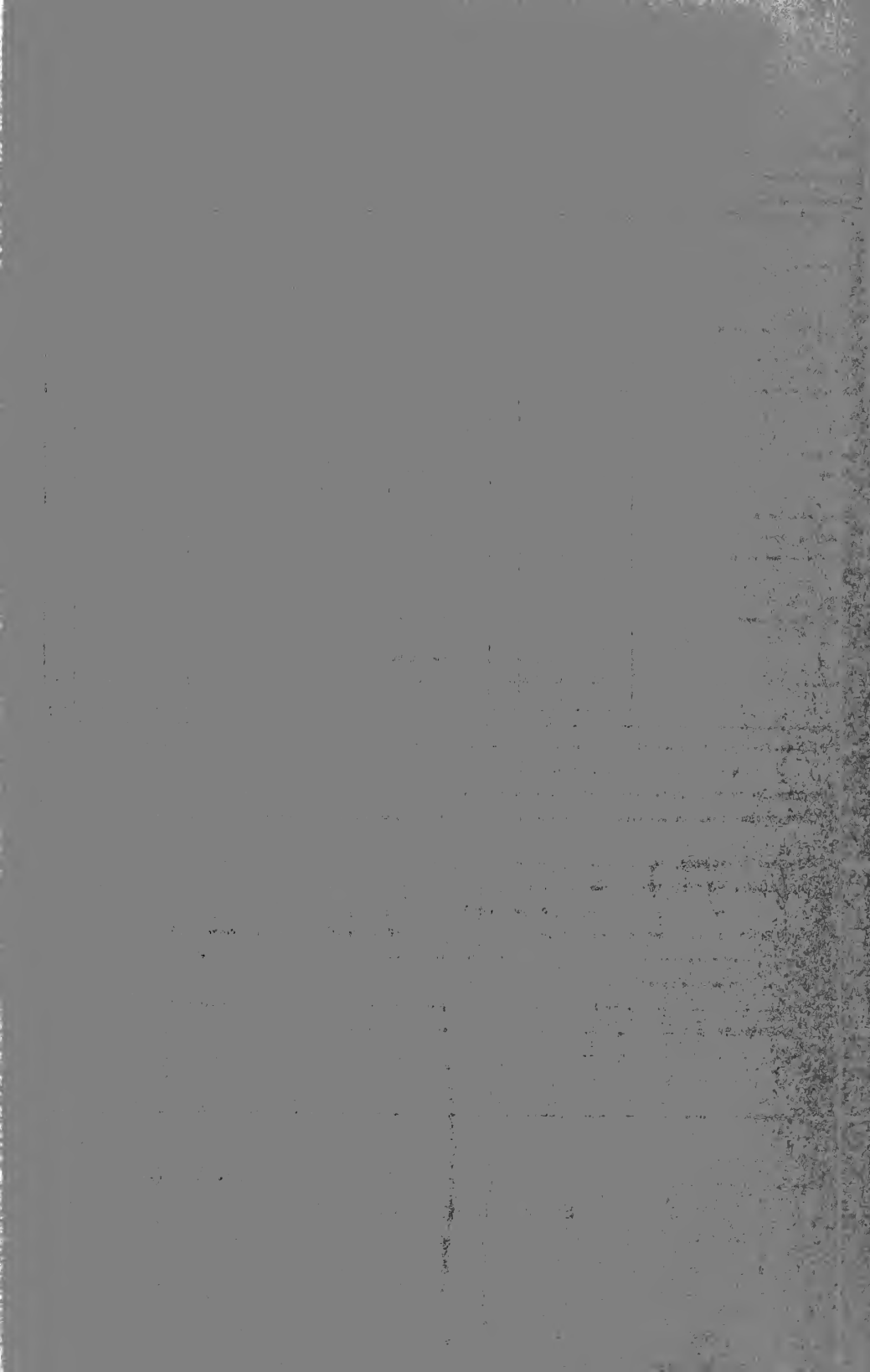
PAST FISCAL YEAR'S BUSINESS: Bad and doubtful loans amounted to \$..... All charged off?..... Profits were \$..... and were distributed [date]..... as follows: As dividends \$.....; to surplus \$..... to undivided profits \$.....

CAPITAL: Authorized \$.....; issued \$.....; paid in: in cash \$.....; in property \$.....

OTHER CORRESPONDENTS ARE:..... Our directors are:.....

[Signature].....

By..... [Official title to be given]



NAME _____ ORGANIZED UNDER LAWS OF _____ CHARTER EXPIRES _____
 HEAD OFFICE ADDRESS _____ BRANCH OFFICES _____
 BUSINESS _____ PLANT LOCATED _____

TO THE BOATMEN'S BANK, ST. LOUIS, MO

FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU FOR OUR NEGOTIABLE PAPER OR OTHERWISE, WE FURNISH THE FOLLOWING AS A TRUE AND ACCURATE STATEMENT OF OUR FINANCIAL CONDITION ON _____ 19 _____ WE AGREE TO AND WILL NOTIFY YOU IMMEDIATELY IN WRITING OF ANY MATERIALLY UNFAVORABLE CHANGE IN OUR FINANCIAL CONDITION, AND IN THE ABSENCE OF SUCH NOTICE OR A NEW AND FULL WRITTEN STATEMENT, THIS MAY BE CONSIDERED AS A CONTINUING STATEMENT AND SUBSTANTIALLY CORRECT; AND IT IS HEREBY EXPRESSLY AGREED THAT UPON APPLICATION FOR FURTHER CREDIT, THIS STATEMENT SHALL HAVE THE SAME FORCE AND EFFECT AS IF DELIVERED AS AN ORIGINAL STATEMENT OF OUR FINANCIAL CONDITION AT THE TIME SUCH FURTHER CREDIT IS REQUESTED.

ASSETS	LIABILITIES AND CAPITAL
<p><u>CASH</u>: ON HAND _____ IN BANK _____ TOTAL _____</p> <p><u>NOTES RECEIVABLE DUE FROM MDSE. DEBTORS</u>, UN- DOUBTEDLY GOOD, NOT DUE AND NOT TRANSFERRED } <u>ACCOUNTS RECEIVABLE DUE FROM MDSE. DEBTORS</u>, UNDOUBTEDLY GOOD, NOT TRANSFERRED, NOT PAST DUE } <u>LISTED STOCKS AND BONDS</u> AT MARKET VALUE, NOT PLEDGED } <u>MERCHANDISE</u>: FINISHED AT COST \$ _____ UNFINISHED AT COST \$ _____ RAW MATERIAL, AT COST \$ _____ MERCHANDISE TOTAL _____</p> <p><u>NOTES AND ACCOUNTS RECEIVABLE</u>, DUE FROM <u>STOCKHOLDERS, OFFICERS, EMPLOYEES, ETC.</u> } <u>NOTES AND ACCOUNTS RECEIVABLE</u>, DUE FROM <u>BRANCHES OR SUBSIDIARY COMPANIES</u> } <u>AND OWNED</u> AND USED FOR THE BUSINESS } <u>BUILDINGS OWNED</u> AND USED FOR THE BUSINESS } <u>MACHINERY AND FIXTURES</u>, CLEAR OF ALL LIENS } <u>OTHER REAL ESTATE</u> } <u>OTHER ASSETS</u> } TOTAL _____</p>	<p><u>NOTES PAYABLE</u> GIVEN FOR <u>MERCHANDISE</u> <u>NOTES PAYABLE</u> NEGOTIATED TO <u>OWN BANKS</u> <u>NOTES PAYABLE</u> NEGOTIATED THROUGH <u>BROKERS</u> <u>ACCOUNTS PAYABLE</u> FOR MERCHANDISE <u>DEPOSITS OF MONEY</u> WITH US <u>LOANS BY OFFICERS, STOCKHOLDERS, EMPLOYEES, ETC.</u> <u>ACCRUED LIABILITIES</u>; INT. ON BONDED DEBT, WAGES, ETC. <u>DIVIDENDS DECLARED</u> BUT NOT PAID <u>ALL OTHER ACCOUNTS PAYABLE</u></p> <p><u>BONDED DEBT</u>, DUE _____ <u>MORTGAGE OR LIEN DEBT</u>, ON LAND AND BUILDINGS <u>CHattel MORTGAGES</u> ON _____ <u>ALL OTHER LIABILITIES</u></p> <p>TOTAL LIABILITIES _____</p> <p><u>CAPITAL</u> <u>SURPLUS</u> <u>UNDIVIDED PROFITS</u> <u>RESERVED</u> (ITEMIZE): _____</p> <p>TOTAL _____</p>

WHAT AMOUNT OF NOTES AND ACCOUNTS RECEIVABLE ARE EXTENDED OR RENEWED?
CONTINGENT LIABILITY: NOTES RECEIVABLE DISCOUNTED OR SOLD AND NOT INCLUDED IN THE ASSETS ABOVE AMOUNT TO _____
 LIABILITY ON ACCOMMODATION INDORSEMENTS, EXCHANGES OF NOTES OR CHECKS, GUARANTIES OR BONDS, OF BRANCHES AS WELL AS HEAD OFFICE, AMOUNTS TO _____ ACCOUNTS RECEIVABLE ASSIGNED OR SOLD AMOUNT TO _____
 ANY SUITS PENDING OR PROBABLE? _____ AMOUNT INVOLVED _____ ANY JUDGMENTS AGAINST US? _____ AMOUNT _____
 ANY CUMULATIVE OR PREFERRED DIVIDENDS PASSED? _____ AMOUNT _____

MERCHANDISE: ARE VALUES STATED ABOVE BASED ON ACTUAL INVENTORY? _____ ARE ANY PLEDGED ASSIGNED OR MORTGAGED? _____
 DO YOU DISCOUNT YOUR BILLS? _____

LAND: TITLE IS IN NAME OF _____ ASSESSED AT _____ MARKET VALUE IS _____
BUILDINGS: TITLE IS IN NAME OF _____ ASSESSED AT _____ MARKET VALUE IS _____ HOW OLD? _____
OTHER REAL ESTATE: TITLE IS IN NAME OF _____ ASSESSED AT _____ LOCATED IN _____
DEPRECIATION: CHARGED OFF THE LAST YEAR ON BUILDINGS _____ ON MACHINERY _____ ON FIXTURES AND OTHER ASSETS _____
 CHARGED OFF IN PRIOR YEARS ON BUILDINGS _____ ON MACHINERY _____ ON FIXTURES AND OTHER ASSETS _____
INSURANCE: KIND AND AMOUNT OF INSURANCE ON BUILDINGS _____ MACHINERY _____ MERCHANDISE _____
NOTES PAYABLE: WHAT TIME OF YEAR DO YOU NORMALLY BORROW OF YOUR BANKS? _____ THROUGH BROKERS? _____
 DO YOUR SELLING OFFICES OR BRANCHES BORROW LOCALLY? _____ IF SO, WHAT AMOUNT IS INCLUDED IN ABOVE STATEMENT? _____
BONDED DEBT AND MORTGAGES: ON WHAT ASSETS A LIEN? _____ DUE _____ RATE _____
CAPITAL: AUTHORIZED _____ ISSUED _____ PAID IN: IN CASH _____ IN PATENTS, TRADEMARKS, ETC. _____ IN PROPERTY _____

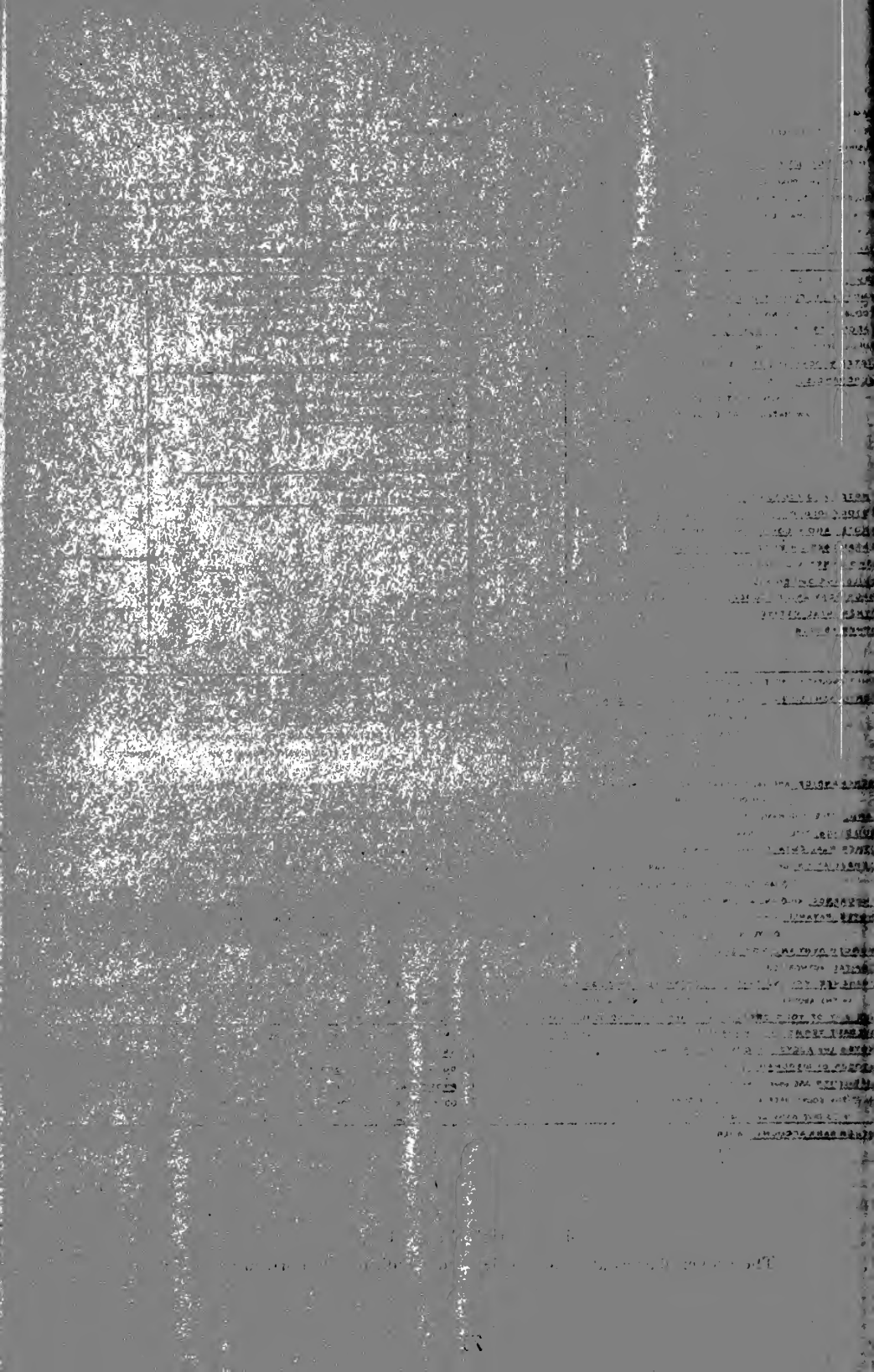
BRANCHES, SELLING OFFICES, CONTROLLED OR SUBSIDIARY COMPANIES: ARE ANY OF THEIR TRADE ACCOUNTS AND NOTES RECEIVABLE AND PAYABLE INCLUDED IN THE ABOVE? _____ IF SO, STATE AMOUNTS, AND ALSO STATE AMOUNTS OF "RECIPROCAL" ACCOUNTS AND NOTES SO INCLUDED _____
 ARE ANY OF YOUR CREDITORS—OTHER THAN BOND OR MORTGAGE HOLDERS ABOVE INDICATED—SECURED IN ANY WAY? _____

<p><u>AVERAGE TERMS OF PURCHASE</u> ARE _____ OF <u>SALE</u> _____</p> <p><u>NOTES AND ACCTS. OF CUSTOMERS</u> USUALLY MAX IN _____ MIN IN _____</p> <p><u>STOCKS OF MERCHANDISE</u> ARE USUALLY MAX IN _____ MIN IN _____</p> <p><u>LIABILITIES</u> ARE USUALLY MAXIMUM IN _____ MINIMUM IN _____</p> <p>HAVE THE BOOKS BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT? _____ IF SO GIVE NAME OF FIRM AND DATE _____</p>	<p><u>ANNUAL SALES</u> FOR FISCAL YEAR ENDING _____ WERE _____</p> <p><u>GROSS PROFIT</u> THEREON _____ NET _____ OTHER INCOME _____</p> <p><u>DOUBTFUL AND BAD DEBTS</u> WERE _____ ALL CHARGED OFF? _____</p> <p><u>PROFITS</u> WERE DISTRIBUTED: DIVIDENDS _____ TO SURPLUS _____ TO RESERVE _____</p> <p>DOES THE ABOVE INCLUDE SALES OF OR TO SELLING OFFICES OR _____ _____ (BRANCHES)? _____ BETWEEN DEPARTMENTS? _____</p>
---	---

OTHER BANK ACCOUNTS WHERE KEPT NOW? _____
 FORMERLY WITH _____

(SIGNATURE) _____
 BY _____
 DATE _____ (OFFICIAL TITLE TO BE GIVEN)

Size of original 8 1/2 x 10 3/4
 The broken dashes at right and left sides indicate the horizontal ruling



INDIVIDUAL
 NAME } MARRIED.....
 OR
 SINGLE.....
 BUSINESS CITY.....
 STREET ADDRESS BRANCHES, IF ANY.....

SEATTLE NATIONAL BANK of Seattle, Wash.
 The undersigned, for the purpose of procuring credit from time to time from you for the negotiable paper of the undersigned, or otherwise, furnishes you with the following statement and information which fully and truly sets forth the financial condition of the undersigned the _____ day of _____, 19_____, which you can consider as continuing to be full and accurate, unless notice of change is given you. The undersigned has no liabilities except those the description and amount of which are distinctly filled in above, and agrees to notify you promptly of any change that materially reduces the pecuniary responsibility of the undersigned.
 In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an act of bankruptcy, or if any of the presentations made below prove to be untrue, or if the undersigned fails to notify you of material change as herein agreed, then and in either such case all obligations of the undersigned held by you shall immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit account of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you, either as borrower or guarantor.

(IN THE ABSENCE OF ANY AMOUNT, INSERT CIPHERS IN STATEMENT FORMS. ANSWER ALL QUESTIONS ON FOLLOWING PAGE. USE THE WORDS "YES," "NO" OR "NONE" WHEN THEY WILL ANSWER THE QUESTIONS CORRECTLY. SIGN AT BOTTOM OF NEXT PAGE.)

ASSETS		Dollars	Cents	LIABILITIES		Dollars	Cents
Cash on hand.....				Notes Payable for Merchandise.....			
Cash in..... Bank.....				Notes Payable to Banks.....			
Notes Receivable, Good, Due from Customers.....				Notes Payable for Paper Sold.....			
Accounts Receivable, Good, Due from Customers.....				Other Notes Payable.....			
Notes and Accounts Receivable, Good, Due from others not included above.....				Open Accounts Due.....			
Notes and Accounts Receivable, Poor or Doubtful, Due from Customers.....				Open Accounts Not Due.....			
None of the above Notes and Accounts Receivable is Due from Controlled or Allied Interests or from Relatives, except the following.....				Money Borrowed or Received on Open Account not included above.....			
Merchandise (How Valued).....				Taxes Due or Unpaid.....			
Real Estate in my Name (Description on Reverse Side).....				Chattel Mortgages.....			
Machinery and Fixtures.....				Mortgages or Liens on Real Estate.....			
Other Assets and of what composed.	Stocks and Bonds (List in Detail).....			I have No Other Liabilities, except the following.....			
			
			
Total.....				Total Liabilities.....			
				Net Worth.....			
Total.....				Total.....			

The undersigned has no contingent liabilities except as the amounts thereof are filled in below.

UPON NOTES OF OTHERS ENDORSED BY ME.....		
AS GUARANTOR FOR ACCOUNTS AND NOTES OF OTHERS.....		
UPON NOTES EXCHANGED WITH OTHERS.....		
AS BONDSMAN OR SURETY FOR OTHERS.....		
UPON LEASES.....		
OTHER THAN ABOVE SPECIFIED.....		

None of the above assets is mortgaged or pledged as collateral except the following:

None of the above liabilities is secured by collateral except the following:

Between the date of the above inventory and the present time I have had no serious losses through bad debts or otherwise (except):

and my condition today is fully as good as set forth by the above figures.

(OVER)

Size of original 7½ x 10½

NAME _____
 BUSINESS _____ CITY _____
 STREET ADDRESS _____ BRANCHES, IF ANY _____

SEATTLE NATIONAL BANK of Seattle, Wash.

The undersigned, for the purpose of procuring credit from time to time from you for the negotiable paper of the undersigned, or otherwise, furnishes you with the following statement and information which fully and truly sets forth the financial condition of the undersigned as of the _____ day of _____, 19____, which you can consider as continuing to be full and accurate, unless notice of change is given you. The undersigned *has no liabilities except those the description and amount of which are distinctly filled in below*, and agree... to notify you promptly of any change that materially reduces the pecuniary responsibility of the undersigned.

In consideration of the granting of such credit, the undersigned agree... that if the undersigned at any time fail or become insolvent or commit an act of bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fail to notify you of any material change as herein agreed; then and in either such case all obligations of the undersigned held by you shall immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit account of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you, either as borrower or guarantor.

(IN THE ABSENCE OF ANY AMOUNT, INSERT CIPHERS IN STATEMENT FORMS. ANSWER ALL QUESTIONS ON FOLLOWING PAGE. USE THE WORDS "YES," "NO" OR "NONE" WHEN THEY WILL ANSWER THE QUESTIONS CORRECTLY. SIGN AT BOTTOM OF NEXT PAGE.)

ASSETS		Dollars	Cents	LIABILITIES		Dollars	Cents
Cash on hand.....				Notes Payable for Merchandise.....			
Cash in _____ Bank.....				Notes Payable to Banks.....			
Notes Receivable, Good, Due from Customers.....				Notes Payable for Paper Sold.....			
Accounts Receivable, Good, Due from Customers.....				Other Notes Payable.....			
Notes and Accounts Receivable, Poor or Doubtful, Due from Customers.....				Open Accounts Due.....			
Notes and Accounts Receivable, Due from Partners and Employees.....				Open Accounts Not Due.....			
None of the above Notes and Accounts Receivable is Due from Controlled or Allied Concerns, except the following.....				Salaries and Wages Due to Date.....			
\$.....				Money Borrowed or Received on Open Accounts, not included above.....			
Merchandise Finished (How Valued).....				Taxes Due or Unpaid.....			
Merchandise Unfinished (How Valued).....				Chattel Mortgages.....			
Real Estate in firm name (Description on Reverse Side).....				Mortgages or Liens on Real Estate.....			
Machinery and Fixtures.....				We have No Other Liabilities Except the Following:			
Other Assets and of what composed. {	(Stocks and Bonds (List in Detail).....			Total Liabilities.....			
			Net Worth.....			
Total.....				Total.....			

The undersigned have no contingent liabilities except as the amounts thereof are filled in below.

UPON RECEIVABLES DISCOUNTED OR PLEDGED.....		
UPON ACCOMMODATION PAPER OR ENDORSEMENTS.....		
UPON NOTES EXCHANGED WITH OTHERS.....		
UPON CUSTOMERS' ACCOUNTS SOLD AND ASSIGNED.....		
AS GUARANTOR FOR OTHERS ON NOTES, CONTRACTS, ETC.....		
UPON BONDS OR UNFINISHED CONTRACTS.....		
UPON LEASES.....		

None of the above assets is mortgaged or pledged as collateral except the following:

None of the above liabilities is secured by collateral except the following:

Between the date of the above inventory and the present time the undersigned have had no serious losses through bad debts or otherwise

(except) and our condition today is fully as good as set forth by the above figures.

(OVER)

Size of original 8¼ x 10¾

CORPORATION
 NAME
 BUSINESS CITY
 STREET ADDRESS BRANCHES, IF ANY

SEATTLE NATIONAL BANK of Seattle, Wash.
 The undersigned, for the purpose of procuring credit from time to time from you for the negotiable paper of the undersigned, or otherwise, furnishes you with the following statement and information which fully and truly sets forth the financial condition of the undersigned the _____ day of _____, 19____, which you can consider as continuing to be full and accurate, unless notice of change is given you. The undersigned corporation has no liabilities except those the description and amount of which are distinctly set in below, and agrees to notify you promptly of any change that materially reduces the pecuniary responsibility of the undersigned.
 In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an act of bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as herein agreed; then and in either such case all obligations of the undersigned held by you shall immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit account of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you, either as borrower or guarantor.

(IN THE ABSENCE OF ANY AMOUNT, INSERT FIGURES IN STATEMENT FORMS. ANSWER ALL QUESTIONS ON FOLLOWING PAGE. USE THE WORDS "YES," "NO" OR "NONE" WHEN THEY WILL ANSWER THE QUESTIONS CORRECTLY. SIGN AT BOTTOM OF NEXT PAGE.)

ASSETS			LIABILITIES		
	Dollars	Cents		Dollars	Cents
Cash on hand.....			Notes Payable for Merchandise.....		
Cash in _____ Bank.....			Notes Payable to Banks.....		
Notes Receivable, Good, Due from Customers.....			Notes Payable for Paper Sold.....		
Accounts Receivable, Good, Due from Customers.....			Notes Payable to Officers, Directors or Stockholders.....		
Notes and Accounts Receivable, Poor or Doubtful, Due from Customers.....			Other Notes Payable.....		
Notes and Accounts Receivable, Due from Stockholders, Officers and Employees.....			Open Accounts Due.....		
None of the above Notes and Accounts Receivable is Due from Controlled or Allied Concerns, except the following.....			Open Accounts Not Due.....		
..... \$.....			Salaries and Wages Due to Date.....		
Merchandise Finished (How Valued).....			Bonded Debt (Due 19.....).....		
.....			Interest on Bonded Debt.....		
Merchandise Unfinished (How Valued).....			Dividends Unpaid.....		
.....			Chattel Mortgages.....		
Raw Material (How Valued).....			Mortgages or Liens on Real Estate.....		
Real Estate in Corporation's Name (Description on Reverse Side).....			Money Borrowed or Held in Trust, not included above.....		
Machinery and Fixtures.....			Taxes Due and Unpaid.....		
Other Assets and of what kind, if any, as compared.....			The Undersigned has no other Liabilities, except the following.....		
				
.....			Total Liabilities.....		
.....			Capital Stock.....		
.....			Surplus.....		
Total.....			Total.....		

The undersigned has no contingent liabilities except as the amounts thereof are filled in below.

UPON RECEIVABLES DISCOUNTED OR PLEDGED.....		
UPON ACCOMMODATION PAPER OR ENDORSEMENTS.....		
UPON NOTES EXCHANGED WITH OTHERS.....		
UPON CUSTOMERS' ACCOUNTS SOLD OR ASSIGNED.....		
AS GUARANTOR FOR OTHERS ON NOTES, CONTRACTS, ETC.....		
UPON BONDS OR UNFINISHED CONTRACTS.....		
UPON LEASES.....		

None of the above assets is mortgaged or pledged as collateral except the following:

None of the above liabilities is secured by collateral except the following:

Between the date of the above inventory and the present time the undersigned has had no serious losses through bad debts or otherwise (except).....

and our condition today is fully as good as set forth by the above figures.

(OVER)

Size of original 7 1/2 x 10 1/4

STATEMENT OF _____ AN INDIVIDUAL

of Business _____ Address _____

THE OLD NATIONAL BANK, Spokane, Washington:

for the purpose of procuring credit from time to time with you for my negotiable paper or otherwise, I furnish you with the following as a true and accurate statement of my financial condition on _____, 19____, which you are to consider as continuing to be full and accurate until I give you written notice of any material change, of which I undertake to notify you promptly.

In consideration of your granting me any credit, I agree to furnish you during the continuance of such credit as you may desire a statement of my condition, and that in case of failure or insolvency or the commission of any act of bankruptcy on my part, in the event of its appearing at any time that any of the following representations are untrue, or of my failure to notify you of any material change as above agreed, then and in any such event all and any of my obligations, either as borrower or guarantor, held by you, shall at your option immediately become due and payable without demand or notice, and the same may be charged against the balance of my deposit account with you, I hereby giving a continuing lien upon such deposit account from the time existing, to secure all such obligations.

I further agree that the exercise of, or omission to exercise, the option aforesaid in any instance shall not waive or affect any other or subsequent right to exercise the same.

(IMPORTANT—Read this form through carefully before filling in amounts.—Write NONE where no amount is to appear.)

ASSETS				LIABILITIES			
K ASSETS—				Notes Payable to Your Bank _____			
Cash on Hand _____				Notes Payable to Other Banks _____			
Cash in Your Bank _____				Notes Payable for Merchandise, not due _____			
Cash in Other Banks _____				Notes Payable for Merchandise, past due _____			
Accounts Receivable from Customers, Good _____				Accounts Payable for Merchandise, not due _____			
Accounts Receivable from Customers, Good _____				Accounts Payable for Merchandise, past due _____			
Merchandise _____				Due on Consigned Goods Sold _____			
L ASSETS—				Notes Payable to Relatives or Friends _____			
Accounts Receivable, past due or slow _____				Deposits of Money by Employees or Others _____			
Accounts Receivable, past due or slow _____				Other Liabilities _____			
Accounts and Accounts Receivable from _____				Fixtures Bought on Contract, Balance Due _____			
Relative or Employee				Chattel Mortgages _____			
or Notes and Accounts Receivable _____				Taxes and Assessments Unpaid _____			
M ASSETS—				Mortgages on Real Estate—List on reverse side _____			
Stocks and Bonds Cost \$ _____ Valued at _____				TOTAL _____			
Mortgages _____ Cost \$ _____ Valued at _____				Net Worth _____			
Machinery & Tools Cost \$ _____ Valued at _____				TOTAL _____			
Wheeled Vehicles & Wagons Cost \$ _____ Valued at _____							
Automobiles _____ Cost \$ _____ Valued at _____							
Real Estate—List on reverse side _____							
TOTAL _____							

CONTINGENT LIABILITY, Accommodation Endorsements _____
 Notes and accounts receivable sold or assigned not included in the above _____
 Other Contingent Liability _____

CONSIGNMENTS—Do any of the Assets or Liabilities originate from Merchandise held on consignment or subject to any agency agreement? _____

COLLATERAL—Specify any of the above Assets pledged as collateral _____
 Specify any of the above Liabilities secured by collateral _____

INSURANCE—On Merchandise, \$ _____ Buildings, \$ _____ Fixtures, \$ _____

Names of Companies _____

Life Insurance, \$ _____ in favor of _____ Companies _____

Credit Insurance, \$ _____ Companies _____

Liability Insurance, \$ _____ Companies _____

Size of original 7½ x 10½

STATEMENT OF _____

A FIRM

of Business _____

Address _____

THE OLD NATIONAL BANK, Spokane, Washington:

for the purpose of procuring credit from time to time with you for our negotiable paper or otherwise, we furnish you with the following statement of our financial condition on _____, 19____, which you are to regard as continuing to be full and accurate until we give you written notice of any material change, of which we undertake to notify you promptly.

In consideration of your granting us any credit we agree to furnish you during the continuance of such credit as you may desire, and in case of failure or insolvency or the commission of any act of bankruptcy on our part or that of any member of our firm, or in the event of its appearing at any time that any of the following representations are untrue, or of our failure to notify you of any material change as above agreed, then and in any such event all and any of our obligations as borrower or guarantor, held by you, shall at your option immediately become due and payable without demand or notice, and the same may be charged against the balance of our deposit account from time to time existing, to secure all such obligations.

We further agree that the exercise of, or omission to exercise, the option aforesaid in any instance shall not waive or affect our or our subsequent right to exercise the same.

(IMPORTANT—Read this Form through carefully before filling in amounts. Write NONE where no amount is to appear.)

ASSETS

LIABILITIES

ASSETS— On Hand				Notes Payable to Your Bank			
In Your Bank				Notes Payable to Other Banks			
In Other Banks				Notes Payable, Paper Sold			
Receivable from Customers, Good				Notes Payable for Merchandise, not due			
Accounts Receivable from Customers, Good				Notes Payable for Merchandise, past due			
Merchandise				Accounts Payable for Merchandise, not due			
ASSETS—				Accounts Payable for Merchandise, past due			
Receivable, past due or slow				Due on Consigned Goods Sold			
Accounts Receivable, past due or slow				Notes Payable to Relatives or Friends			
Notes and Accounts Receivable from Partners				Deposits of Money by Employees or Others			
Notes and Accounts Receivable from <small>{ Friends or Employees</small>				Other Liabilities			
Notes and Accounts Receivable							
ASSETS—				Fixtures Bought on Contract, Balance Due			
Stocks and Bonds Cost \$ _____ Valued at _____				Chattel Mortgages			
Real Estate Cost \$ _____ Valued at _____							
Furniture & Tools Cost \$ _____ Valued at _____				Taxes and Assessments Unpaid			
Trucks & Wagons Cost \$ _____ Valued at _____				Mortgages on Real Estate—List on reverse side			
Automobiles Cost \$ _____ Valued at _____							
Estate—List on reverse side							
				Total Liabilities			
Total				NET WORTH			
				Total			

CONTINGENT LIABILITY, Accommodation Endorsements _____

Notes and accounts sold or assigned not included in the above _____

For bonds or guarantees _____

Other Contingent Liability (Stock or other subscriptions) _____

CONSIGNMENTS:— Do any of the Assets or Liabilities originate from Merchandise held on consignment or subject to any agency agreement? _____

COLLATERAL:— Specify any of the above Assets pledged as collateral _____

Specify any of the above Liabilities secured by collateral _____

INSURANCE, On merchandise \$ _____, Buildings \$ _____, Fixtures \$ _____

Names of Companies _____

Life Insurance \$ _____ In favor of _____ Companies _____

Credit Insurance \$ _____ Companies _____

Liability Insurance \$ _____ Companies _____

Size of original 7 1/2 x 10 1/2

STATEMENT OF _____ A CORPORATION

Kind of Business _____ Address _____

THE OLD NATIONAL BANK, Spokane, Washington:

For the purpose of procuring credit from time to time with you for our negotiable paper or otherwise, we furnish you with the following as a true and accurate statement of our financial condition on _____, 19____, which you are to consider as continuing to be full and accurate until we give you written notice of any material change, of which we undertake to notify you promptly.

In consideration of your granting us any credit, we agree to furnish you during the continuance of such credit as you may desire statements of our condition, and that in case of failure or insolvency or the commission of any act of bankruptcy on our part, or the event of its appearing at any time that any of the following representations are untrue, or of our failure to notify you of any material change as above agreed, then and in any such event all and any of our obligations, either as borrower or guarantor, by you, shall at your option immediately become due and payable without demand or notice, and the same may be charged against the balance of our deposit account with you, we hereby giving a continuing lien upon such deposit account from time to time existing, to secure all such obligations.

We further agree that the exercise of, or omission to exercise, the option aforesaid in any instance shall not waive or affect either or subsequent right to exercise the same.

(IMPORTANT—Read this Form through carefully before filling in amounts. Write NONE where no amount is to appear.)

ASSETS		LIABILITIES	
CASH ASSETS—		Notes Payable to Your Bank	
On Hand		Notes Payable to Other Banks	
In Your Bank		Notes Payable, Paper Sold	
In Other Banks		Notes Payable for Merchandise, not due	
Notes Receivable from Customers, Good		Notes Payable for Merchandise, past due	
Accounts Receivable from Customers, Good		Accounts Payable for Merchandise, not due	
Merchandise		Accounts Payable for Merchandise, past due	
OTHER ASSETS—		Due on Consigned Goods Sold	
Notes Receivable, past due or slow		Notes Payable to Relatives or Friends	
Accounts Receivable, past due or slow		Deposits of Money by Stockholders	
Notes Receivable from Stockholders		Deposits of Money by Employes or Others	
Accounts Receivable from Stockholders		Other Liabilities	
Notes and Accounts Receivable from Employes		Chattel Mortgages	
STOCKS AND BONDS—		Fixtures Bought on Contract, Balance Due	
Cost \$ _____ Valued at _____		Interest on Bonded Debt (Rate _____ %)	
Fixtures Cost \$ _____ Valued at _____		Bonded Debt (When due _____)	
Machinery & Tools Cost \$ _____ Valued at _____		Taxes Unpaid	
Cars & Wagons Cost \$ _____ Valued at _____		Local Assessments Unpaid	
Automobiles Cost \$ _____ Valued at _____		Mortgages on Real Estate—List on reverse side	
Real Estate—List on reverse side			
		TOTAL	
		Capital	
		Surplus	
		Undivided Profits	
TOTAL		TOTAL	

CONTINGENT LIABILITY:—Accommodation Endorsements _____

Notes and accounts receivable sold or assigned NOT included in above assets _____

For bonds or guarantees _____

Other Contingent Liability (Stocks or other subscriptions) _____

CONSIGNMENTS:—Do any of the Assets or Liabilities originate from Merchandise held on consignment or subject to any agency agreement? _____

COLLATERAL:—Specify any of the above Assets pledged as Collateral _____

Specify any of the above Liabilities secured by collateral _____

On what Assets are the Bonds of the Company a lien? _____

(OVER)

Size of original 7½ x 10½

INSURANCE, On Merchandise, \$ _____ Buildings, \$ _____ Fixtures, \$ _____

Names of Companies _____

Life Insurance, \$ _____ In favor of _____ Companies _____

Credit Insurance, \$ _____ Companies _____

Liability Insurance, \$ _____ Companies _____

DEBIT PROFIT AND LOSS ACCOUNT, FISCAL YEAR ENDING _____ 19 _____

Actual Expense of Conducting Business				Gross Profits on Sales			
Bad Debts Charged Off				Interest and Discounts			
Depreciation				Other Income			
(Paid in Dividends, \$							
	Net Profits						
	TOTAL				TOTAL		

Gross Sales for same period, \$ _____ Average amount of Stock carried, \$ _____

Is Statement based on actual inventory? _____ If so, give date _____ 19 _____

By whom was inventory taken? _____ By whom verified? _____

Regular times for taking inventory? _____ Regular times for closing books? _____

Date of last audit? _____ 19 _____ By whom audited _____

Do you discount? _____ Average terms: Buying _____ Selling _____

Time of year when notes and accounts receivable uncollected are at maximum _____ minimum _____

Time of year when notes and accounts payable unpaid are at maximum _____ minimum _____

Time of year when stocks of merchandise are at maximum _____ minimum _____

Give last date when you were out of debt to the Bank _____

References and Principal Creditors _____

REAL ESTATE OWNED BY CORPORATION

DESCRIPTION	Title in Name of	Present Value	Mortgages	When Due	Assessed Value

Buildings used for business cost \$ _____ Valued at \$ _____

CAPITAL STOCK, Subscribed, \$ _____ Paid in, \$ _____ Par value per share, \$ _____

Amount of Common Stock, \$ _____ Amount of Preferred Stock, \$ _____

Incorporated in what state, under what general law? _____ Or special Act? _____

Date of incorporation _____ 19 _____ Commenced business _____ 19 _____

OFFICERS	Name in Full	Address	No. of Shares Held	Salaries per Year
President				
Vice President				
Secretary				
Treasurer				
DIRECTORS				

In whom is vested authority by resolution of the Board of Directors to sign notes binding the Corporation? _____

(Please sign here) _____

By _____

Date signed _____

Size of original 7½ x 10½

the Northwestern National Bank, Minneapolis, Minn.

For the purpose of procuring credit from time to time with the above named bank, the following statement is furnished as a true and accurate statement of condition of undersigned on.....

Business.....

ASSETS				LIABILITIES			
on Hand and in Bank				Bills Payable to	Bank		
Receivable—Secured—Good				Other Bills Payable			
Receivable—Unsecured—Good				Accounts Payable			
Notes Receivable—Good				Mortgage on Homestead			
Mortgages Receivable				Other Real Estate Mortgages (See Schedule)			
and Mortgages Receivable				Chattel Mortgages			
Homestead				Other Liabilities			
Real Estate (See Schedule)							
Furniture, Fixtures, Farm Machinery							
Products							
Stock							
Notes and Bonds (See Schedule)							
Other Assets							
				Total Liabilities			
				Net Worth			
Total				Total			

Amount of Bills Receivable Discounted and Not Shown Above?.....
 Contingent Liability as Endorser..... as Guarantor.....
 Contingent Liability on Bonds..... on Leases.....
 Amount of Assets are Pledged or Hypothecated in any way.....
 Amount of Fire Insurance..... Life Insurance (and to whom payable).....

SCHEDULE OF REAL ESTATE

DESCRIPTION OF REAL ESTATE	VALUE		Description of Mfgs.	TO WHOM PAYABLE	WHEN DUE	AMOUNT	
.....							
.....							
.....							
.....							
.....							
.....							
.....							
.....							
.....							
.....							

SCHEDULE OF STOCKS AND BONDS

DESCRIPTION	PAR VALUE			MARKET VALUE		
.....						
.....						
.....						
.....						
.....						
.....						
.....						
.....						
.....						
.....						

Assets Secured by Collateral.....
 Assets Secured by Collateral.....
 (Sign here).....

Size of original 7 3/4 x 10

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

PHYSICS 309

LECTURE 1

1.1. Kinematics

1.1.1. Position and Displacement

1.1.2. Velocity and Acceleration

1.1.3. Kinematic Equations

1.1.4. Relative Motion

1.2. Dynamics

1.2.1. Newton's Laws

1.2.2. Free Body Diagrams

1.2.3. Work and Energy

1.2.4. Power

1.3. Rotational Motion

1.3.1. Angular Displacement

1.3.2. Angular Velocity and Acceleration

1.3.3. Torque

1.3.4. Rotational Kinematics

1.3.5. Rotational Dynamics

1.4. Gravitation

1.4.1. Newton's Law of Gravitation

1.4.2. Gravitational Potential Energy

OFFICE _____ LOCATION OF PLANT _____

THE CLEVELAND NATIONAL BANK, Cleveland, Ohio.

FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU, FOR MY NEGOTIABLE PAPER OR OTHERWISE, I FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF MY FINANCIAL CONDITION ON _____ 19_____, AND HEREBY AGREE TO FURNISH YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN MY FINANCIAL CONDITION. IN THE ABSENCE OF SUCH NOTICE IN WRITING AND FULL WRITTEN STATEMENT, THIS IS TO BE CONSIDERED AS A CONTINUING STATEMENT, AND THAT MY PECUNIARY RESPONSIBILITY HAS BEEN BELOW THE CONDITION HEREIN SET FORTH.

(IN THE ABSENCE OF ANY AMOUNT, INSERT ZERO IN STATEMENT FORMS. ANSWER ALL QUESTIONS ON FOLLOWING PAGES. USE THE WORDS "Yes," "No" or "None" AT THE BOTTOM OF EACH QUESTION. SIGN AT BOTTOM OF FOURTH PAGE.)

ASSETS		DOLLARS	CENTS	LIABILITIES	DOLLARS	CENTS
CASH ON HAND				NOTES PAYABLE FOR MERCHANDISE		
CASH IN BANK				NOTES PAYABLE TO BANKS		
ACCOUNTS RECEIVABLE OF CUSTOMERS—DUE WITHIN 90 DAYS				NOTES PAYABLE FOR PAPER SOLD		
ACCOUNTS RECEIVABLE OF CUSTOMERS—DUE BEYOND 90 DAYS				NOTES PAYABLE TO OTHERS		
ACCOUNTS RECEIVABLE OF CUSTOMERS				ACCOUNTS PAYABLE—NOT DUE		
INVENTORY—FINISHED				ACCOUNTS PAYABLE—PAST DUE		
INVENTORY—IN PROCESS—UNFINISHED				DEPOSITS OF MONEY WITH ME		
INVENTORY—RAW MATERIAL				ANY OTHER CURRENT LIABILITIES—(ITEMIZE ON PAGE 4)		
OTHER ACTIVE ASSETS—(ITEMIZE ON PAGE 3)						
TOTAL ACTIVE ASSETS				TOTAL CURRENT LIABILITIES		
PROPERTY FROM CONTROLLED ALLIED CONCERNS	} FOR MERCHANDISE FOR ADVANCES			MORTGAGES OR LIENS ON REAL ESTATE		
				CHattel MORTGAGES		
STOCKS, BONDS AND INVESTMENTS				ANY OTHER LIABILITIES—(ITEMIZE)		
LAND						
BUILDINGS						
MACHINERY, EQUIPMENT AND FIXTURES						
TRUCKS, WAGONS AND AUTOMOBILES						
				TOTAL LIABILITIES		
				RESERVES—(ITEMIZE)		
GOODWILL, PATENTS AND TRADE MARKS						
OTHER ASSETS—(ITEMIZE)						
				NET WORTH		
TOTAL				TOTAL		

CONTINGENT LIABILITY OF ANY KIND

UNPAID RECEIVABLES DISCOUNTED OR PLEDGED			
UNPAID ACCOMMODATION PAPER OR ENDORSEMENTS			
UNPAID NOTES EXCHANGED WITH OTHERS			
UNPAID PROMOTERS' ACCOUNTS SOLD AND ASSIGNED			
UNPAID GUARANTOR FOR OTHERS ON NOTES, CONTRACTS, ETC.			
UNPAID CONTRACTS OR UNFINISHED CONTRACTS			
UNPAID LEASES			

EXPENSE					INCOME				
COST OF MATERIAL OR MERCHANDISE CONSUMED					NET SALES				
ACTUAL EXPENSE OF CONDUCTING BUSINESS INCLUDING RENT, TAXES, INSURANCE, ETC.					FROM INVESTMENTS				
SALARY DRAWN BY MYSELF					FROM DISCOUNTS ON PURCHASES				
INTEREST ON BORROWED MONEY					FROM OTHER SOURCES—ITEMS				
BAD DEBTS CHARGED OFF									
DEPRECIATION CHARGED OFF									
NET PROFITS									
TOTAL					TOTAL				

RECONCILEMENT OF NET WORTH

NET WORTH AT CLOSE OF PREVIOUS FISCAL YEAR\$.....

LESS CHARGES NOT APPLICABLE TO CURRENT YEAR.....\$.....=\$.....

ADD NET PROFITS AS ABOVE.....\$.....=\$.....

LESS—WITHDRAWALS, OTHER THAN SALARY AS ABOVE.....\$.....

NET WORTH—(See first page).....\$.....

DETAILS RELATIVE TO ASSETS

CASH—NAMES OF ALL BANKS WHERE ACCOUNTS ARE MAINTAINED.....

ARE ANY ACCOUNTS SUBJECT TO NOTICE BEFORE WITHDRAWAL?.....AMOUNT \$.....

DOES THE AMOUNT REPORTED AS CASH ON HAND CONTAIN ANYTHING OTHER THAN LEGAL MONEY?.....

NOTES RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES?.....

REPRESENTS WHAT?.....

WHAT AMOUNT REPRESENTS OPEN ACCOUNTS SETTLED BY NOTES?.....AMOUNT YOU PROBABLY WILL NOT BE

TO COLLECT?.....AMOUNT OVERDUE?.....AMOUNT RENEWED OR EXTENDED?.....

ACCOUNTS RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES?.....

REPRESENTS WHAT?.....

AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT?.....AMOUNT OVERDUE?.....

WHAT ARE YOUR AVERAGE TERMS OF SALE?.....

GIVE NAMES OF A FEW CONCERNS TO WHICH YOU SELL IN LARGE QUANTITIES:.....

MERCHANDISE—LAST INVENTORY TAKEN BY WHOM?.....WHEN?.....

VALUED AT COST, OR MARKET PRICE AT DATE OF INVENTORY. OR ON WHAT BASIS—FOR FINISHED?.....

FOR UNFINISHED IN PROCESS?.....FOR RAW MATERIAL?.....AMOUNT PLEDGED AS SECURITY?.....

ANY RECENTLY RECEIVED AND INCLUDED IN YOUR ASSETS FOR WHICH THE INVOICES HAVE NOT YET BEEN ENTERED AS ACCOUNTS PAYABLE?.....

AMOUNT IN OUTSIDE WAREHOUSES?.....

AMOUNT HELD UNDER TRUST RECEIPT?.....UNDER CONSIGNMENT?.....

IS STOCK FRESH AND SALABLE THROUGHOUT?.....AVERAGE AMOUNT OF STOCK CARRIED?.....

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM?.....

STOCKS, BONDS AND INVESTMENTS—GIVE DESCRIPTION AND HOW VALUED:.....

MACHINERY, EQUIPMENT AND FIXTURES—ASSESSED VALUE \$.....

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE LAST YEAR ON THIS ITEM?.....

LAND BUILDINGS:— (USED IN BUSINESS \$.....)
 OTHER \$.....

DESCRIPTION AND LOCATION	TITLE IN WHOSE NAME	ASSESSED VALUE	APPRAISED VALUE	MORTGAGES	INSURANCE	RENTALS RECEIVED DURING LAST FISCAL YEAR
		\$	\$	\$	\$	\$

WHOM APPRAISED?..... WHEN?.....

BOOK VALUE HAS DECREASED OR INCREASED DURING THE YEAR, ACCOUNT FOR SAME.....

DO YOU HAVE ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS?..... GIVE DETAILS.....

ACTIVE ASSETS:—ITEMS.....

WHOM CONTROLLED OR ALLIED CONCERNS:—

NAME OF CONCERN	LOCATION	FOR ADVANCES	TERMS	FOR MERCHANDISE	TERMS
		\$		\$	

DETAILS RELATIVE TO LIABILITIES

PAYABLE—NAME YOUR BANKS AND BROKERS AND LINE WITH EACH:.....

WHAT TIME OF THE YEAR DO YOU BORROW OF YOUR BANKS?..... THROUGH BROKERS?.....

LARGEST MAXIMUM AMOUNT BORROWED FROM ALL SOURCES DURING FISCAL YEAR JUST CLOSED \$.....

DO YOUR BRANCHES OR ALLIED CONCERNS BORROW LOCALLY?..... WHERE?.....

DO YOU BORROW CONTINUOUSLY IN OPEN MARKET?..... FOR MERCHANDISE?.....

OTHERWISE?..... AMOUNT OF YOUR NOTES PAYABLE SECURED BY COLLATERAL \$.....

DESCRIBE THE COLLATERAL.....

DEBTS PAYABLE—WHAT ARE YOUR AVERAGE TERMS OF PURCHASE?.....

DO YOU DISCOUNT?..... ANTICIPATE?..... NAME A FEW CONCERNS FROM WHOM YOU

PURCHASE IN LARGE QUANTITIES:.....

DEBTS OF MONEY WITH ME—ON TIME OR DEMAND?.....

FROM WHOM?..... RATE PER CENT PAID?.....

UNPAID MORTGAGES—TO WHOM?..... DATE OF MORTGAGE?..... TERMS OF PAYMENT?.....

ON WHAT ASSETS A LIEN?..... DOES IT REPRESENT A PART OF PURCHASE PRICE?.....

DOES IT REPRESENT BORROWED MONEY?.....

LEASES—ARE YOU LEASING ANY PROPERTY?..... WHAT ARE THE TERMS OF THE LEASES?.....

OTHER CURRENT LIABILITIES—TRADE

MISCELLANEOUS

INSURANCE—ON MERCHANDISE \$..... CREDIT \$..... LIABILITY \$.....

LIFE \$..... WHO IS THE BENEFICIARY?.....

HOW LONG ENGAGED IN PRESENT BUSINESS?.....

WHAT AMOUNT OF CAPITAL DID YOU START WITH AND OF WHAT DID IT CONSIST?.....

WHAT AMOUNT OF CAPITAL HAVE YOU CONTRIBUTED SINCE.....

IS THERE ANY OTHER PERSON INTERESTED IN YOUR BUSINESS, EITHER AS SPECIAL OR LIMITED PARTNER?.....

ARE YOU A PARTNER IN ANY FIRM?.....

WHAT IN YOUR OPINION IS THE NET WORTH OF EACH ENDORSER ON YOUR NOTES?.....

HAVE YOU ANY ASSETS, OTHER THAN REAL ESTATE, PLEDGED OR HYPOTHECATED IN ANY WAY?.....

ANY INDIVIDUAL DEBTS NOT INCLUDED IN THE STATEMENT?.....

ANY INDIVIDUAL ASSETS NOT INCLUDED IN THE STATEMENT?.....

TIME OF YEAR RECEIVABLES GENERALLY MAXIMUM..... MINIMUM.....

TIME OF YEAR MERCHANDISE GENERALLY MAXIMUM..... MINIMUM.....

STATE GROSS SALES FOR THE PAST THREE YEARS—19..... \$..... 19..... \$..... 19..... \$.....

WHERE IS YOUR PRINCIPAL SALES TERRITORY?.....

IF YOUR BOOKS HAVE BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT, GIVE NAME OF ACCOUNTANT AND DATE OF AUDIT.....

ARE THERE ANY JUDGMENTS UNSATISFIED, OR SUITS PENDING AGAINST YOU, AND FOR WHAT AMOUNT?.....

GIVE DATE YOU REGULARLY TAKE INVENTORY AND CLOSE YOUR BOOKS.....

The foregoing statements and details pertaining thereto, both printed and written, have been carefully read by the undersigned, and I hereby solemnly declare and certify that same is a full and correct exhibit of my financial condition.

SIGN HERE.....

DATE SIGNED.....19.....

NOTE: If you have any difficulty in filling in the foregoing statements and questionnaire, the Credit Department of this bank is prepared to extend courteous and intelligent service; in fact, we solicit your co-operation and acquaintance with our credit methods.

Size of original 7¼ x 10½

EXPENSE				INCOME			
COST OF MATERIAL OR MERCHANDISE CONSUMED				NET SALES			
ACTUAL EXPENSE OF CONDUCTING BUSINESS <small>Including Rent, Taxes, Insurance, Etc.</small>				FROM INVESTMENTS			
SALARIES PAID TO PARTNERS				FROM DISCOUNTS ON PURCHASES			
INTEREST ON BORROWED MONEY				FROM OTHER SOURCES—ITEMS			
BAD DEBTS CHARGED OFF							
DEPRECIATION CHARGED OFF							
NET PROFITS							
TOTAL				TOTAL			

RECONCILEMENT OF NET WORTH

NET WORTH AT CLOSE OF PREVIOUS FISCAL YEAR.....	\$.....	\$.....
LESS CHARGES NOT APPLICABLE TO CURRENT YEAR.....	\$.....	= \$.....
ADD NET PROFITS AS ABOVE.....	\$.....	= \$.....
LESS—WITHDRAWALS BY PARTNERS, OTHER THAN SALARIES AS ABOVE.....	\$.....	\$.....
NET WORTH—(See first page).....	\$.....	\$.....

DETAILS RELATIVE TO ASSETS

CASH—NAMES OF ALL BANKS WHERE ACCOUNTS ARE MAINTAINED.....

ARE ANY ACCOUNTS SUBJECT TO NOTICE BEFORE WITHDRAWAL?..... AMOUNT \$.....

DOES THE AMOUNT REPORTED AS CASH ON HAND CONTAIN ANYTHING OTHER THAN LEGAL MONEY?.....

NOTES RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES?.....

REPRESENTS WHAT?.....

WHAT AMOUNT REPRESENTS OPEN ACCOUNTS SETTLED BY NOTES?..... AMOUNT YOU PROBABLY WILL NOT TO COLLECT?..... AMOUNT OVERDUE?..... AMOUNT RENEWED OR EXTENDED?.....

ACCOUNTS RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES?.....

REPRESENTS WHAT?.....

AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT?..... AMOUNT OVERDUE?.....

WHAT ARE YOUR AVERAGE TERMS OF SALE?.....

GIVE NAMES OF A FEW CONCERNS TO WHICH YOU SELL IN LARGE QUANTITIES:.....

MERCHANDISE—LAST INVENTORY TAKEN BY WHOM?..... WHEN?.....

VALUED AT COST, OR MARKET PRICE AT DATE OF INVENTORY OR ON WHAT BASIS—FOR FINISHED?.....

FOR UNFINISHED IN PROCESS?..... FOR RAW MATERIAL?..... AMOUNT PLEDGED AS SECURITY?.....

ANY RECENTLY RECEIVED AND INCLUDED IN YOUR ASSETS FOR WHICH THE INVOICES HAVE NOT YET BEEN ENTERED AS ACCOUNTS PAYABLE?.....

AMOUNT IN OUTSIDE WAREHOUSES?.....

AMOUNT HELD UNDER TRUST RECEIPT?..... UNDER CONSIGNMENT?.....

IS STOCK FRESH AND SALABLE THROUGHOUT?..... AVERAGE AMOUNT OF STOCK CARRIED?.....

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM?.....

STOCKS, BONDS AND INVESTMENTS—GIVE DESCRIPTION AND HOW VALUED:.....

MACHINERY, EQUIPMENT AND FIXTURES—ASSESSED VALUE \$.....

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE LAST YEAR ON THIS ITEM?.....

BUILDINGS:— { USED IN BUSINESS \$
 { OTHER \$

DESCRIPTION AND LOCATION	TITLE IN WHOSE NAME	ASSESSED VALUE	APPRAISED VALUE	MORTGAGES	INSURANCE	RENTALS RECEIVED DURING LAST FISCAL YEAR
		\$	\$	\$	\$	\$

WHOM APPRAISED? WHEN?

IF THE VALUE HAS DECREASED OR INCREASED DURING THE YEAR, ACCOUNT FOR SAME

DO YOU HAVE ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS? GIVE DETAILS

OTHER ASSETS:—ITEMIZE

IN WHICH YOU ARE CONTROLLED OR ALLIED CONCERNS:—

NAME OF CONCERN	LOCATION	FOR ADVANCES	TERMS	FOR MERCHANDISE	TERMS
		\$		\$	

RECEIVABLES—DUE FROM PARTNERS AND EMPLOYEES.

NAME	AMOUNT	TIME OR DEMAND	DATE OF NOTE	DUE DATE	IS IT A RENEWAL EITHER IN WHOLE OR IN PART?	IS IT SECURED?	HOW?
	\$						

ACCOUNTS RECEIVABLE—DUE FROM PARTNERS AND EMPLOYEES.

NAME	AMOUNT	DATE	DATE DUE	IS IT SECURED?	HOW?	ACCOUNT REPRESENTS WHAT?
	\$					

DETAILS RELATIVE TO LIABILITIES

NAME OF BANKS AND BROKERS AND LINE WITH EACH:

AT WHAT TIME OF THE YEAR DO YOU BORROW OF YOUR BANKS? THROUGH BROKERS?

WHAT IS THE MAXIMUM AMOUNT BORROWED FROM ALL SOURCES DURING FISCAL YEAR JUST CLOSED \$

DO YOUR BRANCHES OR ALLIED CONCERNS BORROW LOCALLY? WHERE?

DO YOU BORROW CONTINUOUSLY IN OPEN MARKET? FOR MERCHANDISE?

OTHERWISE? AMOUNT OF YOUR NOTES PAYABLE SECURED BY COLLATERAL \$

DESCRIBE THE COLLATERAL

WHAT ARE YOUR PAYABLES—WHAT ARE YOUR AVERAGE TERMS OF PURCHASE?

DO YOU DISCOUNT? ANTICIPATE? NAME A FEW CONCERNS FROM WHOM YOU

PURCHASE IN LARGE QUANTITIES:

STATE NAME _____

ADDRESS _____

OFFICE _____

LOCATION OF PLANT _____

PHONES _____

THE CLEVELAND NATIONAL BANK, Cleveland, O.

FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU, FOR OUR NEGOTIABLE PAPER OR OTHERWISE, WE FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF OUR FINANCIAL CONDITION ON _____ 19_____, AND HEREBY AGREE TO FURNISH YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN OUR FINANCIAL CONDITION. IN THE ABSENCE OF SUCH NOTICE YOU MAY RELY UPON THE ABOVE STATEMENT AS A CONTINUING STATEMENT, AND THAT OUR PECUNIARY RESPONSIBILITY HAS NOT CHANGED SINCE THE DATE OF THE ABOVE STATEMENT. (IN THE ABSENCE OF ANY AMOUNT, INSERT ZEROES IN STATEMENT FORMS. ANSWER ALL QUESTIONS ON FOLLOWING PAGES. USE THE WORDS "YES," "NO" OR "NONE" WHERE NECESSARY. WE WILL ANSWER THE QUESTIONS CORRECTLY. SIGN AT BOTTOM OF FOURTH PAGE.)

ASSETS	DOLLARS	CENTS	LIABILITIES	DOLLARS	CENTS
CASH ON HAND			NOTES PAYABLE FOR MERCHANDISE		
CASH IN BANK			NOTES PAYABLE TO BANKS		
NOTES RECEIVABLE OF CUSTOMERS—DUE WITHIN 90 DAYS			NOTES PAYABLE FOR PAPER SOLD		
NOTES RECEIVABLE OF CUSTOMERS—DUE BEYOND 90 DAYS			NOTES PAYABLE TO OFFICERS, DIRECTORS AND STOCKHOLDERS		
ACCOUNTS RECEIVABLE OF CUSTOMERS			NOTES PAYABLE TO OTHERS		
MERCHANDISE—FINISHED			ACCOUNTS PAYABLE—NOT DUE		
MERCHANDISE—IN PROCESS—UNFINISHED			ACCOUNTS PAYABLE—PAST DUE		
MERCHANDISE—RAW MATERIAL			ACCOUNTS PAYABLE TO OFFICERS, DIRECTORS AND STOCKHOLDERS		
OTHER ACTIVE ASSETS—(ITEMIZE ON PAGE 3)			DEPOSITS OF MONEY WITH THIS COMPANY BY OFFICERS AND OTHERS		
			ANY OTHER CURRENT LIABILITIES—(ITEMIZE ON PAGE 4)		
TOTAL ACTIVE ASSETS			TOTAL CURRENT LIABILITIES		
ASSETS FROM CONTROLLED OR ALLIED CONCERNS			MORTGAGES OR LIENS ON REAL ESTATE		
FOR MERCHANDISE			BONDED DEBT		
FOR ADVANCES			CHattel MORTGAGES		
STOCKS, BONDS AND INVESTMENTS			ANY OTHER LIABILITIES—ITEMIZE		
LAND					
BUILDINGS					
MACHINERY, EQUIPMENT AND FIXTURES					
CARRIAGES, WAGONS AND AUTOMOBILES					
NOTES RECEIVABLE—DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES			TOTAL LIABILITIES		
ACCOUNTS RECEIVABLE—DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES			RESERVES—ITEMIZE		
GOOD WILL, PATENTS AND TRADE MARKS					
OTHER ASSETS—ITEMIZE			CAPITAL STOCK—PREFERRED OUTSTANDING		
			CAPITAL STOCK—COMMON OUTSTANDING		
			UNDIVIDED SURPLUS		
TOTAL			TOTAL		

CONTINGENT LIABILITY OF ANY KIND

NOTES RECEIVABLES DISCOUNTED OR PLEDGED					
NOTES ACCOMMODATION PAPER OR ENDORSEMENTS					
NOTES EXCHANGED WITH OTHERS					
CUSTOMERS' ACCOUNTS SOLD AND ASSIGNED					
AS GUARANTOR FOR OTHERS ON NOTES, CONTRACTS, ETC.					
OR BONDS OR UNFINISHED CONTRACTS					
OR LEASES					

EXPENSE				INCOME			
COST OF MATERIAL OR MERCHANDISE CONSUMED				NET SALES			
ACTUAL EXPENSE OF CONDUCTING BUSINESS Including Rent, Taxes Insurance, Etc.				FROM INVESTMENTS			
SALARIES PAID TO OFFICERS				FROM DISCOUNTS ON PURCHASES			
INTEREST ON BORROWED MONEY AND BONDS				FROM OTHER SOURCES—ITEMIZE			
BAD DEBTS CHARGED OFF							
DEPRECIATION CHARGED OFF							
NET PROFITS							
TOTAL				TOTAL			

RECONCILEMENT OF SURPLUS

UNDIVIDED SURPLUS AT CLOSE OF PREVIOUS FISCAL YEAR.....\$.....	
LESS CHARGES NOT APPLICABLE TO CURRENT YEAR.....\$.....	= \$.....
ADD NET PROFITS AS ABOVE.....	\$..... = \$.....
LESS DIVIDENDS	PREFERRED (..... PER CENT)..... \$.....
	COMMON (..... PER CENT)..... \$..... = \$.....
UNDIVIDED SURPLUS.....	\$.....

DETAILS RELATIVE TO ASSETS

CASH—NAMES OF ALL BANKS WHERE ACCOUNTS ARE MAINTAINED.....

ARE ANY ACCOUNTS SUBJECT TO NOTICE BEFORE WITHDRAWAL?..... AMOUNT \$.....

DOES THE AMOUNT REPORTED AS CASH ON HAND CONTAIN ANYTHING OTHER THAN LEGAL MONEY?.....

NOTES RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES?.....

REPRESENTS WHAT?.....

WHAT AMOUNT REPRESENTS OPEN ACCOUNTS SETTLED BY NOTES?..... AMOUNT YOU PROBABLY WILL NOT BE ABLE

TO COLLECT?..... AMOUNT OVERDUE?..... AMOUNT RENEWED OR EXTENDED?.....

ACCOUNTS RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES?.....

REPRESENTS WHAT?.....

AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT?..... AMOUNT OVERDUE?.....

WHAT ARE YOUR AVERAGE TERMS OF SALE?.....

GIVE NAMES OF A FEW CONCERNS TO WHICH YOU SELL IN LARGE QUANTITIES:.....

MERCHANDISE—LAST INVENTORY TAKEN BY WHOM?..... WHEN?.....

VALUED AT COST, OR MARKET PRICE AT DATE OF INVENTORY OR ON WHAT BASIS—FOR FINISHED?.....

FOR UNFINISHED IN PROCESS?..... FOR RAW MATERIAL?..... AMOUNT PLEDGED AS SECURITY?.....

ANY RECENTLY RECEIVED AND INCLUDED IN YOUR ASSETS FOR WHICH THE INVOICES HAVE NOT YET BEEN ENTERED AS ACCOUNTS PAYABLE?.....

AMOUNT IN OUTSIDE WAREHOUSES?.....

AMOUNT HELD UNDER TRUST RECEIPT?..... UNDER CONSIGNMENT?.....

IS STOCK FRESH AND SALABLE THROUGHOUT?..... AVERAGE AMOUNT OF STOCK CARRIED?.....

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM?.....

STOCKS, BONDS AND INVESTMENTS—GIVE DESCRIPTION AND HOW VALUED:.....

MACHINERY, EQUIPMENT AND FIXTURES—ASSESSED VALUE \$.....

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE LAST YEAR ON THIS ITEM?.....

DESCRIPTION AND LOCATION	TITLE IN WHOSE NAME	ASSESSED VALUE	APPRAISED VALUE	MORTGAGES	INSURANCE	RENTALS RECEIVED DURING LAST FISCAL YEAR
		\$	\$	\$	\$	\$

WHOM APPRAISED?..... WHEN?.....

BOOK VALUE HAS DECREASED OR INCREASED DURING THE YEAR, ACCOUNT FOR SAME.....

DO YOU HAVE ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS?..... GIVE DETAILS.....

ACTIVE ASSETS:--ITEMIZE.....

FROM WHOM CONTROLLED OR ALLIED CONCERNS:--

NAME OF CONCERN	LOCATION	FOR ADVANCES	TERMS	FOR MERCHANDISE	TERMS
		\$		\$	

RECEIVABLE--DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES:--

NAME	AMOUNT	TIME OR DEMAND	DATE OF NOTE	DUE DATE	IS IT A RENEWAL EITHER IN WHOLE OR IN PART?	IS IT SECURED?	HOW?
	\$						

NOTES RECEIVABLE--DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES:--

NAME	AMOUNT	DATE	DATE DUE	IS IT SECURED?	HOW?	ACCOUNT REPRESENTS WHAT?
	\$					

DETAILS RELATIVE TO LIABILITIES

PAYABLE--NAME YOUR BANKS AND BROKERS AND LINE WITH EACH:.....

AT WHAT TIME OF THE YEAR DO YOU BORROW OF YOUR BANKS?..... THROUGH BROKERS?.....

STATE THE MAXIMUM AMOUNT BORROWED FROM ALL SOURCES DURING FISCAL YEAR JUST CLOSED \$.....

DO YOUR BRANCHES OR ALLIED CONCERNS BORROW LOCALLY?..... WHERE?.....

DO YOU BORROW CONTINUOUSLY IN OPEN MARKET?..... FOR MERCHANDISE?.....

HOW OTHERWISE?..... AMOUNT OF YOUR NOTES PAYABLE SECURED BY COLLATERAL \$.....

DESCRIBE THE COLLATERAL.....

NOTES PAYABLE--WHAT ARE YOUR AVERAGE TERMS OF PURCHASE?.....

DO YOU DISCOUNT?..... ANTICIPATE?..... NAME A FEW CONCERNS FROM WHOM YOU

PURCHASE IN LARGE QUANTITIES:.....

DEPOSITS OF MONEY WITH THIS CORPORATION BY OFFICERS OR OTHERS—ON TIME OR DEMAND!

FROM WHOM?..... RATE PER CENT PAID?.....

BONDED DEBT—WHEN DUE?..... WHAT RATE?..... ON WHAT ASSETS A LIEN?.....

AMT. AUTHORIZED \$..... AMT. ISSUED \$..... WHO IS TRUSTEE?.....

PROVISION FOR RETIREMENT.....

CHattel Mortgages—TO WHOM?..... DATE OF MORTGAGE?..... TERMS OF PAYMENT?.....

ON WHAT ASSETS A LIEN?..... DOES IT REPRESENT A PART OF PURCHASE PRICE?.....

DOES IT REPRESENT BORROWED MONEY?.....

LEASES—ARE YOU LEASING ANY PROPERTY?..... WHAT ARE THE TERMS OF THE LEASES?.....

OTHER CURRENT LIABILITIES—ITEMIZE:.....

MISCELLANEOUS

CAPITAL—HOW PAID IN?—CASH \$..... OTHER PROPERTY AND HOW VALUED?.....

ARE PREFERRED STOCK DIVIDENDS CUMULATIVE?..... DIVIDEND RATE?..... PRESENT UNPAID ACCUMULATION \$.....

ORGANIZED UNDER LAWS OF WHAT STATE?..... ARE YOUR BRANCHES INCORPORATED SEPARATELY?.....

IN WHAT STOCK IS VOTING POWER VESTED?..... HOW?.....

INSURANCE—ON MERCHANDISE \$..... CREDIT \$..... LIABILITY \$..... LIFE \$.....

ENDORSEES—WHAT IS THE NET WORTH OF EACH ENDORSER OUTSIDE OF INTEREST IN THIS BUSINESS?.....

OFFICERS AND DIRECTORS (NAME IN FULL)

NUMBER SHARES HELD		ADDRESS
Pfd.	Com.	
.....
.....
.....
.....

PRESIDENT.....

VICE PRESIDENT.....

SECRETARY.....

TREASURER.....

TIME OF YEAR RECEIVABLES GENERALLY MAXIMUM..... MINIMUM.....

TIME OF YEAR MERCHANDISE GENERALLY MAXIMUM..... MINIMUM.....

STATE GROSS SALES FOR THE PAST THREE YEARS—19..... \$..... 19..... \$..... 19..... \$.....

WHERE IS YOUR PRINCIPAL SALES TERRITORY?.....

IF YOUR BOOKS HAVE BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT, GIVE NAME OF ACCOUNTANT AND DATE OF AUDIT.....

ARE THERE ANY JUDGMENTS UNSATISFIED, OR SUITS PENDING AGAINST YOUR CORPORATION, AND FOR WHAT AMOUNT?.....

GIVE DATE YOU REGULARLY TAKE INVENTORY AND CLOSE YOUR BOOKS.....

The foregoing statements and details pertaining thereto, both printed and written, have been carefully read by the undersigned, and I hereby do declare and certify that same is a full and correct exhibit of our financial condition.

CORPORATE NAME.....

DATE SIGNED.....

19.....

BY.....

(OFFICER'S TITLE MUST BE GIVEN)

NOTE: If you have any difficulty in filling in the foregoing statements and questionnaire, the Credit Department of this bank is prepared to extend courteous and intelligent service; in fact, we solicit your co-operation and acquaintance with our credit methods.

Size of original 7¼ x 10½

NAME _____
 ADDRESS _____

THE CLEVELAND NATIONAL BANK, Cleveland, Ohio.

FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU, FOR MY NEGOTIABLE PAPER OR OTHERWISE, I FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF MY FINANCIAL CONDITION ON _____ 19_____, AND HEREBY AGREE TO REPLY TO YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN MY FINANCIAL CONDITION. IN THE ABSENCE OF SUCH NOTICE NEW AND FULL WRITTEN STATEMENT, THIS IS TO BE CONSIDERED AS A CONTINUING STATEMENT, AND THAT MY PECUNIARY RESPONSIBILITY HAS NOT FALLEN BELOW THE CONDITION HEREIN SET FORTH.
 (IN THE ABSENCE OF ANY AMOUNT, INSERT FIGURES IN STATEMENT FORMS. ANSWER ALL QUESTIONS ON FOLLOWING PAGES. USE THE WORDS "Yes," "No" or "None" WHEN THEY WILL ANSWER THE QUESTIONS CORRECTLY. SIGN AT BOTTOM OF SECOND PAGE.)

ASSETS	DOLLARS		CENTS	LIABILITIES	DOLLARS		CENTS
CASH ON HAND AND IN BANK				NOTES OWED BY ME—WITHOUT SECURITY			
ACCOUNTS DUE ME—GOOD				NOTES OWED BY ME—WITH SECURITY OTHER THAN REAL ESTATE			
SECURED LOANS DUE ME—GOOD				NOTES OR MORTGAGES OWED BY ME—WITH REAL ESTATE AS SECURITY			
CURED LOANS DUE ME				NOTES OWED BY ME—WITH CHATTEL MORTGAGE AS SECURITY			
MORTGAGE LOANS DUE ME				ACCOUNTS OWED BY ME			
FORM PRODUCTS ON HAND				ANY OTHER INDEBTEDNESS—ITEMIZE			
RAW STOCK ON HAND							
LAND							
BUILDINGS							
FORM IMPLEMENTS AND MACHINERY							
ANY OTHER PROPERTY OR INVESTMENTS—ITEMIZE							
				TOTAL LIABILITIES			
				NET WORTH			
TOTAL				TOTAL			

CONTINGENT LIABILITY OF ANY KIND

NOTES OF OTHERS ENDORSED BY ME			
GUARANTOR FOR ACCOUNTS AND NOTES OF OTHERS			
NOTES EXCHANGED WITH OTHERS			
BONDSMAN OR SURETY FOR OTHERS			
OR LEASES			
OTHER THAN ABOVE SPECIFIED			
TOTAL			

DETAILS RELATIVE TO ASSETS AND LIABILITIES

DESCRIPTION AND LOCATION	TITLE IN WHOSE NAME	ASSESSED VALUE	APPRAISED VALUE	MORTGAGES	INSURANCE	RENTALS RECEIVED DURING LAST FISCAL YEAR
		\$	\$	\$	\$	\$

BY WHOM APPRAISED:..... WHEN:.....

TAXES PAID TO WHAT DATE:.....

IS THERE ANY OTHER PERSON INTERESTED IN YOUR BUSINESS EITHER AS SPECIAL OR LIMITED PARTNER?.....

ARE YOU A PARTNER IN ANY FIRM?.....

ARE THERE ANY JUDGMENTS UNSATISFIED, OR SUITS PENDING AGAINST YOU, AND FOR WHAT AMOUNT?.....

IS YOUR LIFE INSURED?.....AMOUNT?.....

WHO IS THE BENEFICIARY?.....

HAVE YOU ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS?.....

GIVE DETAILS.....

WHAT IN YOUR OPINION IS THE NET WORTH OF EACH ENDORSER ON YOUR NOTES?.....

ARE ANY OF YOUR ASSETS, OTHER THAN REAL ESTATE, PLEDGED OR HYPOTHECATED IN ANY WAY?.....

NOTES OWED BY ME:--

To Whom Given	AMOUNT	DATE	WHEN DUE	INTEREST RATE	DESCRIPTION OF SECURITIES PLEDGED
	\$				

ACCOUNTS OWED BY ME:--

To Whom	AMOUNT	WHEN DUE	FOR WHAT
	\$		

LIVE STOCK ON HAND			FARM PRODUCTS ON HAND		
DESCRIPTION	NUMBER OF HEAD	VALUE	DESCRIPTION	QUANTITY	VALUE

I HEREBY SOLEMNLY DECLARE AND CERTIFY THIS TO BE A TRUE AND CORRECT STATEMENT OF MY FINANCIAL CONDITION AT THE CLOSE OF BUSINESS.....19.....

SIGN HERE,.....

DATE.....19.....

Supplies of this form, with or without the bank's imprint, can be secured through the Cleveland Clearing House Association, 510 Chamber of Commerce. Price on request.

The Fletcher American National Bank, Indianapolis, Ind.:

OFFICE OF

Name of Bank or Firm) _____
 (Location) _____

Below please find statement of financial condition as shown by our books on _____ 191____
 is furnished in confidence for your use alone, and as a guide should the question of our standing and responsibility
 present itself in the course of our affairs with your bank.

Respectfully,

(Sign officially.)

ASSETS				LIABILITIES			
Cash and Discounts _____				Capital _____			
Bonds _____				Surplus _____			
U.S. Bonds _____				Undivided Profits _____			
Money on Hand _____				Individual Deposits _____			
from Banks _____				Demand Certificates _____			
from Fletcher American National Bank, Indianapolis				Time Certificates _____			
from _____				Bills Payable (see below) _____			
from _____				Other Liabilities _____			
from _____							
from _____							
Real Estate _____							
Other Assets _____							
Total				Total			

Schedule of Bills Payable: _____

In cases of unincorporated institutions, please give below amounts of assets and liabilities of individual members of the
 firm, in addition to above:

Remarks: _____

THE UNIVERSITY OF CHICAGO
LIBRARY

No.	Date	Description
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91	1960	...
92	1961	...
93	1962	...
94	1963	...
95	1964	...
96	1965	...
97	1966	...
98	1967	...
99	1968	...
100	1969	...

Standard Form

American Bankers' Association

The Fletcher American National Bank of Indianapolis :

undersigned, for the purpose of procuring credit from time to time from you for the negotiable paper of the undersigned or otherwise, furnish you with the following statement, which fully and truly sets forth the financial condition of the undersigned on the _____ day of _____ 19____, which statement you can consider as continuing to be full and accurate unless notice of change is given you. The undersigned agree to notify you promptly of any change that materially reduces the pecuniary responsibility of the undersigned. In consideration of the granting of such credit, the undersigned agree that if the undersigned at any time fail or become insolvent, or commit an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fail to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit account of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

ASSETS			LIABILITIES		
Cash on hand _____			Bills Payable for Merchandise _____		
Cash in _____ Bank _____			Bills Payable to Bank _____		
Accounts Receivable, good, owing by Customers _____			Open Accounts _____		
Accounts Receivable, good, owing by Customers _____			Mortgages or Liens on Real Estate _____		
Merchandise, (How Valued _____)			Other Indebtedness, and of which Composed	}	_____
Real Estate _____					_____
_____					_____
_____					_____
_____					_____
Machinery and Fixtures _____			Total Liabilities _____		
_____			Net Worth _____		
Total _____			Total _____		

Contingent Liability. { Accommodation Endorsements _____
 { Endorsed Bills Receivable Outstanding _____

Specify any of above assets or liabilities pledged as, or secured by collateral, and state collateral.

Volume of business for last fiscal year _____ \$
 Net earnings _____ \$

(Signed) _____

Date _____

Size of original 7½ x 9¾

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY

RESEARCH REPORT NO. 1000

BY [Name]

ADVISOR: [Name]

DATE: [Date]

ABSTRACT

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

[Text]

The Fletcher American National Bank of Indianapolis:

(Partnership)

Business..... Location.....
 the express purpose of procuring credit from time to time from you, the undersigned hereby make to you the following statement of the condition of the undersigned on the..... day of..... 191.....; and the undersigned hereby agree and guarantee that said statement is in all respects true and correct; and you may consider said statement as to the pecuniary responsibility of the undersigned as continuing to be true and correct until written notice of a change is given to you by the undersigned.

undersigned agree to notify you forthwith, in writing, in the event of any change that reduces the pecuniary responsibility of the undersigned below that herein set forth. If at any time the undersigned fail to notify you, in writing, of any such change, or if at any time the undersigned, or any of them, stop payment, or become insolvent, or fail, or commit an act of bankruptcy, or if any one of the statements herein contained is found by you to be untrue or incorrect, or if any change in the financial responsibility of the undersigned occurs by reason of which, in your judgment (and of this you shall be the sole judge), the undersigned are not entitled to a continuance of the credit extended by reason of this statement, then, and in any of said events, any and all debts, liabilities and obligations of every kind, whether direct or contingent, from the undersigned to you, shall at your election forthwith become due and payable, without demand or notice, and you are hereby authorized to apply on account of any or all of such debts, liabilities and obligations of the undersigned, whether direct or contingent, all property, real and personal, of every kind and description of the undersigned, and of each and every of them, including balances, credits, collections, moneys, drafts, checks, notes, bills and accounts, whether in your possession or in transit to or from you, and you are hereby expressly given a continuing lien upon all of said property from time to time to secure any and all of the debts, liabilities and obligations of every kind, whether direct or contingent, from the undersigned to you.

Fill all blanks, writing "NO" or "NONE" where necessary to complete information.

ASSETS			LIABILITIES		
Cash on hand			Bills Payable (Notes) for Merchandise.....		
Cash in Bank			Bills Payable for borrowed money—to own banks.....		
Bills Receivable, all good, owing from customers.....			Bills Payable for borrowed money—for paper sold.....		
Bills Receivable, owing from Partners.....			Bills Payable to Partners.....		
Accounts Receivable, all good, owing from customers.....			Open Accounts not due.....		
Accounts Receivable, owing from Partners (see page 3).....			Open Accounts past due.....		
Merchandise, finished, at actual present cash value.....			Accounts owing Partners.....		
Merchandise, unfinished, at actual present cash value.....			Owing to Foreign Banks and Bankers.....		
Raw Material			Deposits and other Trust Funds.....		
Total Quick Assets			Mortgages and Liens on R. E. (Due.....)		
Stocks, Bonds and Investments (see page 3).....			Bonds..... (Due.....)		
Furniture and Fixtures.....			Chattel Mortgages.....		
Real Estate (see page 3).....			OTHER LIABILITIES {		
Accounts and bills receivable owing from officers and employees.....					
OTHER ASSETS {					
			Total Liabilities.....		
			NET WORTH.....		
Total			Total		

Dr. PROFIT AND LOSS ACCOUNT, FISCAL YEAR ENDING..... 191..... Cr.

Actual Expense of conducting business	\$.....		GROSS PROFITS		
Bad debts charged off	\$.....		From Merchandise	\$.....	
Charged off for depreciation	\$.....		From Interest and Discounts	\$.....	
Withdrawals by Partners	\$.....		From Investments	\$.....	
Net Profits	\$.....		From other sources	\$.....	
Total	\$.....		Total	\$.....	

(Signature).....

Date and Place Signed..... 191..... By..... (Over)

NOTE: Please furnish in detail the information called for on following pages.

Ca. 182

Size of original 7½ x 10¼

All of the following information and data shall be considered and taken as part of the foregoing signed statement:

Average amount of stock carried \$

Total sales for last fiscal year \$

Are all bad and doubtful assets excluded from above statement?

Specify any of your assets pledged as security for loans, advances, or other liabilities

What amount of Bills and Accounts Receivable is past due, or extended?..... \$

Specify any of your liabilities secured by collateral, and state collateral

Insurance	}	On Buildings and Plant	\$
		On Merchandise	\$
		On Accounts Receivable	\$

Give names of all banks where accounts are kept

Names of Bankers or Brokers handling our notes

Have you any Contingent Liabilities?	}	Upon Rediscounted Bills Receivable	\$
		Upon accommodation paper or endorsements.....	\$
		Upon notes exchanged with others	\$
		For Guarantees.....	\$
		For Bonds	\$

Regular times of taking inventory

Name

Address

}

Date of Partnership agreement.....When does it expire?

Names of Special Partners

Amount of special capital, by whom contributed, and until what date

STATEMENT OF REAL ESTATE OWNED BY FIRM

Give location and present market value of each piece, and amount of encumbrance, if any. If leasehold, state if have privilege of purchase:

Size of original 7½ x 10¼

STOCKS, BONDS AND INVESTMENTS OF FIRM. Give description and cash market value

REAL ESTATE OWNED BY INDIVIDUAL PARTNERS

Included in statement of firm real estate; give location, in whose name held, cash market value of each piece and encumbrance, if any. If leasehold, state if have privilege purchase:

STOCKS, BONDS AND OTHER INVESTMENTS OF INDIVIDUAL PARTNERS

Give description, in whose name held and cash market value:

Included in Bills Receivable are the following amounts owing from Individuals (Officers, Directors, Stockholders, or others), Firms or Corporations, acting in the capacity of agents for this corporation.

Owing from.....	\$.....
" ".....	\$.....
" ".....	\$.....
" ".....	\$.....
" ".....	\$.....

Included in Accounts Receivable are the following amounts owing from Individuals (Officers, Directors, Stockholders, or others), Firms or Corporations, acting in the capacity of agents for this corporation.

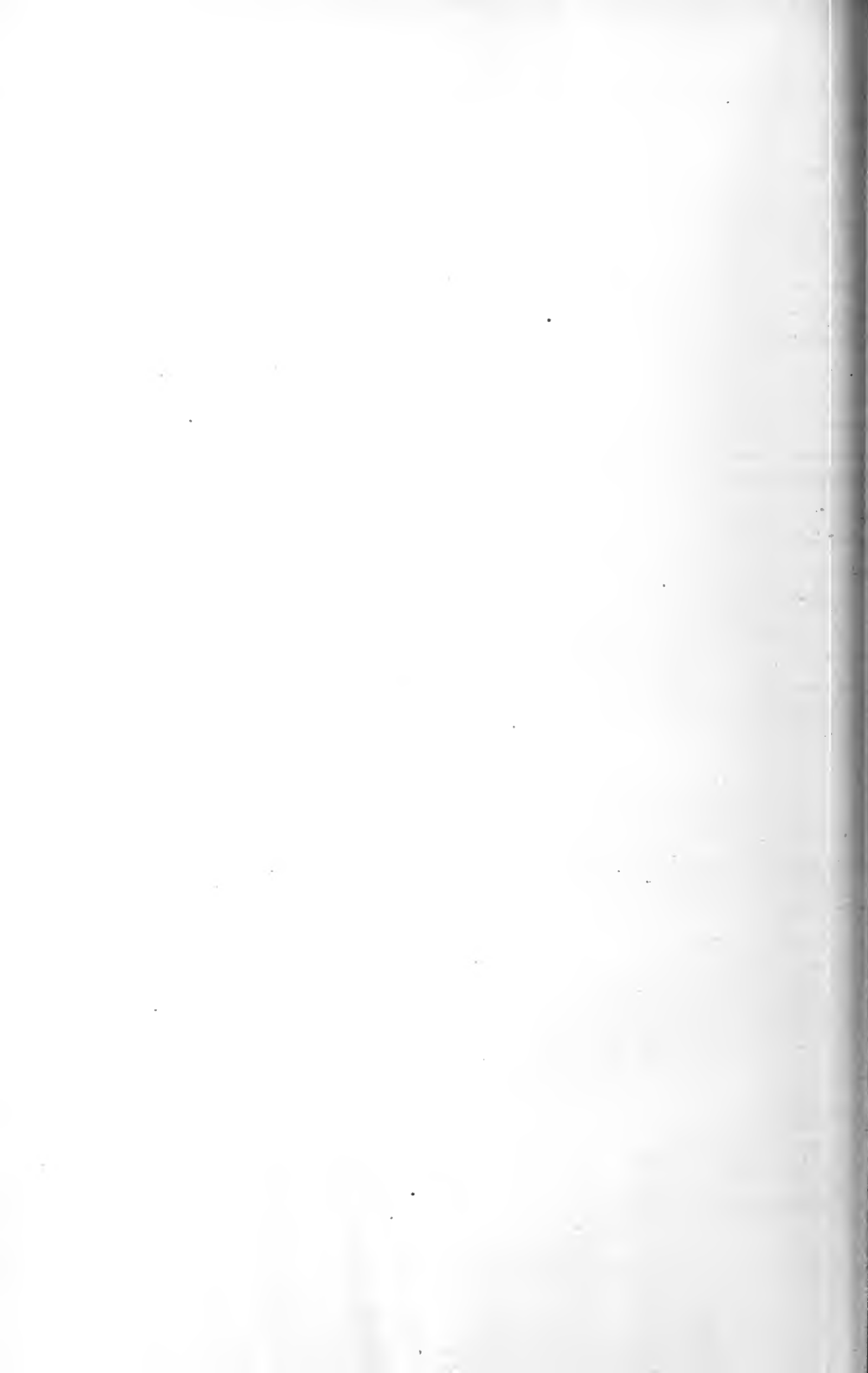
Owing from.....	\$.....
" ".....	\$.....
" ".....	\$.....
" ".....	\$.....
" ".....	\$.....

Please explain connection of above agents with this corporation, and state in what manner Bills and Accounts Receivable were contracted by them:

Date and Place Signed..... (Signature).....

By.....

Size of original 7½ x 10¼



The Fletcher American National Bank of Indianapolis:

(Corporation)

(Corporate style under charter)

Business _____ Location _____
 For the express purpose of procuring credit from time to time from you, the undersigned hereby makes to you the following statement of the condition of the undersigned on the _____ day of _____ 191____; and the undersigned hereby agrees and guarantees that said statement is in all respects true and correct; and you may consider said statement as to the pecuniary responsibility of the undersigned, as continuing to be true and correct until written notice of a change is given to you by the undersigned.

Fill all blanks, writing "NO" or "NONE" where necessary to complete information

ASSETS			LIABILITIES		
On hand and in bank			Bills Payable (Notes) for Merchandise		
Accounts Receivable, all good, owing from customers			Bills Payable for borrowed money— <i>to</i> own banks		
Accounts Receivable, owing from Directors or Stockholders			Bills Payable for borrowed money— <i>for</i> paper sold		
Accounts Receivable, all good, owing from customers			Bills Payable to Directors or Stockholders		
Accounts Receivable, owing from Directors or Stockholders (see page 3)			Open Accounts not due		
Merchandise, finished, at actual present cash value			Open Accounts past due		
Merchandise, unfinished, at actual present cash value			Accounts owing Directors or Stockholders		
Raw material			Labor, Salaries, etc.		
Total Quick Assets			Deposits and other Trust Funds		
Loans, Bonds and Investments (see page 3)			Mortgages and Liens on R. E. (Due _____)		
Furniture and Fixtures			Bonds _____ (Due _____)		
Real Estate (see page 3)			Chattel Mortgages		
Accounts and bills receivable owing from officers and employees			OTHER LIABILITIES		
			Total Liabilities		
			Capital Stock Issued		
			Surplus, including undivided profits		
Total			Total		

Dr. PROFIT AND LOSS ACCOUNT, FISCAL YEAR ENDING _____ 191____ Cr.

EXPENSES		GROSS PROFITS	
General Expense of conducting business	\$ _____	From Merchandise	\$ _____
Debits charged off	\$ _____	From Interest and Discounts	\$ _____
Expensed off for depreciation	\$ _____	From Investments	\$ _____
Dividends Paid	\$ _____	From other sources	\$ _____
Net Profits	\$ _____	Total	\$ _____
Total	\$ _____		
Notes and Accounts Receivable discounted or sold	\$ _____	Net Sales during year	\$ _____
Commodation Endorsements	\$ _____	Insurance carried on Merchandise	\$ _____
Other Contingent Liabilities	\$ _____	Insurance carried on Buildings and Equipment	\$ _____

(Signature) _____

Place and Place Signed _____ 191____

By _____

NOTE: Please furnish in detail the information called for on following pages.

CR. 101

(Over)

Size of original 7½ x 10¼

STATEMENT OF REAL ESTATE

location and present market value of each piece, and amount of encumbrance, if any. If leasehold, state if have privilege of purchase:

CASH, BONDS AND INVESTMENTS. Give description and cash market value.

the Items Bills and Accounts Receivable from Directors and Stockholders represent actual sale of goods?

at part represents cash advanced? \$

the Items Bills and Accounts Payable to Directors and Stockholders represent actual purchase of goods?

at part represent cash advanced? \$

do you any Affiliated or Allied Co.'s, and do they borrow individually, or are they financed by the Parent Corporation, or both?

Bills and Accounts Receivable include the following amounts owing from individuals. (Officers, Directors, Stockholders, or others), Firms or Corporations acting in the capacity of agents for this corporation.

Owing from \$

" " \$

" " \$

" " \$

" " \$

" " \$

Please explain connection of above agents with this corporation, and state in what manner Bills and Accounts Receivable were contracted by them:

the names of all banks where accounts are kept, and lines of Credit with each

names of Bankers or Brokers handling our notes

I hereby certify that, to the best of my knowledge and belief, the figures and information given are, in every respect, true, and in accordance with the facts.

Signature and Place Signed (Signature)

By

Size of original 7 1/2 x 10 1/4



Specify any of the above assets or liabilities pledged as or secured by collateral and state collateral.

Does your Corporation, or do your Officers, ever exchange notes, drafts or checks with any person, firm or corporation?.....
 Does your Corporation, or do your Officers, ever endorse paper for the accommodation of any person, firm or corporation?.....
 Do endorsers or guarantors of your paper endorse or guarantee any other paper or account?..... Present amount, \$.....
 Are there any suits pending against your Corporation, and, if so, for what amount? \$.....
 Does the item Notes and Accounts Receivable from Affiliated or Allied Companies represent actual sale of goods?.....
 What part represents cash advanced?..... \$.....
 Does the item Notes and Accounts Payable to Affiliated or Allied Companies represent actual purchase of goods?.....
 What part represents cash advanced?..... \$.....
 Do Affiliated or Allied Companies borrow individually, or are they financed by the Parent Corporation, or both?.....
 What was Maximum amount short-term loans during past year, and date?..... \$.....
 What was Minimum amount short-term loans during past year, and date?..... \$.....
 Anticipated Maximum amount short-term loans during the coming year?..... \$.....
 Stocks, Bonds and Investments—give description and cash market value:

\$		\$
\$		\$
\$		\$

What provisions have been made for the retirement of bonded or mortgage debt?
 Do your plans for your fiscal year contemplate anything in the way of building operations, plant extension or investment in other fixed assets? If state amount to be so invested?..... \$.....
 What is your relationship with Affiliated or Allied Companies? Please furnish full particulars.....

OFFICERS		
NAME IN FULL	Number Shares held	ADDRESS
President		
Vice-President		
Secretary		
Treasurer		

DIRECTORS		
NAME IN FULL	Number Shares held	ADDRESS
.....		
.....		
.....		
.....		
.....		
.....		
.....		
.....		

CAPITAL:
 Authorized, \$..... Common, \$..... Preferred, \$..... Par Value, \$.....
 Paid in cash, \$..... Stock Dividends, \$..... Subscribed, \$..... Patents, \$..... Other Assets, \$.....
 Held by the Company as Treasury Stock, \$..... Since.....
 Incorporated in what State and under what General Law or Special Act.....
 Date of Charter..... Commenced Business.....
 To what extent are Stockholders liable beyond amount of Stock subscribed.....

Size of original 7 3/4 x 10 1/4

REAL ESTATE LOCATION (Give legal description and number and name of street):

NATURE: Cost to Company, Assessed Value, \$

the title in name of corporation? If not in whose name?

as any portion acquired through bad debts? How much?

dividend last five years, \$ When was last dividend paid Rate per cent.

amount of Accounts or Notes receivable, in this Statement, not charged off is past due? less than 30 days, \$ between 30 and 60 days, \$ more than 60 days, \$ more than 6 months, \$

much of this is collectable, \$ What amount of merchandise is more than one year old, \$

do you treat doubtful accounts?

is charged off as depreciation for year ending with date of this statement: on machinery, \$ on buildings, \$ on furniture and fixtures, \$ on patents, \$ on \$

is the date of patent rights carried as assets When do these rights expire Original cost, \$

names and location of banks where the accounts of this Corporation are kept, stating credit line given by each bank.

Table with columns: BANK, CREDIT LINE, DEPOSIT BALANCE ON STATEMENT DATE. Includes rows for \$ amounts.

at time of the year are your liabilities the heaviest the lightest

at time of the year is your inventory the highest the lowest

on terms of sales is How often do you take account of stock

was the last inventory taken Is this statement based on an actual inventory

by whom was it taken If not upon what basis is statement made

does your fiscal year end Do you sell your notes through brokers Who

rate of interest do you pay on money deposited with the Corporation per cent

foregoing statement and report been personally verified by some officer of the Corporation

For the purpose of procuring credit from time to time, the undersigned hereby makes to you the foregoing statement of the condition of the undersigned day 19; and the undersigned hereby maintains and guards that said statement is in all respects true and correct; and you may consider said statement as to the pecuniary responsibility of the undersigned as being to be true and correct until written notice of a change is given to you by the undersigned.

In consideration of the granting of such credit, we agree that if we at any time stop payment or become insolvent, or commit an act of bankruptcy, any of the representations made herein prove to be untrue, or if we fail to notify you of any material change as before agreed; then and in either such case all our obligations held by you shall immediately become due and payable without demand or notice, and the same may be charged against the balance of deposit account kept by us with you, we hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations held by you.

(Sign Corporation Name here)

Signed By (Title)

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Section 1. Whoever wilfully and knowingly makes any false statement in writing of his or her property valuation, real or personal, or both, or of his indebtedness, for the purpose of obtaining credit from any person, company, co-partnership, association or corporation, shall be deemed guilty of a felony upon conviction thereof may be imprisoned in the state prison for a period of not exceeding one year and fined any sum not exceeding one thousand dollars. Passed May 13, 1909.

Size of original 7 3/4 x 10 1/4

1875

...

...

...

...

...

...

...

...

After securing the statement, then comes the important task of dissecting or analyzing it. When statements first came into vogue they were considered a sort of temporary memoranda to be read and filed away and forgotten. This, however, was a phase of short duration, and before long the bank credit man realized that a real analysis of the statement paid big returns, and so analysis of a kind began. Now nearly every bank that keeps any sort of credit files makes some sort of an analysis. System has been introduced where chaos reigned, and credit files have doubled and trebled in value.

The first thing that suggested itself to the credit man was comparison between statements of different dates, and so comparative analysis forms sprang into existence. These forms are, for the most part, columnar in form, having a separate column for the figures of each year and one column, generally at the left of the sheet, in which is printed the main items appearing on a balance sheet. In general the assets are at the top of the sheet and the liabilities below. The sheets are from five to twenty columns wide, as best suits the whims or fancy of the credit man. The writer prefers the sheet with five or six columns, as beyond that width it sometimes becomes difficult to follow the lines easily and with accuracy. Some who prefer the long sheet and recognize this trouble overcome it by numbering or lettering the lines and injecting a small column at intervals, of say four columns in width, on which are printed the numbers or letters of the line. This makes it decidedly easier to run the eye along a long line and keep accurate track of the items.

THE COMPARATIVE ANALYSIS SHEET

Preceding a discussion of the use of these analysis sheets it may be well to show what they are like so that the reader may more easily understand their use. They are all based on the same idea, namely, setting side by side the figures from a consecutive number of statements so that their relation to one another may become perfectly clear.

ASSETS:

C
 B Receivable
 A's "
 Aances
 Gn
 Mchandise, finished
 Mchandise unfinished
 R Material

Total Quick Assets

S ks and Bonds
 Mberships
 Bators and Warehouses
 Machinery, Fixtures and Eqpt.
 Real Estate and Buildings (Plant)
 Real Estate (Other)
 Eerns, Patents, Goodwill, Etc.
 E from Stockholders
 A, Ins. and Expenses Prepaid

Total Slow Assets

TOTAL

LIABILITIES

Capital
 Plus and Undivided Profits

erve and Contingent Accts.

Working Capital

As Payable
 ounts Payable
 osits of Money
 e Stockholders

ended Debt (Due)
 g. on Plant and Real Estate

Total Liabilities

TOTAL

tal Sales
 oss Profit
 tual Expense of business
 d Debts Charged off
 rediation
 idends
 ofts to Surplus

Size of original 8½ x 10½

The broken dashes at right and left sides indicate the horizontal ruling



COMPARISON OF STATEMENTS OF

RESOURCES																				
Stock in Trade,																				
Good Bills Receivable,																				
Good Open Accounts, less than months old,																				
Good Open Accounts, more than months old,																				
Cash on Hand and in Bank,																				
Machinery and Fixtures,																				
Real Estate,																				
Other Assets																				
TOTAL,																				
LIABILITIES																				
Borrowed Money	Promissory Notes to Banks,																			
	Promissory Notes to Individuals,																			
	Accounts Payable,																			
Promissory Notes for Merchandise,																				
Accounts Payable for Merchandise,																				
Other Liabilities																				
Mortgages,																				
TOTAL LIABILITIES,																				
NET WORTH	Capital Paid In																			
	Surplus and Profits,																			
TOTAL,																				
TOTAL QUICK ASSETS,																				
LIABILITIES																				
EXCESS QUICK																				
Indirect Liabilities	On Customers Paper Discounted,																			
	On Other Paper																			
Sales,																				
Average Balance,																				

Size of original 8 x 10½

The broken dashes at right and left sides indicate horizontal rules



NAME ACCOUNT OPENED

LOCATION

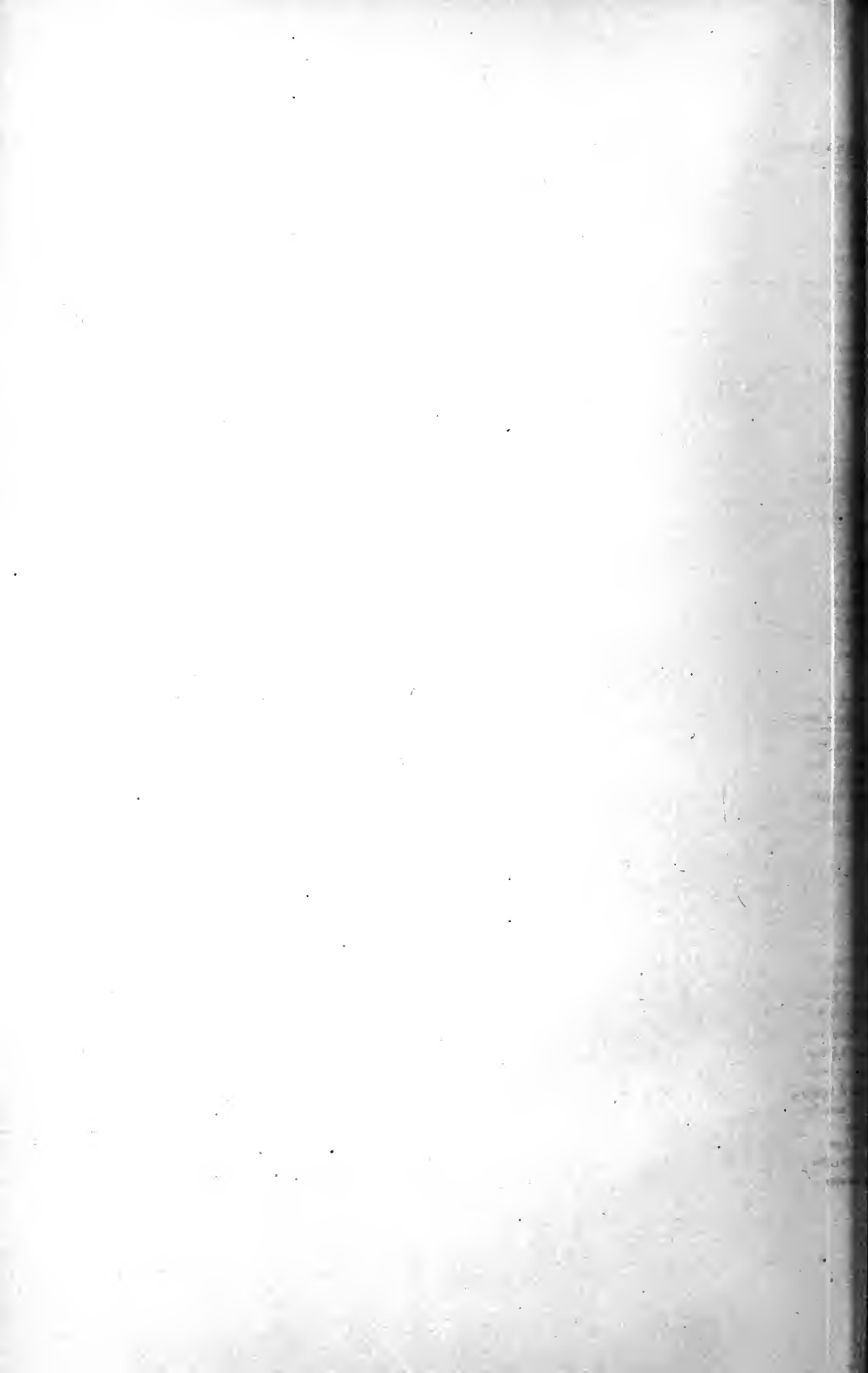
BUSINESS INTRODUCED BY

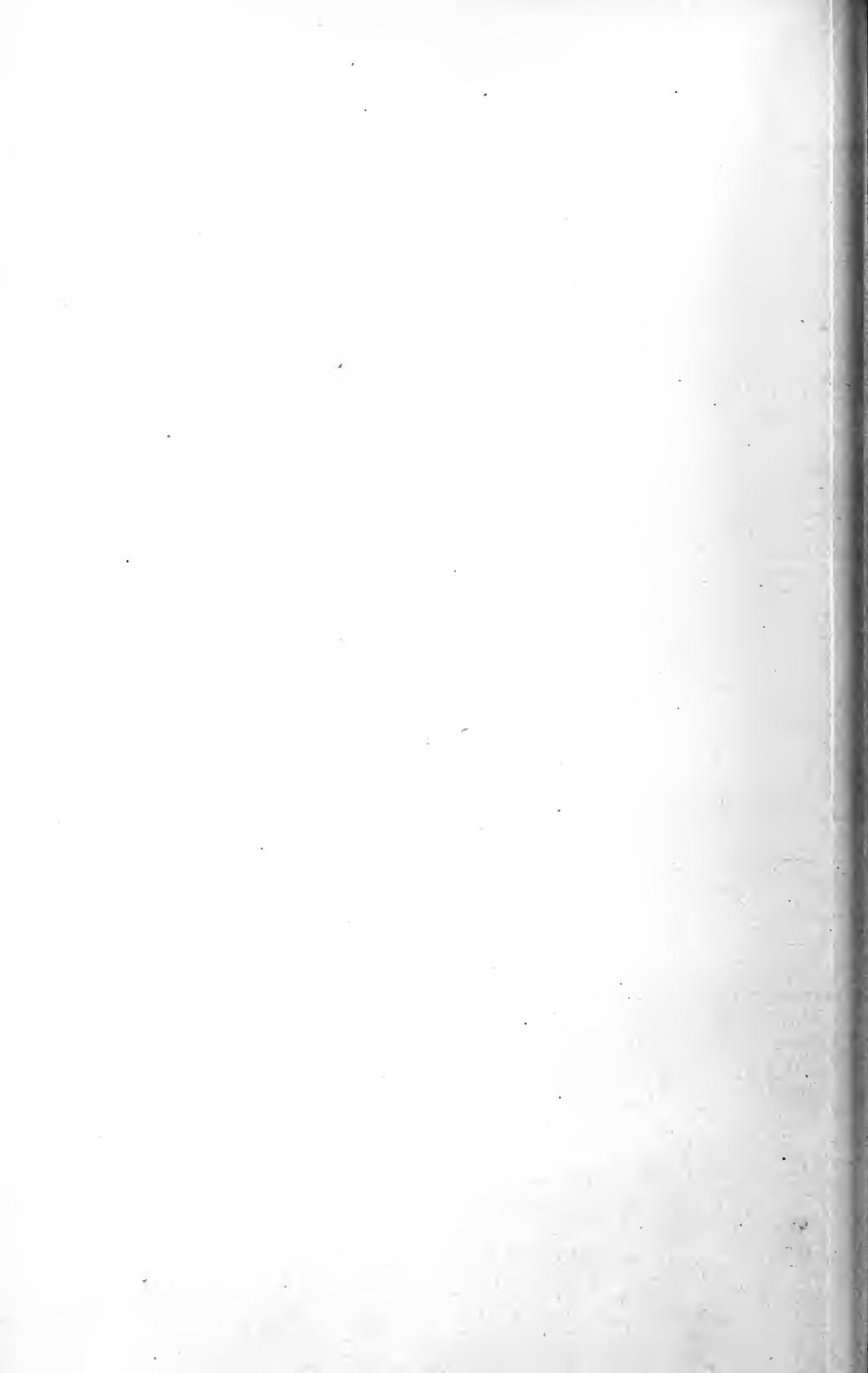
ASSETS					
CASH					
ACCOUNTS RECEIVABLE					
NOTES RECEIVABLE					
MERCHANDISE					
OTHER QUICK ASSETS					
REAL ESTATE					
MACHINERY & FIXTURES					
OTHER FIXED ASSETS					
LIABILITIES					
ACCOUNTS PAYABLE					
BILLS PAYABLE					
DEPOSITS					
MORTGAGES					
OTHER LIABILITIES					
NET WORTH					
QUICK ASSETS					
CURRENT LIABILITIES					
NET QUICK ASSETS					

LINE

REMARKS

Size of original 8½ x 10¾
The broken dashes at right and left sides indicate horizontal rules





NAME

ACCOUNT OPENED

LOCATION

BUSINESS

INTRODUCED BY

ASSETS																				
CASH																				
ACCOUNTS RECEIVABLE																				
NOTES RECEIVABLE																				
MERCHANDISE																				
OTHER QUICK ASSETS																				
REAL ESTATE																				
MACHINERY & FIXTURES																				
OTHER FIXED ASSETS																				
LIABILITIES																				
ACCOUNTS PAYABLE																				
BILLS PAYABLE																				
DEPOSITS																				
BONDS OR MORTGAGES																				
OTHER LIABILITIES																				
CAPITAL																				
SURPLUS																				
RESERVE																				
QUICK ASSETS																				
CURRENT LIABILITIES																				
NET QUICK ASSETS																				
RATIO Q. A. TO LIABILITIES																				
ANNUAL SALES																				
ENDORSEES OUTSIDE WORTH																				

LINE

REMARKS

Size of original 8½ x 10
 The broken dashes at right and left sides indicate horizontal rules

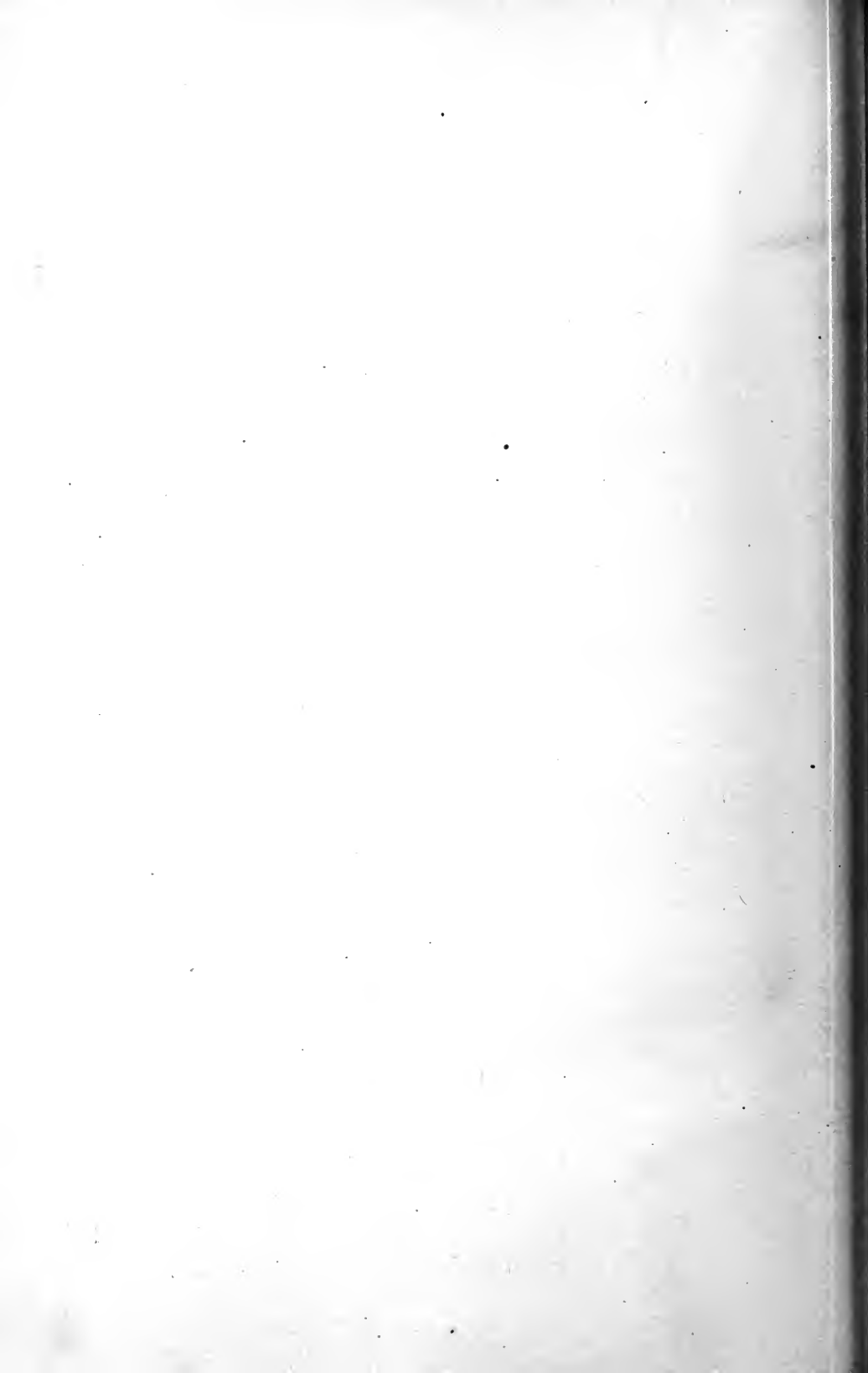


COMPARISON OF STATEMENTS

ASSETS									
Cash on Hand and in Bank,									
Accounts Receivable, all good, on hand,									
Notes and Acct's. Rec. due from Officers or Stockholders,									
Accounts Receivable, all good, due from customers,									
Merchandise, finished,									
Merchandise, unfinished,									
Raw Material,									
TOTAL QUICK ASSETS.									
Real Estate,									
Buildings,									
Machinery and Tools,									
Furniture and Fixtures,									
Unpaid Insurance,									
TOTAL NON-CURRENT ASSETS.									
TOTAL.									
LIABILITIES									
Accounts Payable for Merchandise,									
Accounts Payable negotiated to Banks,									
Accounts Payable otherwise disposed of,									
Notes and Accounts Payable due Officers or Stockholders,									
Open Accounts, not due,									
Open Accounts, past due,									
Deposits of Money,									
Interest Accrued,									
Pay Roll and Salaries Accrued,									
Provision reserved for Taxes,									
TOTAL QUICK LIABILITIES.									
Mortgages on Real Estate,									
Unpaid Debt,									
TOTAL LIABILITIES.									
Reserves,									
Capital,									
Surplus, including undivided profits,									
Net Worth,									
TOTAL.									
Total Quick Assets,									
Total Quick Liabilities,									
Excess Quick,									
Deficit Reserves Against Current Assets,									
Net Excess Quick,									
Ratio,									
Dividends,									
Net Profits Last Year's Business,									
Dividends or Withdrawals,									
Insurance on Merchandise,									
Insurance on Real Estate,									
Contingent Liability,									
Outside Worth of Sureties,									

Size of original 8½ x 12¾

The broken dashes at right and left sides indicate horizontal rules



While it is desirable to secure statements on the bank's own form, it is not always possible to do so, and statements come in made up on entirely different lines and with entirely different groupings of figures that must be combined in various ways to fit the bank's method of analysis. After a time, if the credit man relies entirely on his memory, it is often difficult to determine just what figures were grouped to make up certain totals on the comparison sheet. To avoid this confusion the writer has for a long time adopted the policy of checking each item on the balance sheet with a small dot if it is entered directly on the analysis sheet, as an item by itself, and using the small letters of the alphabet to indicate when certain items have been grouped into one total. Thus all the items checked "a" will be found under one total, all checked "b" under another total, and so on. This helps materially in checking back an old statement and also makes it possible to read through a complicated statement quickly by checking items to be grouped so that this work can be done readily by an assistant, or if the assistant does the work it provides an easy way of checking his decisions as to grouping.

Straight comparative analysis puts into relationship the actual items of several statements so that their increase and decrease can be seen. But the credit man, in groping for some law for credit, felt the need for some kind of a proportional study. There appeared to be two main groups of assets and liabilities. Those of a strictly commercial type, liquid and quick, and those of a capital type, funded or slow. Inasmuch as the banks are truly and economically interested in commercial loans for commercial purposes a comparison, or ratio establishing, between the quick or current assets and the quick or current liabilities suggested itself as a matter worthy of consideration. This question of es-

establishing a ratio between the current items has become almost a fetish and guide-all with many credit men to-day. It is the one acknowledged attempt at standardization that comparative analysis has produced.

THE TWO FOR ONE THEORY

In liquidation it is a fact that the assets generally shrink by a very considerable amount, while the debts have a most uncomfortable habit of remaining fixed or perhaps even mounting on account of contingent liabilities not reported. This has led to the demand that there be a margin sufficient to allow for a considerable shrinkage of assets and still leave enough to pay for the quick or current debt, leaving the plant and other fixed assets to take care of the funded debt or provide the stockholders with a small dividend. Experience has fixed upon a ratio of two dollars of quick assets for every dollar of quick liabilities. There has, however, been no scientific method used in establishing this ratio or requirement, and in many cases it is neither sound nor economic, and least of all safe as a credit guide. It is, however, a law of comparative analysis and serves a purpose, as it tends to create a margin of safety.

SOME POINTS TO BE WATCHED IN COMPARATIVE ANALYSIS

When looking over and analyzing a statement, round figures in even hundreds with no dollars or cents should be viewed with a very decided skepticism. They are almost invariably the result of estimates and not real records. Such estimates are usually optimistic and the real condition is not truly displayed.

Almost all bank forms now have a question concerning con-

tingent liability and an answer to this question should be insisted upon, as should its sister question covering accounts receivable pledged or hypothecated in any way.

Sales are a most important item in measuring up a statement, and the supplying of this feature should be one of the most firmly insisted-upon points. A fuller understanding of why this is so is discussed in the next chapter.

The operating, or profit and loss, statement is also an important item, on the securing of which the bank man can well spend some diplomacy if necessary. If a company is making money and can show it by an accurate operating statement, it has passed the first test, because making a profit is the real test of going ahead.

Hardly second to the operating statement in importance is a proper reconciliation of the surplus account. The statement used by banks in the Cleveland Clearing House Association, shown in an earlier part of this chapter, contains such a form on page 96. The use of this form will clarify the atmosphere and make it possible for the credit man to understand the surplus account very much better. The adoption of this as a regular method of analysis is strongly advised.

As the merchandise is one of the main current assets in most statements, the bank man should know how it is protected against loss by fire, theft, explosion or some act of providence. The insurance carried should be enough to cover the risk and the bank credit man should certainly know how much insurance of all kinds the company has. This also includes use and occupancy insurance. Moreover, if there is the slightest doubt, the credit man should know the forms of policy and the companies writing them, so that he may judge the real worth of the insurance.

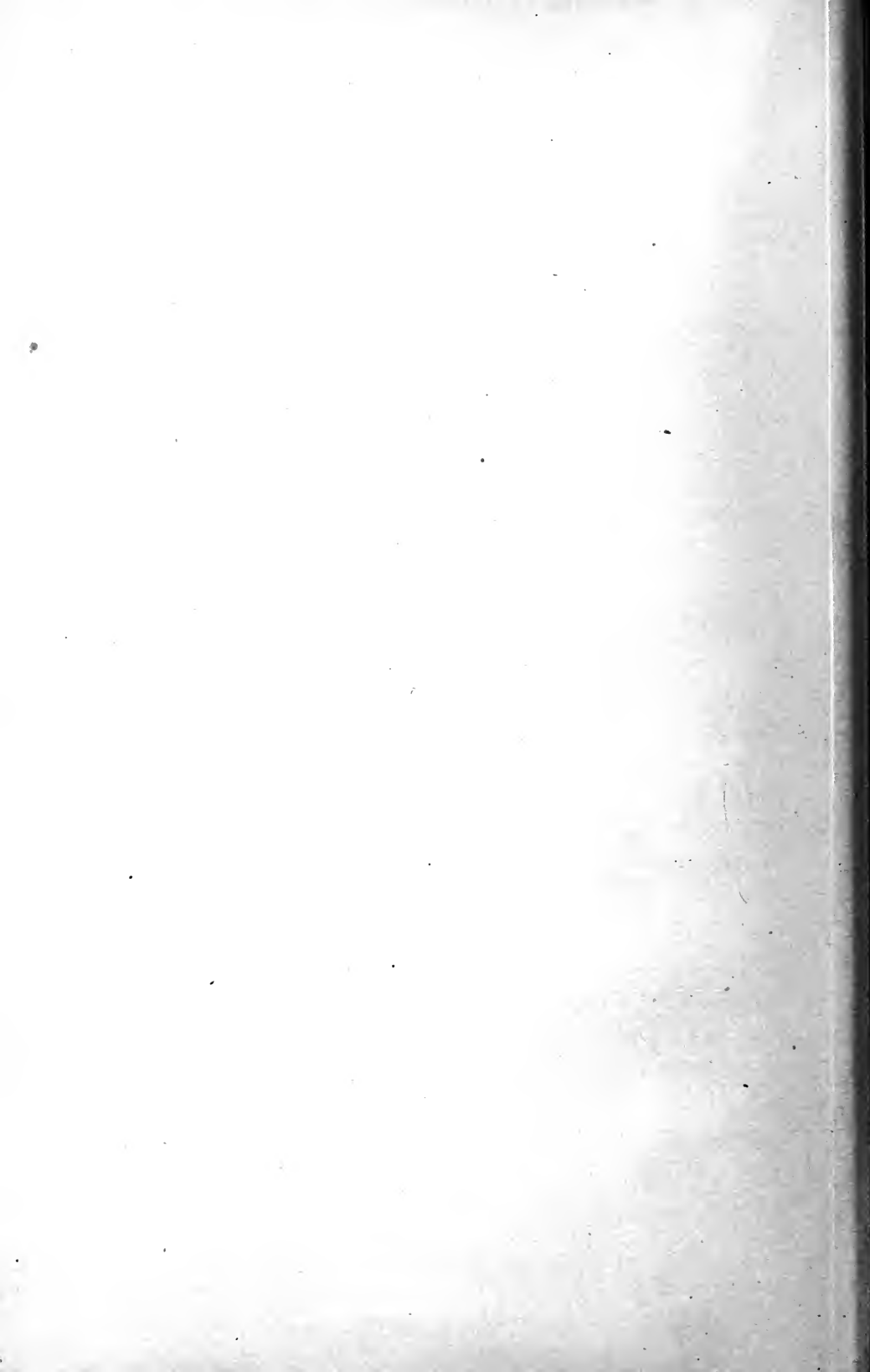
SYNOPSIS OF STATEMENTS FOR LOANING OFFICERS

Sometimes it may be desirable to give the essence of a statement to several officers of the bank without necessarily taking the whole statement up with them. It may also be a comfortable thing for the credit man to have positive proof that he was not derelict in his work when a financial death occurs. The following is a short analysis form that may be filled out and circulated among the proper officers, receiving their initials. It is a six by five card that can be folded for filing in a three by five standard file. It serves as a notice of change in the condition of a borrower, the receipt of a new statement, and is proof that the loaning officers have had the essence of the statement before them.

Total Liabilities,																				
Reserves,																				
Net Worth,																				
	Total Assets,																			
Line	Date		Ave.,																	
			Balance,																	
Total Quick Assets,																				
Total Quick Liabilities,																				
Excess Quick Assets,																				
Ratio,																				
Sales,																				
Insurance on Merchandise,																				
Insurance on Real Estate,																				

Dr. Profit and Loss Account, Fiscal Year Ending 191 Cr.

Actual expense of conducting business,																						GROSS PROFITS	
Bad Debts charged off,																							From Merchandise.
Charged off for depreciation,																							From Interest and Discounts.
Dividends, Withdrawals, \$																							From Investments.
Surplus Profits,																							From Other Sources.
Net Profits,																							
TOTAL,																							TOTAL.



CHAPTER V

INTERNAL STATEMENT ANALYSIS

COMPARATIVE analysis is just what its name implies. It is a comparison of statements of two or more years limited to placing side by side the items of two, or several, statements and comparing them as to increases or decreases in bulk. The more advanced comparative analysis includes the placing in ratio relationship of the current assets and current liabilities.

THE CURRENT RATIO

This study of the current ratio led to the observation of one law of credit. This is that an increase in current debt accompanied by an equal increase in current assets reduces the current ratio. On this account many credit men have fallen into a complacent habit of reading the statement by making an analysis of the current ratio and noting how the items of current assets and current debt increase. If either the one increases or the other decreases so as to leave the current ratio on a two for one basis they have felt moderately secure in calling the statement good. It is a most common thing to hear a statement passed or condemned because it is, or is not, a two for one statement.

It was not so very long before the borrower, understanding the mathematics of the statement, found that this rule had fallacies, and that by taking advantage of them he could benefit his standing. And so there came about the practice now commonly

known as dressing the statement. There is nothing actually dishonest in this, as it may disclose a real, even if temporary, condition, and it is only the desire of the borrower, as it is his right also, to put his best foot forward, that prompts him to dress his statement. How this is done can best be explained, perhaps, by example. Let us suppose two conditions, one with a current ratio of about two for one and a fairly liberal debt, and the second in which the merchant has realized on some of his current assets, by sale or collection, and has used the proceeds to reduce his current debt by paying down his current obligations. This is what dressing the statement amounts to and the result is sometimes quite startling in its effect upon the current ratio. For simplicity's sake, only the more important items going to make up the current ratio will be used:

	First Condition	Second Condition
Cash	\$10,000	\$3,000
Receivables	55,000	30,000
Merchandise	100,000	75,000
	<hr/>	<hr/>
Total current	\$165,000	\$108,000
Notes payable	\$50,000	\$18,000
Accounts payable	40,000	15,000
	<hr/>	<hr/>
Total current debt.....	\$90,000	\$33,000
Ratio	183%	327%

In this case both the current assets and liabilities have been reduced by fifty-seven thousand dollars, presumably by the realization on twenty-five thousand of receivables, the sale of twenty-five thousand of merchandise and the use of seven of the ten thousand cash. This is, of course, a most extreme and fanciful case and one that would hardly be equaled in real life. But degrees of this kind of dressing are practised almost daily. If this decrease had been utilized to only the extent of thirty thou-

sand the ratio would have been raised to about two hundred twenty-three per cent., or well above the supposed safe margin of two for one, or two hundred per cent.

Because of this condition a company may be of an entirely different proportion very soon after the issue of a statement by simply returning to normal. For this reason it is good policy to attempt to get some expression concerning the maximum debt during the year and the highest inventory point, etc. This information is a healthy thing for the bank credit man to have on file and may help quite materially to make clear certain points that mere comparative analysis leaves rather clouded.

If the current ratio is to be considered a measure of the credit standing or condition of a company, or even if it is only the starting point, it certainly would seem to be a logical thing to attempt to test the current ratio itself in some way. In credit work nothing should be taken for granted and it should be the ambition of every credit man to get beyond the third ring of investigation.

RECEIVABLES TO MERCHANDISE RATIO

Generally the two largest factors of the current assets are merchandise and receivables, taking notes or bills receivable and accounts under one head. Economically these two types of items are in different spheres. The first is a material product and the second is within the realm of credit. In a manufacturing plant there are three distinct phases in arriving at the point of receivables. The first is that of raw material, the second that of manufactured material, and the third the form of receivable.

There is no fundamental difference between the raw material

and the manufactured material except that, the latter being in a fabricated state is more easily disposed of in a limited market. Between merchandise and receivables, however, there is a very vital difference and one that has a most decided influence upon the current ratio. Due largely to the insistence of bank credit men, merchants are now quite generally carrying their merchandise at cost. In fact, it is insisted upon in most instances. However, when merchandise has been transformed into a book account or a note receivable, this condition of cost vanishes, as the receivable represents cost of every kind plus profit. The following table, while imaginary, will serve to elucidate this development:

	First State	Second State	Third State
A. Raw material	\$25.00	\$25.00	\$25.00
B. Labor cost added		25.00	25.00
C. Added for overhead, profit, etc.	25.00
Total assets (current)....	\$25.00	\$50.00	\$75.00
D. Necessary borrowings	\$12.50	\$12.50	\$12.50
E. Additional borrowings ...		12.50	12.50
F. Additional borrowings
Total liability (current)....	\$12.50	\$25.00	\$25.00
Current ratio	200%	200%	300%

The explanation of this table is as follows:

Line A represents the cost of the raw material at each point from the time it is simply raw material up to the time it is contained within the receivables.

Line B represents labor cost in a like manner, which must be added to material cost to get cost of merchandise in inventory.

Line C represents amount added to cost of merchandise when merchandise is sold to cover office overhead, profits, etc.

Line D represents borrowings or other credits used to purchase raw material in addition to the manufacturer's own money.

Line E represents necessary additional borrowings to carry on the cost of manufacture to a point where the merchandise has become finished goods ready for sale.

Line F indicates that there has been no need for additional borrowings or use of credit to transform the finished merchandise into a receivable.

In this example we suppose that the first column represents raw material and that a debt has been assigned to bring into relief the two for one theory. To reach the second stage the manufacturer has had to expend money, half of which we have presumed he has had to borrow or has finance by credit. The transition to receivables with their injected profits has not necessitated further credit or debt, and the ratio has risen from two hundred per cent. to three hundred per cent., entirely due to the transition from merchandise to receivables. This is a supposititious case and it is hardly likely that these exact proportions would exist in actuality. It is certain, however, that the transition from merchandise to receivables is accompanied by a dislocation in the current ratio in proportion to the amount of injected profits as a part of the current assets. We are prone to demand that merchandise be carried at cost so as not to inflate the current ratio, or take profits in advance, and we overlook the fact that receivables are always carried at market price, thereby inflating the ratio with impunity.

This reasoning has been assailed by credit men with the argument that they would rather have the assets in the shape of receivables than in merchandise, as they consider them a better asset. This, of course, is a matter of opinion. As the merchandise goes into process, receding from raw material in standard lengths and measurements, in just such ratio does it narrow its market to the customers of the individual manufacturer. Manu-

factured merchandise is a middle ground, perhaps, between absolutely raw staple material and receivables. As has been said, the choice as to which is better is a matter of opinion, but there can be no argument that the transformation from merchandise to receivables increases the current assets by an amount at least equal to the expected profits without forcing up the debt. If, then, from year to year we find the balance between receivables and merchandise swinging toward receivables, we know there is stimulation at least toward increased current assets and there should be a rising current ratio. The establishing of and recording of a ratio between receivables and merchandise is a test of the current ratio and is one of the internal tests which a statement may be made to give up for the benefit of the bank credit man. It is the connecting link between comparative and internal analysis.

WORTH TO FIXED ASSETS RATIO

There are two kinds of capital, that which is fixed and that which is liquid. The fixed capital is represented by real estate, buildings, machinery, fixtures and such other physical properties as are needed to manufacture properly at a profit. The liquid or working capital is the amount of money the owners of the business may have at their disposal after they have completed their fixed capital investment. Up to a reasonable point the more margin they have the stronger their position because the less dependent they are upon others for the necessary funds to run the business. This balance between fixed and working capital suggests an interesting study in determining how much more money than plant investment the company has to operate on. This forms another of the tests that can be applied along this line of internal analysis.

While this test is interesting when applied to the statement of a company about to begin operations, it is far more interesting and instructive when applied to a company's consecutive yearly statements. If a concern shows a continued increase in net worth from year to year it may create a false impression unless we know the relative uses to which that increase has been put. If it has all been put into plant the proportion of liquid capital in the business may dwindle until an ever-increasing amount can make the company top-heavy in plant and put it into such a position that, in time of depression, its credit soundness may be badly undermined. It is too easy in times of prosperity, or rising prices, to be carried away with the idea of expansion and build plants or purchase machinery beyond reasonable growth or need. A year-by-year comparison of this internal equation will help the credit man to catch the clues of undue plant expansion and make it possible for him to advise with his customer so as to ascertain whether such tying-up or transforming of liquid into fixed capital is a truly wise thing for the customer.

DEBT TO WORTH RATIO

Akin to the question just discussed of fixed and liquid capital is the question of debt, for debt is another form of capital. It is the capital of commerce loaned temporarily to the merchant or manufacturer. It might be called the mobile capital of industry. It is essential that this form of capital should be kept mobile, and the mobility depends entirely upon the economic and financial soundness of the company using it for the time being. If a man be operating on too little of his own capital and using too much of the mobile credit capital he gets into a lopsided con-

dition. It is easy to get into such a position that the weight of this capital so used is such that it ceases to be mobile and becomes fixed, much against the will of the merchant's creditors and to the detriment of general business conditions. Like the fixed capital mentioned in the preceding paragraph, the amount of mobile capital should be measured against the amount of money the man has himself invested in the business. This should be reduced to a ratio form and this ratio should be studied from year to year to see the balance between owned and borrowed capital. This ratio is also purely of an internal type and forms the fourth internal study of a statement in this form of analysis.

INERTIA OR SALES TO RECEIVABLES RATIO

Sales terms and sales realities are not always the same thing. Merchants, manufacturers or jobbers establish certain terms according to which they plan to sell their product. In some cases these terms are flat or net, while in others they present a complicated set of discounts. These discounts are, of course, offered as an inducement for prompt pay and to overcome business inertia. It therefore becomes an interesting thing to measure the inertia of a company's receivables from year to year and check against the sales terms as given by the management.

If the sales terms are sixty days net, then at any given time the receivables should not be more than one-sixth of a year's business, or, if we use the ratio system, for conformity's sake, the sales should be six hundred per cent. of receivables. If the sales terms present a cash discount, for prompt pay, it is a moral certainty that some customers will take the benefit of the discount, which would raise the ratio of sales to receivables by an amount

in proportion to the sales that had paid within this discount period, so as to avail themselves of the discount.

But with sales terms given as sixty days net we do not necessarily expect six hundred per cent. as a sales to receivables ratio, because the statement may have been taken just at the peak of a selling season. For this reason this ratio should be studied in conjunction with the type of trade, the time of the year and the time at which such or like customers are at the peak of their selling season. This combination of conditions will help to decide what the normal inertia ratio should be. With this established it becomes very interesting to study the ratio from year to year and see how the inertia has increased or decreased. Like the receivables to merchandise ratio, it serves as a check upon the current ratio. If the current ratio is stationary and the inertia ratio is falling, without some excellent given reason, one may be sure that, technically, the strength of the current ratio is weakening. This is true because there being more inertia the receivables are being collected more slowly and hence are less liquid. This falling ratio of sales to receivables, together with a rising ratio of receivables to merchandise and a stationary or declining current ratio completes a cycle of bad features that, when all are present, is indeed a danger sign to the careful credit man. This forms the fifth of the internal ratio studies aimed at getting the most out of a statement.

MOMENTUM OR SALES TO MERCHANDISE RATIO

Having taken one of the phenomena of physics as a name for a ratio study we may well take another for a second study along similar lines. Inertia being a property of matter, by virtue of

which it tends to remain at rest, we may use momentum as an expression of the force with which a body is moving, in that it is the result of multiplying the mass or bulk of the body by its velocity. Of course, the velocity, when applied to a commercial statement, is the sales volume, and the mass that is moving is the merchandise inventory.

The having of merchandise is a prime requisite for the carrying on of business. The merchant, jobber or manufacturer must have goods to sell or he goes out of business. But the interesting thing is to keep his inventory on a level keel. Proper buying is as important, in keeping a business healthy, as is the selling. In times of great prosperity and rising prices it is a comparatively easy matter to let enthusiasm get the better of judgment. Too many buyers take everything offered, whether it balances with the rest of the inventory or not. It would seem ridiculous for a man making canes to buy enough ferules for fifty thousand canes when he had, or could procure, only enough wood or other material to manufacture ten thousand. Of course, no one would do that. But where there are hundreds or thousands of different parts going to make up a complete article this unbalanced condition is not as easy to detect, and it is not such an uncommon thing for a manufacturer to find himself with three or four or maybe ten times as much stock of some parts as he has of others. Sometimes this is gross ignorance; sometimes it is carelessness; always it is bad.

As a matter of example, a case has come to the attention of the writer where a retailer of sporting goods, who had been very successful for a number of years, outgrew his ability. The statement indicated that the company was financially sick. For a number of years it had been losing its momentum. The punch

was gone from it. Taken year by year the sales were increasing in volume but their ratio to merchandise was falling. Finally, conditions got so evidently bad that the company was requested to have a thorough audit of its books made by chartered accountants, including the taking of an inventory. This inventory indicated that the momentum test had shown up a real weakness. In the merchandise were two separate kinds of merchandise items both of a strictly seasonal type. In one case the stock on hand was enough for ten years' sale and in the other for five or six. The ratio of sales to merchandise by comparison between the last two statements had indicated the presence of overstocking and loss of momentum. The man in charge was infected with the idea that it was good to buy anything so long as it was cheap, and his inventory was loaded up with dead stock which, as the saying goes, was actually eating its head off. The ratio of sales to merchandise by its steady and then sudden decline had given the clue to the real condition, which was disclosed by the audit.

VITALITY OR SALES TO WORTH RATIO

This is the sixth of the internal analysis tests. The seventh and last might be said to uncover the vitality of the statement. The net worth of the individual firm or corporation is the life-blood of the business, and the condition and rapidity of its circulation tells many things to the business doctor or bank credit man just as does the blood-pressure test to the practising physician.

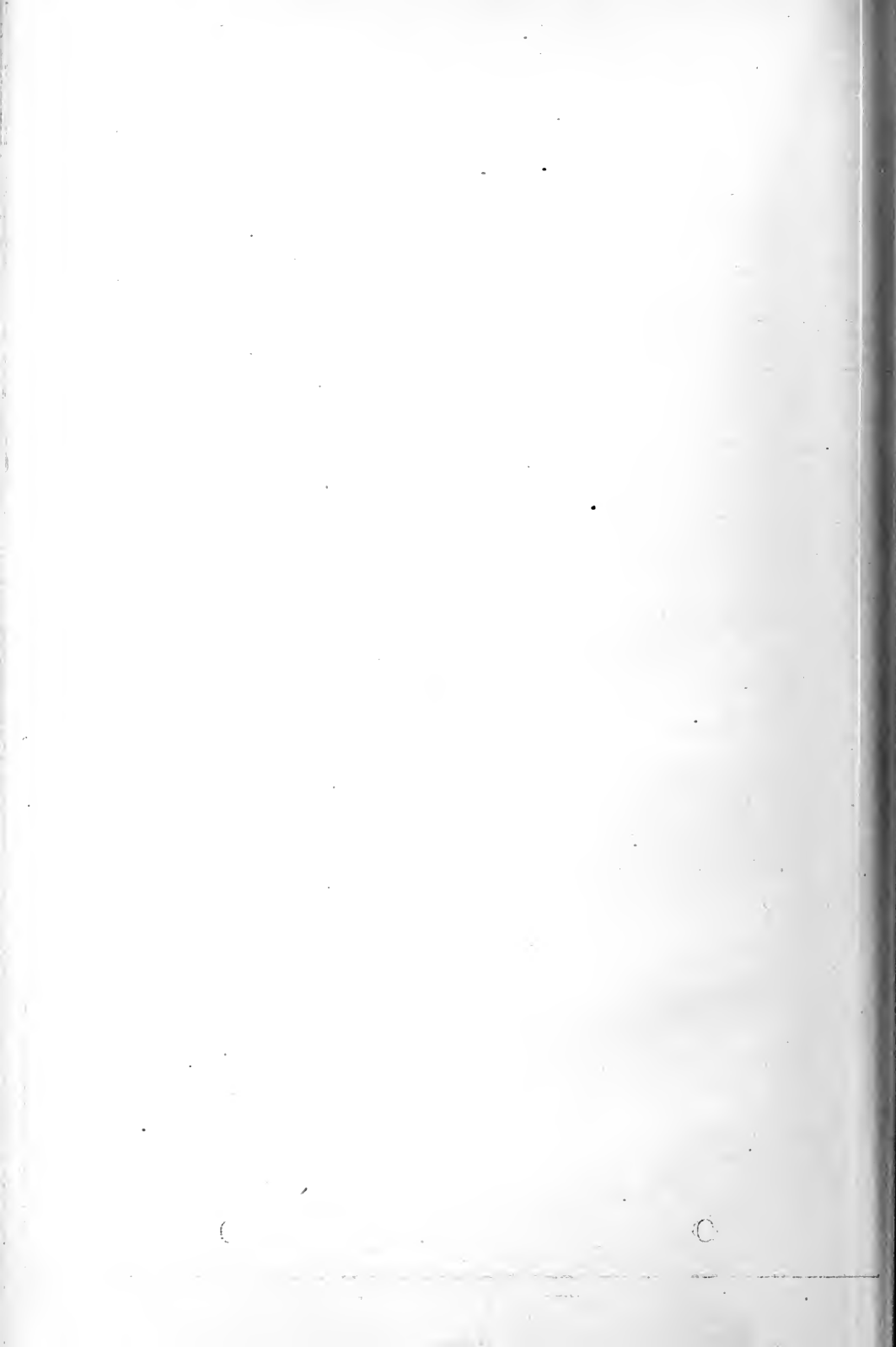
To do business, a man or corporation must normally have money to start with. Only in freak instances can success come to the one starting without it. But as the amount of money actually needed varies from time to time during the year the mer-

chant must be in a position to keep his money active, else the circulation lags and the business falters. There are two faults: first, too little money invested, and, second, too much. In the first case the merchant is operating too much on credit, is borrowing or is being carried too liberally. This is very expensive, either in interest, loss of discounts or high prices. In the second case the merchant has unproductive funds on hand for a part of the year, which, being idle, return no profit. The balance is between. The trend of the actual condition can be compared by making a ratio study each year between sales and net worth. If this falls too low there is idle money waste probable. If it rises too high, especially when connected with a big debt ratio, there is not enough net worth to support the volume of business. The first is a financial chill, the second a business fever. This test is perhaps secondary but it is a positive internal analysis and serves to check and explain dislocations among the other ratios.

INTERNAL COMPARATIVE ANALYSIS RECORD

In order to get the full benefit of this internal analysis, comparative records are important, and the form on the opposite page suggests a way of tabulating these for study.

One very good feature of this system is that everything is reduced to a ratio which makes it possible to compare the performances of big and little companies. Everything being a percentage, and big companies being only large by comparison, the ratios should, and as a matter of fact do, correspond in a marked degree. This makes the basic study broader and far more searching than mere comparisons of total figures.



CHAPTER VI

TYPE ANALYSIS

IN THE discussion of the statement so far made we have suggested that pure comparative analysis, while of great value, is liable to misinterpretation because it deals only in amounts in the aggregate and does not establish any real balance or equilibrium within the statement. On this account a system of internal analysis was suggested as a means of bringing to light the strains and stresses that exist within the statement. Mere bulk, size or increase in any item of the statement as compared year by year shows only the skin of the condition. To get at the core we must go beneath the surface indications and see how strong the fabric is and the stresses to which it is being put.

THE INTERNAL TESTS

To do this we have established a set of seven ratios to be made from the component parts of the statement. For the business man these are straws to show him which way his credit condition is being blown by the trade winds. To the bank man they are aids in detecting any attempt at dressing a statement. The ratios selected were the already well-known current ratio; a ratio between receivables, both notes and accounts, and merchandise; a ratio between capital and surplus and undivided profits, or worth, and non-current or capital assets; a ratio between total debt, including both current debt and mortgages, bonds or other funded debt and worth; a ratio between sales and receivables; a ratio between sales and merchandise inventory; a ratio between

sales and worth or owner's interest. The first four of these test one another and disclose perhaps the physical stresses and counterbalances of the actual load, or body of the statement. The last three test the momentum, inertia and vitality of the subject undergoing diagnosis. Each tests at least one other, and all seven guard and disclose the condition within.

However, neither of these systems can stand alone, and the value of the internal analysis depends on its being carried on in a comparative way showing clearly the changes in balances from year to year. For this reason comparative analysis depends on its being carried on in a comparative way showing clearly the changes in balances from year to year. In this way comparative analysis comes into its own, if used for the various internal ratio studies as well as for the bare volume or size figures of the items themselves. The real analysis is one of comparative internal analysis.

METHOD OF FIGURING RATIOS

Few credit students or analysts deny the need of pure comparative analysis, but some have been found who think the method of internal analysis too extended and complicated of performance to be of any practical use. While the explanation of the reasons for this analysis may have seemed to call for a great amount of figuring this need not be the case at all. There are two simple methods of figuring the ratios mentioned. The first is by use of the slide rule and the second of a table of logarithms and a simple form for their use. The writer prefers the logarithmic method. This is a trifle longer, but leaves behind a written record that can be checked and which is, at all future times, available for study and comparison. The use of logarithms is not complicated and can readily be acquired in a few moments to the extent needed in this kind of work. The

form on page 155 shows a complete internal analysis for all the ratios of one statement, and the computations are accurate, neat for filing and take only a very few minutes to compute. The length of time to figure ought not to exceed five to ten minutes, surely little enough to spend in the cause of greater accuracy.

Statement analysis consists in reading into the figures, of an asset and liability statement, an understanding of the financial condition of the company under consideration. The cold figures give us nothing but facts stripped of personality, magnetism or expectation. They represent purely a condition that has been arrived at, a station along the road of the company's progress. The back track is made reasonably clear to the credit man but no one knows what is around the curve just ahead. The absolute present is the only thing that is surely known, and based on this present knowledge the credit man prepares for the unknown future.

"History repeats itself" is an old saw. Therefore we try to forecast the future from a knowledge of the past. We know from a study of business that the probable commercial mortality in one class of business is greater than it is in others. Certain kinds of industries are affected for better or worse by certain social and economic changes. Crop failures affect different sections of the country. Tariff changes may break or make various lines of business. Because of these things sound judgment demands a close and continued study of underlying conditions. But in all these things the decision rests almost entirely and conclusively upon judgment.

THE LAW OF AVERAGE

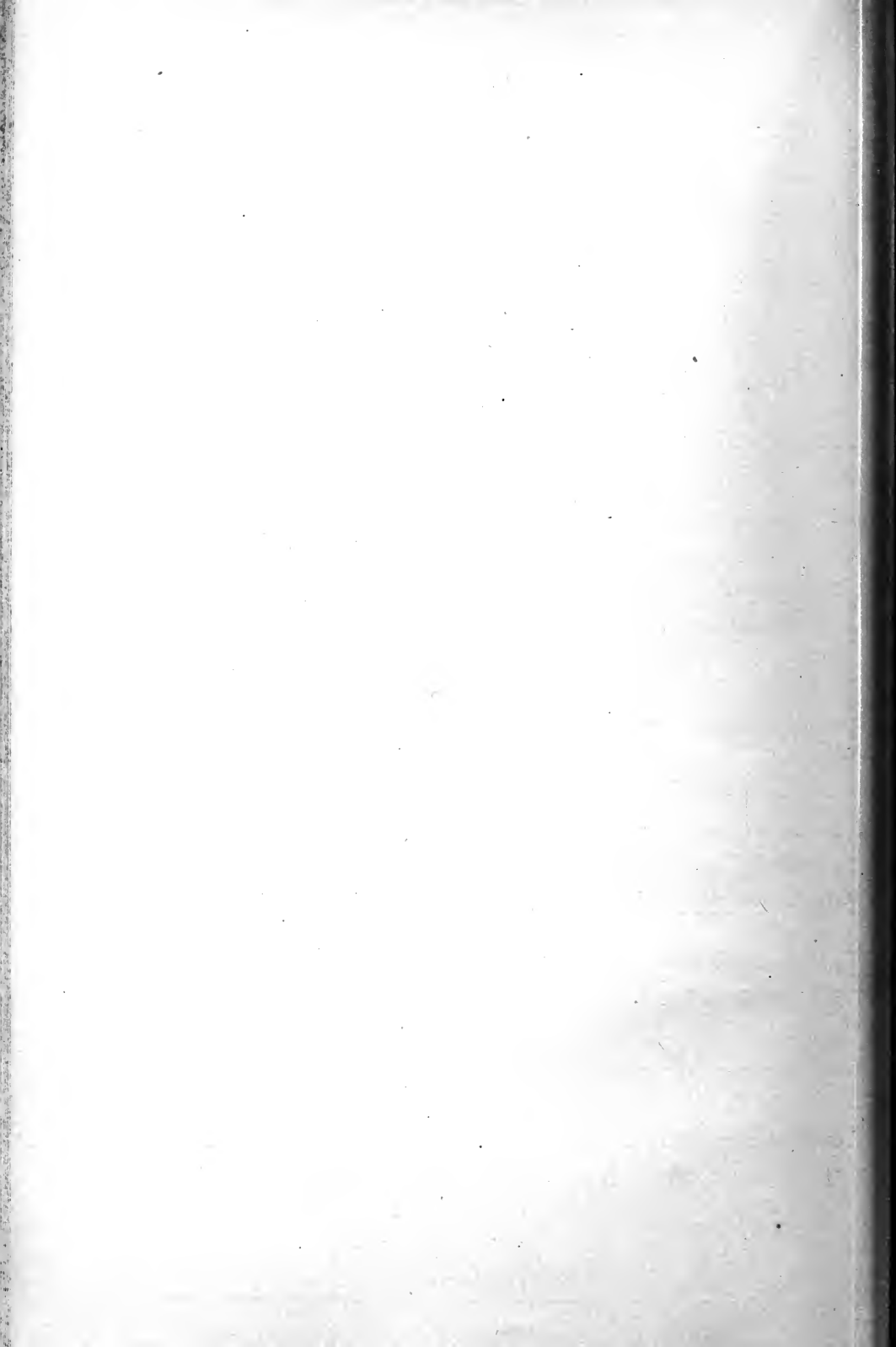
There has been no yardstick designed to measure business conditions or developments. There is, however, a law that is

so accurate in its economic workings that it controls the use of vast sums of money. It is the law of average. Without this insurance would be a matter of guesswork. But because of the fact that, given enough known instances, an average result can be foretold, with an accuracy approaching so fine a decimal as to be almost assured, it has been possible to establish uniform rates for insurance and to make of this business almost an exact science. It is not to be supposed this kind of analysis or standardization can be made for the business of credit, with the same degree of certainty and accuracy as in the insurance field. But the existence of the law of averages, demonstrated beyond argument, suggests that a somewhat similar method, at least, might be applied to business management and credit work.

The adoption of the law of averages in the analysis of the condition of any company leads to the form of analysis that may be called "Type Analysis." If we take just one of the analytical ratios we have discussed and consider it from this vantage point we shall immediately recognize the absolute necessity for type analysis. The current ratio, being the most generally used and better known, will best serve our purpose for this study.

A current ratio of two hundred per cent., or two for one, is already pretty generally acknowledged as a starting point in statement analysis. Variations above and below this are demanded or allowed in exact proportion to the inspirational psychology of the person reading the statement. There are plenty of bank men who, when reading a statement with the idea of buying the note of the firm making the statement, are hidebound on this one feature. The first thing they do is to cast up this ratio and if it falls short of two hundred per cent. they set aside the name as a

Current Ratio					
Rec.—Mdse.					
Worth—Fixed Assets					
Sales—Rec.					
Sales—Mdse.					
Sales—Worth					
Debt—Worth					



risk not up to standard. To them two hundred per cent. at least rules, and if two hundred per cent. is evinced by the figures they go their way in fancied security, all else being secondary.

Being of a curious turn of mind, the writer, some years ago, decided upon a group test of this one thing. The current assets and current liabilities of some two hundred statements were added and a ratio struck from the totals. The statements used were a mixture of all kinds of business and the ratio arrived at was about two hundred ten per cent. This gave a certain amount of color to the popular demands for a current ratio of two hundred per cent. But during the course of this experiment certain very definite opinions were formed, due to the existence of indisputable discrepancies between the individual figures. Here was a set of figures with a high ratio, there a set of figures with a low ratio; so this question arose quite logically: Why not separate this study into types of business? It seemed more rational in order to measure the current ratio of an individual dry goods statement, to establish a total current ratio from a large number of wholesale dry goods companies, rather than to use a mixed group, and against this a current ratio for dry goods. It seemed manifestly sensible and fair to take type and measure it against type rather than against a vague standard composed of one-half prejudice, one-quarter inspiration and one-quarter fact. The ratio of two hundred per cent., taken as a universal standard, is so certainly unfair that type studies should be readily accepted as a substitute.

TYPES AN INTERESTING STUDY

With this in mind the writer undertook to make a study of several types of industry in an attempt to discover whether there was really such a thing as type. The kinds of business taken as ex-

amples were wholesale grocery, wholesale dry goods and wholesale hardware companies. A special card was designed to carry on its face the necessary columns for entering the items of current assets, current liabilities, total debt, non-current assets, receivables, merchandise, net worth and sales. Through the cooperation of a number of men, who were interested in this study and to whom the writer acknowledges his debt, it was possible to secure a large number of reports. There may be some unjust loading in the totals used as a basis for figuring, as the writer did not ask for the names of the companies, in order that there could be no possible breach of confidence, and on this account also there may be some few unavoidable repetitions.

When the figures were all in, the seven ratios suggested for internal analysis were struck from the total figures of the various items. The ratios taken from these total figures are as follows:

Number of names	189	101	33
Type	Grocers Per Cent.	Dry Goods Per Cent.	Hardware Per Cent.
Current ratio	244.45	211.89	277.78
Receivables to merchandise ..	84.59	107.38	82.80
Worth to non-current assets .	317.36	354.51	445.89
Sales to receivables	658.88	396.67	481.28
Sales to merchandise	577.38	425.91	302.28
Sales to net worth	348.69	302.16	233.07
Total debt to net worth.....	52.57	78.70	53.65

The figures at the top of the type column show the number of statements used in securing the totals and the percentage shows the proportion existing between the various total figures for each type. This is secured by dividing the first figure by the second. To make this operation perfectly clear we might, to good advantage, express these ratios in algebraic forms. Taken this way the current ratio would read as follows:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \text{Current ratio}$$

$$\frac{\text{Receivables}}{\text{Merchandise}} = \text{Receivable merchandise ratio}$$

It is unnecessary to express all the ratios in this manner, as these two are indicative of the others.

When comparing the ratios of the two types, grocers and dry goods, it becomes evident at once that there is a very distinct difference between these two types of business in several of the ratios. Before making any analysis of the use of these percentages the question arises, are these ratios really true to type or are they bastard figures with no true type characteristics. Fortunately we can, to a degree, answer this question by the presentation of a sectional table for the wholesale grocer and wholesale dry goods merchant. At several different points in the compilation, sub-footings were made and ratios struck. These sub-footing ratios were as follows:

WHOLESALE GROCERS							
No. of Names	Current Ratio	Record Mdse.	Worth Fixed	Sales Record	Sales Mdse.	Sales Worth	Debt Worth
	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.
42	261.66	91.54	379.71	614.43	562.48	354.34	50.76
66	260.87	92.06	399.64	610.57	562.13	356.61	51.31
89	274.52	93.76	389.46	613.49	575.26	359.48	51.60
115	248.45	89.17	376.47	606.10	540.49	347.23	54.61
137	246.50	84.59	320.37	649.51	549.43	350.24	53.14
189	244.45	84.59	317.36	658.88	557.38	348.69	52.57
WHOLESALE DRY GOODS							
33	228.21	117.00	409.82	377.90	442.13	298.32	72.18
50	222.65	113.40	408.08	396.78	449.98	306.06	78.56
101	211.89	107.38	354.51	396.67	425.91	302.16	78.70

Even a most cursory examination of these tables will indicate that such a thing as type does exist. There are some large variations between ratios within either group, but there is little or no

direct connection between groups. A table study of the groups will show clearly the divergence that exists between them and the margin of type that exists. By taking the highest and lowest points reached during the study for each type and comparing them we get a most interesting analysis of the type question.

CURRENT RATIO

	Highest	Lowest
Grocers	274.52	244.45
Dry goods	228.21	211.89

RECEIVABLES TO MERCHANDISE, RATIO

	Highest	Lowest
Grocers	93.76	84.59
Dry goods	117.00	107.38

WORTH TO NON-CURRENT OR FIXED ASSETS

	Highest	Lowest
Grocers	399.64	317.36
Dry goods	409.82	354.51

SALES TO RECEIVABLES, RATIO

	Highest	Lowest
Grocers	658.88	606.10
Dry goods	396.78	377.90

SALES TO MERCHANDISE, RATIO

	Highest	Lowest
Grocers	575.26	540.49
Dry goods	449.98	425.91

SALES TO WORTH, RATIO

	Highest	Lowest
Grocers	359.48	348.69
Dry goods	306.06	298.32

DEBT TO WORTH, RATIO

	Highest	Lowest
Grocers	54.61	50.76
Dry goods	78.70	72.18

In only one ratio do the types overlap at any stage of the development and in all others there is a substantial margin between the types. In the ratio between net worth and non-current or fixed assets there is an overlapping between the low figures for dry goods and the high figure for grocers. From the standpoint of pure logical reasoning there can be very little doubt but that type does exist and exists in a very clear and concise way. The type ratios are a much more certain thing to measure the individual statement against than any inspirational idea or inherited belief. The old measure of current assets of two hundred per cent., or two for one, goes glimmering as a standard when we see how far from this ratio these two types alone vary.

TYPES DIVERGE FROM TWO FOR ONE

The divergence in the type figures from the two for one theory is very clearly shown by a little thought applied to the ratios as we have them here. The highest point reached for the current ratio in dry goods was 228.21 per cent. This was based on total figures from thirty-three statements. This is well above the two for one current ratio and would be used, by any one accepting the two for one standard, as a very good margin. But likewise any one using the two for one standard and finding a grocer statement of 228.21 per cent. would consider that it also was good, with a fair margin, where, as a matter of fact, it would be 16.24 points below the lowest figure secured for the grocer trade.

There is another interesting comparison between these types when we compare the receivables to merchandise ratios. The lowest point in the dry goods is 107.38, representing the ratio for one hundred and one statements. Even this low figure is

13.62 points higher than the highest figure for the grocers. This indicates that the current ratio for the dry goods business has in its make-up a considerably greater amount of profits.

These two conditions suggest a comparison of the status of the receivables and their liquidity. When we take the ratio test of sales to receivables, we find the high points for dry goods at 396.78 per cent., representing totals from fifty statements compared with 606.10 per cent., the lowest point for grocers taken from totals of one hundred and fifteen statements. The variation here is 209.32 points, which would seem to indicate a state of much less liquidity in the receivables for dry goods. This may not be a fundamental weakness, but is perhaps based on more seasonable trade and different sales terms. But even so, we can easily see that this type is of very certain existence.

An analysis of the debt ratio bears out the sales to receivables ratio because it indicates very clearly that it is customary to transact the dry goods business in a far greater proportion on borrowed money. The lowest debt ratio for dry goods is 72.18 per cent., which is 17.57 points higher than the highest grocery ratio. What would appear like an extraordinary debt for a grocery concern becomes a normal debt for a dry goods company.

A detailed comparison of hardware names with the other two sets of ratios can not be carried out here, but it is no less interesting. In the study as far as it has gone no consideration has been given to profits, overhead and the many other items that go to make up the profit and loss sheet. These would constitute most interesting material to study and codify, but, unfortunately for the analyst, they are often not forthcoming. The American business man is more interested in making handsome profits and keeping as large a portion of them in the nature of concealed assets or profits as he can, than he is in having them

known even to his own banker. This condition makes any analysis based on published net profits subject to too great variations of an uneconomic order. However, the withholding of these figures may be only a passing phase, and so any computations or group plan of analysis based on or including them is left for a future time when more candor makes itself evident in our business life.

SECURING SALES RECORDS MOST IMPORTANT

The writer, however, can not leave this part of the subject without commenting on the lack of information that exists in regard to sales of companies. The scope of the figures in this book would probably have been one hundred per cent. greater but for the fact that in nearly fifty per cent. of the reports returned the item of sales was missing. This is, of course, due to either one of two things. First, the merchant in publishing his figures firmly declines to give the sales, or, second, the extender of credit does not appreciate the value of the sales item from an analytical standpoint and therefore does not ask for or insist on getting it. But how can we gauge the liquidness of the receivables if we do not know what part of the gross sales they represent and so know something about actual and not just the claimed sales terms? From another standpoint sales are also most important. How are we to judge whether a statement shows too much or not enough merchandise inventory if we know nothing of the marketing record of the company? Or how can we decide if there is or is not enough money invested? An inventory may be a good thing or a menace in proportion as to whether it is a good live salable commodity or a horse in the stable eating its head off in overhead and carrying charges. By all means bank credit men should be firm and demand sales statistics.

We have considered three kinds of statement analysis—comparative, internal and type. The latter is a combination of comparative and internal, being a comparison of the seven ratios for an individual statement with the ratios for that type of business as determined by a basic study in which the essential factors of a total type are brought into percentage relationship. Pure comparative analysis in which mere volume is compared may pass over conditions that a percentage analysis of the internal character will disclose. For this reason internal analysis goes into the credit condition much more minutely than comparative analysis. When this is carried on into type analysis we can tell whether the name under discussion averages up to the standard set for that kind of business. To make this type study more accurate there should be a further division within types into economic zones so that conditions in different parts of the country would be thrown into relief in the national study of any one kind of business.

The general establishment of standards, or, rather, averages such as this, as a universal thing ready for use, has not yet been accomplished because of the lack of a central place for such work. It could be done by the government through the Federal Reserve System, or it might be done under the auspices of some large organization such as the National Association of Credit Men or the American Bankers' Association. Or, finally, it might be done by private enterprise. As yet, however, it has not been done publicly, as far as the writer knows, except in his own experiments. Until some national agency takes up the compilation of gauges based on averages and is in a position to furnish them to bank credit men they must supply themselves, and the time and labor in doing so is well spent.

CHAPTER VII

DISCOUNT COMMITTEE ORGANIZATION

THE stockholders of a bank are the owners of the business. They elect a board of directors, which in turn elects or appoints a group of officers. The actual daily running of the bank is the duty of the officers. It is their work to undertake the routine management of the bank, meet the public and carry out the details of policies. It is right, however, that these policies should be decided upon by the directors. In addition to appointing the officers the board of directors often delegates part of its power to a sub-committee known as the discount committee. As its name implies this committee is entrusted with certain powers in connection with the loaning of funds. It is to this committee that the officers are primarily responsible for the making of loans, and this committee itself is responsible in turn to the directors. And most interesting of all to the credit man and his department is the fact that a majority of the decisions made are based upon the facts and analyses supplied by the credit department.

ROTATION OF MEMBERS

The character and composition of the discount committee, being as it is a division of the board of directors, naturally depends in a great degree upon the type of the directorate itself. It should, however, be so handled that it will bring the directorate as close as may be possible to a board that is one hundred per

cent. efficient in the actual directing of and knowledge about the bank's affairs. It sometimes happens that the various discount committees become more or less fixtures, and with long tenure of office usurp to a very great extent the powers of the board of directors. To avoid this ingrowing condition a certain percentage of the discount committee should rotate in office so that within a reasonably short time the rotation will bring into active contact with the discounting feature of the bank each and every bank director. The length of service should be great enough so that every borrowing name in the bank will come under observation several times.

In this connection it might be well to remember that demand loans are not of fixed maturity and on that account may easily rest dormant in the files. To avoid this and to bring the matter before the discount committee's scrutiny it is wise to make the replacement of all demand notes by fresh paper at least once in six months, and, if practicable, once in four months, a definite and fixed policy of the bank. At these periods the renewal, reduction or payment of important loans should be a matter of discussion by the discount committee. Abuses of demand loans are common. It is often a scheme of the borrower, outside of the few large centers, to get his obligations into a class of paper that is not actively watched, with the intent and purpose of getting carried for longer periods without the suggestion of payment that is usual with time paper. It also becomes the duty of the credit department to watch and stir up at times these demand loans, so as to prevent them really becoming almost a capital investment in which the bank is economically a stockholder or partner in the business.

FORMAL TYPE OF ORGANIZATION

The actual composition of the discount committee is important, as upon its organization will depend a large part of its effectiveness. The president of the bank, being the executive head of the corporation, should be the chairman of the discount committee. He is primarily responsible to the stockholders for the proper conduct of the bank from the standpoint of earnings and is also directly responsible, in a moral way, to the depositors for the fundamental strength and safety of the bank and the security of their funds. The responsibility of a president of a bank is nowhere more positive than in his leadership of the discount committee. The senior vice-president should act as vice-chairman of this committee. It is wise to have the cashier serve as secretary and he should keep regular minutes of each meeting. This is the formal organization or skeleton on which the discount committee is built.

All the other bank officials who are directly loaning officers should be permanent members of the discount committee. In only exceptional cases should they let anything interfere with their attendance at the meetings of the committee. In addition to the loaning officers, the manager of the credit department, whether he is an officer of the bank or not, should attend regularly the meetings. His department is responsible for the proper accumulation and analysis of facts and figures and it is a pretty safe policy to have every loan pass through his laboratory for credit analysis before going before the discount committee. In most instances new-business prospects will set forth their credit necessities, and for this reason the new-business manager should

have free access to the discount committee meetings, so that he may discuss with the committee such names as he may be expecting to solicit for accounts and receive a certain amount of assurance that the credit accommodations will be allowed if the subject in question is in a receptive humor when he calls. By handling the matter this way the bank can save its new-business department much embarrassment. In addition to the officers mentioned, who should be regularly on the committee, the other officers of the bank should be invited to attend from time to time, as names with which they may be personally acquainted come up for consideration. Even if there are no instances of this kind it is a good thing to have them in attendance occasionally so as to keep them in the proper attitude toward the bank's discount policies.

SIZE OF COMMITTEE

The number of directors, outside such officers as may be directors, who shall be assigned to the discount committee, is largely a matter of personal opinion. It should, however, range from ten to twenty per cent. of the board membership. If there are twenty directors on the full board, then from two to four non-officer directors should be serving at all times on the discount committee. The other members should, of course, have the right to attend at any time, and if any special matter is to be considered about which any particular director is supposed to be well informed, a special request for his attendance at that meeting should be made. In this case it becomes the duty of the director to be present and give to the committee the best judgment his special knowledge may make possible. Such directors as are assigned to duty on the discount committee should allow a sufficient time so that these meetings will not be hurried, and they

should receive pay for their time. The amount of this remuneration, of course, is a matter of judgment, but it should be about the same as is paid for attendance at directors' meetings.

FREQUENCY OF MEETINGS

The frequency with which discount committee meetings should be held depends entirely upon the amount of business that the bank has on its books. If it is a small bank with a rather limited number of requests for loans, it is possible that one or two meetings a week will be enough to satisfy the demand. On the other hand, as the business of the bank increases it becomes more and more necessary to have discount meetings daily, which is, of course, the best way to transact business, as it does not delay loan decisions beyond twenty-four hours and therefore gives the borrower better service. It also keeps the discount committee directors more in touch with the workings of the bank and creates a board of directors that more nearly directs.

In such cases as when a committee does not meet daily, or where the volume of work is so great that it can not be transacted before the committee, it is customary to put into the hands of the officers the power of making loans up to a certain limit. In this they are using delegated powers of the discount committee and generally submit their actions to the committee at its next meeting for ratification.

ORDER OF BUSINESS

The writer believes that systematic routine, properly designed and with sufficient elasticity, makes it possible to cover much more ground in a given time and to better effect than could be covered by any scheme of unguided activity. It makes for speed

in that it follows regular channels, and it makes for thoroughness because things are taken up in regular order and nothing is lost sight of or overlooked. With this in mind it seems a good thing to establish an order of business for the discount committee to follow. For the sake of discussion let us assume that the committee is to meet every day at a regular hour.

The first order of business, after the reading of the minutes of previous meetings, should be a brief survey of the loans and discounts made or extended the day before. This serves two purposes. First, it gives the discount committee an opportunity of knowing whether its actions granting loans or asking for reductions of loans was followed. To get at this accurately the vice-chairman of the committee should have at hand the notes of the day before and should read the names and amounts. It is very good business to have the discount journal at these meetings and let some one, preferably a director, check each item as it is called. This provides a sort of daily audit and check, of the discounts, by the board of directors and makes for a much better knowledge by the board of the bank's true condition.

The second order of business should be the reading of a list of the loans paid on the preceding day. This, together with the first order of business, will disclose accurately whether or not loans have been reduced as asked.

The third order of business may well be the announcement of the total loans made on the preceding day and the payments made, indicating the increase or decrease in the outstanding loans and discounts. This keeps the committee informed as to expansion or contraction of loans.

The fourth order of business may be the consideration of requests for credit. These should be presented by one of the loan-

APPLICATION OF _____ 191 _____

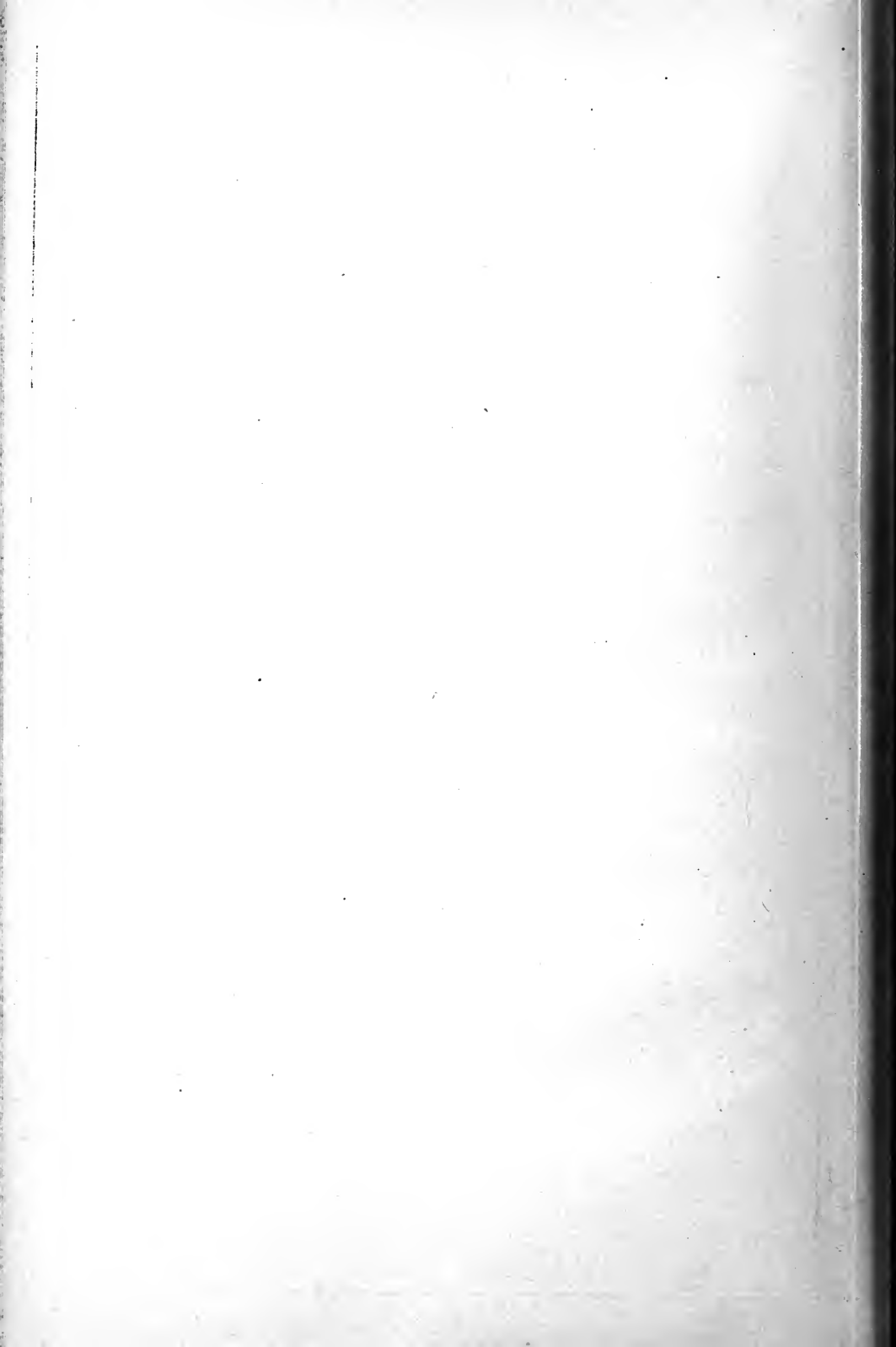
FOR LOAN OF \$ _____ TO RUN _____ %

REMARKS

AVERAGE BALANCE \$ _____ NOW OWES BANK \$ _____ PAYABLE _____ AT _____ %

HIGHEST MARK \$ _____

ACCEPTED FOR \$ _____ TO BE PAID _____ AT _____ %



DISCOUNT APPLICATION

AMOUNT WANTED \$ _____

TIME ASKED _____ DAYS, RENEWAL _____

COLLATERAL \$ _____

PRESENT LINE:

ONE NAME _____

TWO NAMES _____

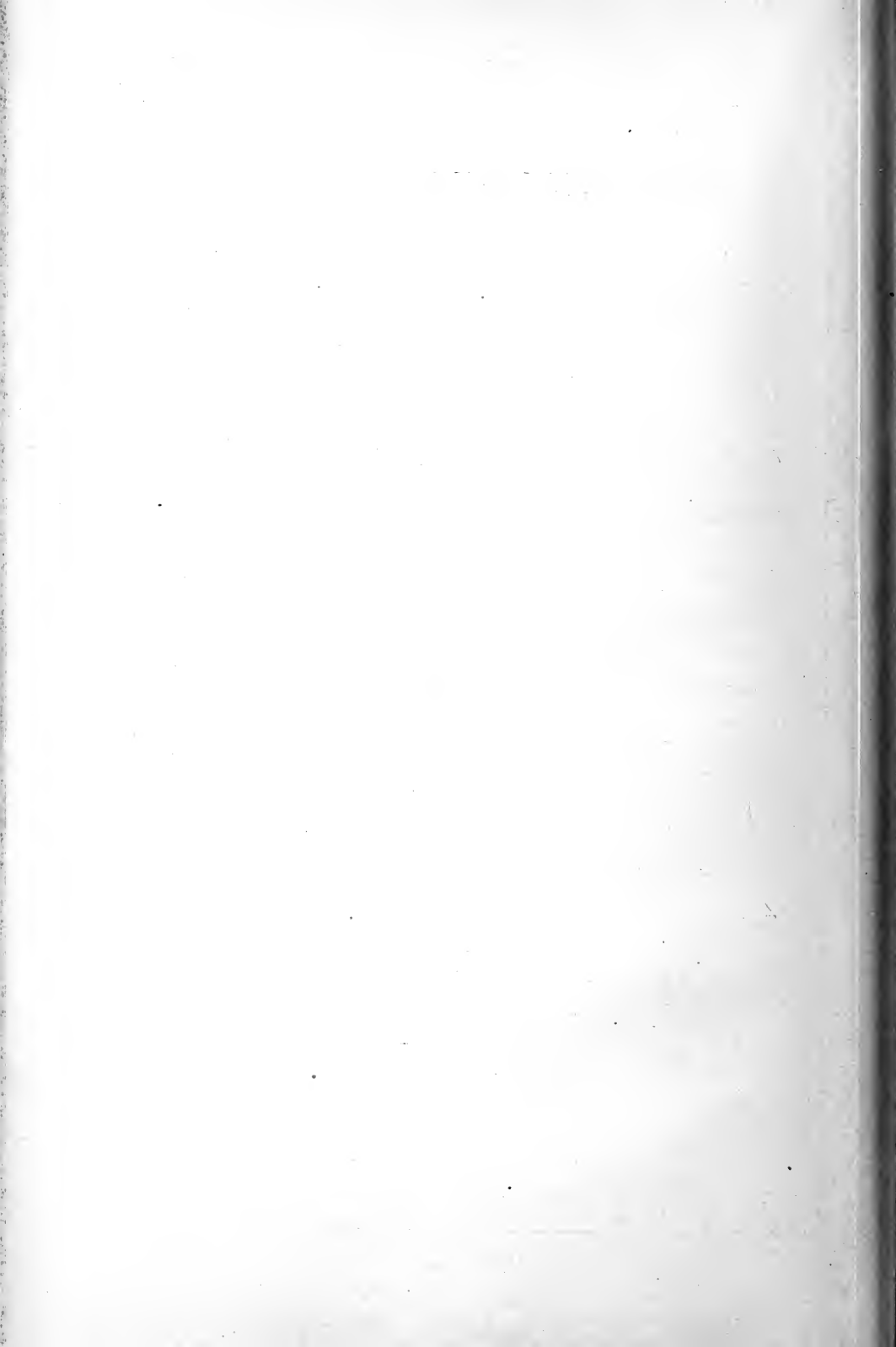
COLLATERAL _____

RATE _____ % TOTAL, \$ _____

MAXIMUM HAD _____

BALANCE _____ 191 \$ _____

AVERAGE BALANCE (LAST SIX MOS.) _____



ing officers or the manager of the credit department and it may be a wise thing to have them made on a special slip so that at all times they will be in the same form and also that the slip may be filed in the credit records for possible future reference. The insertions are good examples of such forms.

The manager of the credit department may read the request for credit and the reason for its being asked. He should follow this by reading the statement, giving the analysis of the figures according to his method of analysis, and should lay before the committee as full a picture of the true conditions surrounding the risk, as he may be able. This should be followed by such information as any loaning officer or director may have concerning the risk. After this presentation and discussion the matter should be voted on by the committee and the loan allowed or disallowed, as such vote might direct. Any member not expressing a negative vote should be deemed in the affirmative, and a record of the vote should be kept so that at any future time there can be no doubt or shifting of responsibility. There being no negative vote, all should be equally responsible for the results of the loan.

The fifth order of business should be the discussion of any prospective business which the new-business department may have to offer for consideration.

The final order of business should be anything that the officers might want to bring to the attention of the committee or any information that the directors may think of interest to the officers. There should be a few minutes of round table discussion devoted to the development of the bank along sound and progressive lines.

USE OF CREDIT DEPARTMENT LOAN CARDS

In connection with the reading of loans made, loans paid or reduced and lines of credit coming up for consideration, the card form, indicated in Chapter II, makes it possible for each member of the committee to get a bird's-eye view of the history of the account. To do this requires little or no time and always keeps the account fresh in the minds of the committee. The following formal way is suggested as a means of reaching this end:

Let the chairman of the committee sit on one side of the discount table near the head. Let the vice-chairman sit opposite him. Let the manager of the credit department sit on one side of the chairman and on the other side the two directors, and beyond them the other members of the committee. The vice-chairman has on one side of him the bank officer who takes the record of the meeting, and on the other the discount journal, which one member of the committee checks. With the notes in front of him the vice-chairman begins reading the loans made, and as he starts, the manager of the credit department hands the card to the chairman. This is passed down the line and the cards are stacked one by one as they reach the last man. The vice-chairman does not wait until the first card reaches the end of the line before presenting the second name, but goes ahead reading at a moderate rate. When any member of the committee, either by the reading or from the card, sees anything that appears to him worthy of note he stops the proceedings and asks for discussion. It may seem a detailed method, and one that would cause delay, but operating under this system it is possible to pass over a hundred names and transact the other matters as scheduled in thirty or forty minutes, except where conditions surrounding any one name make

it desirable to devote considerable attention and discussion to that name. When such a condition develops, the extra time called for is not a burden but a duty and also an opportunity for the members of the discount committee to exercise their functions properly and give to the bank the benefit of their experience. This is really why they are directors and officers, and with the honor and salary that come from the position comes also responsibility to stockholders, depositors and business in general. This duty should not be shirked, even if it can be, and the hurrying of a discount committee meeting or the slighting of its investigations should not be tolerated by the president, who as the executive head is primarily responsible.

USING THE GENERAL KNOWLEDGE OF THE BOARD

The board of directors, if wisely chosen, represents many lines of business. These will be represented in turn on the discount committee and each director, as he serves on this board, should cooperate to the fullest of his ability in giving to the officers the closest information that he has on business conditions in his own or related lines. If any director has made a special statistical study that demonstrates an unsound state in that type of business in which he is engaged he should bring this information to the discount meeting as a guide to the men who are held directly responsible for the bank loans.

CHAPTER VIII

COST AND PROFIT OF A CHECKING ACCOUNT

THERE is an element in making loans quite apart from the actual risk involved in the loan itself. A loan already made may be perfectly safe and yet it may be to the decided advantage of the bank to have the loan paid or at least to deny an increase. At a different place we spoke of the never-ending circle that runs between deposits and loans and the very close relationship that exists between them. It is this close relationship that brings the question of deposits to the front when considering credit line extensions.

MARGIN OF PROFIT ON BANK SALES LOW

In ordinary commercial life there is a fairly large margin of profit in sales. These will run from five per cent. of the sales up to fifteen or twenty per cent. without startling any one. On the other hand, the margin of profit on loans is small, as time money rates, except in the far west or south, will on the average seldom equal and rarely exceed six per cent. As this rate covers the total returns to a purely commercial bank, aside from the earnings of special departments such as bond departments or the like, the cost of doing business must be deducted and when this is done a very small margin is left with which to pay earnings.

This may perhaps be best illustrated by taking a unit example and comparing the returns in banking with the returns in com-

mercial life. Let us take one hundred dollars as such a unit. In commercial life this sum would, or could, easily be used in such a business as would make ten per cent. on sales, and where the turnover would be at the rate of three times a year. By doing this the hundred dollars would show sales of three hundred dollars and the profit, on a ten per cent. basis, would be thirty dollars. In the banking business, if this one hundred dollars were continuously loaned for a year the return would approximate six dollars. It is easy to see that the great difference makes quite a large discrepancy in favor of commercial life. There is, of course, compensation in that a bank loans not only its own money but the funds of its depositors, and on this account gets a much greater volume in proportion to its own invested funds. In fact, loans or discounts will at any time run perhaps from ten to twelve times the capital of the bank, giving it volume on its business and hence earning capacity.

A bank, as has been said, making loans is rarely called upon to give up funds at once, but generally accommodates the borrower by giving him a credit against which he may draw. Banks are compelled to carry a reserve of ten per cent. against these deposits, whether created by loans or by real deposits. As a matter of fact, they carry approximately twenty-five to thirty per cent. real reserve in the nature of accounts with other banks, generally called cash means. This represents the available funds against which they may draw on demand for the settling of claims on them through the deposits of their customers. This makes necessary a very great development of a certain amount of free money, on deposit, over and above the legal requirements so as to have it available for use as reserves for further loans, and for exchange.

THE BORROWINGS OF A CUSTOMER SECONDARY PROFIT

It is a mistaken idea that a customer is doing a bank a favor if he borrows all the money he can and leaves no balance to speak of on deposit. The openness of the money market and the fluidity of credit disproves and sets aside this contention, because banks can always find investment for any excess credit they may have at their disposal, by turning to the open market and by the purchase of commercial paper. The customer that does the bank a favor is the one that deposits and does not borrow, thereby creating excess credit to be marketed by the bank and through which the bank can secure further connections because of its ability to extend credit.

For this reason the value of a deposit account must stand on its own merits and its value to the bank is dependent upon the cost of handling it and the loanable funds it creates, entirely separate and distinct from any borrowings that may be directly connected with it. As a bank sells its credit accommodation and gets in return the market rate and a balance, the value of the account is a most interesting and potent factor, not in the safety of the loan but in the desirability of the connection at all. Therefore, it is advisable to have some way of figuring the profit on an account to see whether it is of sufficient benefit to make the connection worth while.

Exchange paid and received and the length of time items have been in transit without the bank having use of the funds, interest and the like have, for the most part, been the factors that have been used in trying to determine the cost of running a checking account. It is very true that all of these items do enter into the consideration of the question, but there is a more reasonable and

better cost accounting method than that which limits itself to the mere figuring back and forth of these items.

COST OF OPERATING CAUSED BY PHYSICAL VOLUME

If you ask a logical question as to what makes necessary the large number of receiving tellers, the many bookkeepers, etc., that are part of the main expense of a bank you will begin to get nearer the true reason for the cost in running an account. It is the volume of work that is being transacted. In its organization a bank equips itself for a certain volume of work, both in furniture, fixtures, office space and clerical force. After a time, as the volume of business increases, more clerks will be needed, more fixtures bought and the possibility of enlarged quarters begins to make itself felt.

And by the volume we can not mean the volume in dollars and cents but must mean the volume in physical units or items going through the bank. There is no more work in handling a hundred dollar check than in handling one for ten dollars. A ten thousand dollar check lists as quickly on an adding machine as does one for ten dollars. A teller can check up or prove up a deposit of fifty thousand dollars made up of ten checks more quickly than he can a deposit of fifty dollars made up of twenty checks. The amount of physical work to be done is what determines the expense for fixtures, machines, clerk hire and the like. As the physical work increases the costs go up because the payroll is larger. Furthermore, this physical unit also controls, to a very great extent, the size office that is needed, the number of officers required and therefore much of the overhead.

This has been seen and understood by many who have made

a study of bank cost accounting. They have grasped this principle and have counted the number of checks going through the bank in any given time and have divided the estimated daily expense of running the bank by the average number of checks handled daily to establish the cost of handling one check. By this they have attempted to estimate the expense connected with running a checking account and have, in a small degree, approached the true theory of cost accounting from the banking standpoint.

What makes the volume of checks passing through a bank a good basis of measure is the fact that their handling requires both clerks and space. But neither the space nor the quality or character of the clerks is uniform, for some operations need more space and the varying salaries makes it more costly in some handlings than in others. The variation in space, however, is too irregular to allow of any very great application to costs, but the variation of salaries is not as irregular and, after all, is more essential, as increasing volume of business necessitates increased clerical force far more quickly and directly than it does increased office space. For this reason, and because it has been found simple, the clerk, with a unit scale gradation, has been used to good effect as a means of apportioning cost. It is easy to see that, with a number of operations taking about the same time, it actually costs the bank twice as much if handled by a one-hundred-dollar-a-month clerk than if handled by a fifty-dollar-a-month clerk.

COST IN PROPORTION TO SALARY HANDLINGS

It is, of course, possible to carry this scaling down to a minute scale, but from the standpoint of practical efficiency it is not

needed. Too much detail would be red tape and red tape often costs much more than the results would warrant, so that the system adds, in itself, so heavily to the cost as to be exorbitantly expensive. With this in mind the following scale of salaries is suggested as being a reasonable one and at the same time presenting sufficient variation to cover closely enough the difference in costs as between types or classes of clerks. As a matter of phraseology the word "count" is used in this discussion to denote the unit basis apportioned according to the scale.

COUNT SCALE

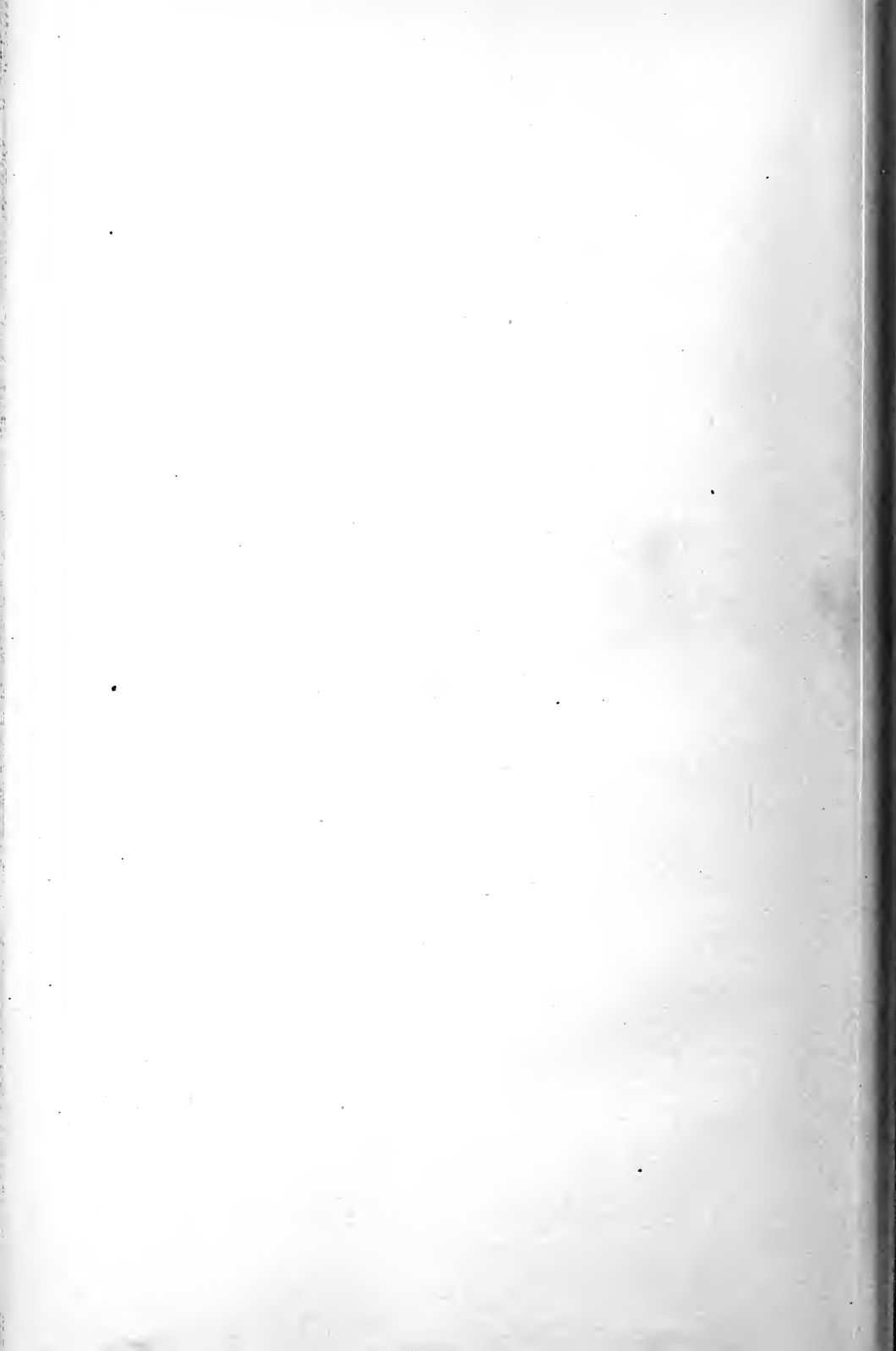
One handling by clerk, salary to \$25 per month—	1 count
One handling by clerk, salary \$25 to \$50 per month—	2 counts
One handling by clerk, salary 50 to 75 per month—	3 counts
One handling by clerk, salary 75 to 100 per month—	4 counts
One handling by clerk, salary 100 to 125 per month—	5 counts
One handling by clerk, salary 125 to 150 per month—	6 counts
One handling by clerk, salary 150 to 175 per month—	7 counts
One handling by clerk, salary 175 to 200 per month—	8 counts
One handling on basis of salary 200 to 250 per month—	9 counts
One handling on basis of salary 250 to 300 per month—	10 counts
One handling on basis of salary 300 to 400 per month—	11 counts
One handling on basis of salary 400 to 500 per month—	12 counts
One handling on basis of salary 500 to 1000 per month—	13 counts
One handling on basis of salary over \$1,000—	14 counts

The next problem is to route the various classes of checks from the time they come in by mail or are deposited by the customer, until they have passed through the bank and are no longer a cause of expense through operation. At each step or handling a notation must be made of the count class in which the clerk handling that step is placed. This determines the counts which the operation consumes. An addition of these counts will tell the total number of counts for each kind of check. This process can be continued for all classes of checks and the record can be

arranged to cover every kind of operation in the bank's activity. It is a simple matter to chart this condition, and the diagram on the opposite page is suggested as at least one manner of doing this in a concise and accurate manner. The phraseology may differ in different banks, but the theory remains the same and the wording can be changed to agree with the items handled or the clerks or departments handling them. This in no way affects the results, as the system is thoroughly elastic and can be molded to fit any method of routing.

THE COUNT SYSTEM

An explanation of the chart will help to give a clearer understanding of how it may be worked out so as to get a fairly accurate cost for each kind of item handled in the routine of bank work. Across the top of the chart, each with a separate column, are the names of the types of clerks that make up the bank staff. Down the left hand side of the chart are the various items that go through a bank. Either of these may be increased or decreased in number as the character of the bank and its business demand. It will be noted that each square formed by the clerk and check type column is divided by a diagonal line. The upper half of the square is to be used to denote the actual number of times a check is physically handled individually by any clerk from the time it enters the bank until it leaves. The lower half of the square is to record the number of counts those handlings represent. First, a study must be made of the normal course of a check through the bank because we must base our figuring on the presumption that checks will take a normal course most of the time. If there are a number of each kind of clerks any of whom may handle the items, then their average salary



should be used to determine the number of counts such handling will generate. After the routes through the bank have been determined, the number of handlings by the various clerks should be entered in the upper half of the squares. Then, in conjunction with "The Count Scale" and the average salary list, the number of counts for each clerk for each type of check should be entered in the lower half of the proper square. These counts, totaled, should then be entered in the column designated for that purpose. Arrangements should then be made to make an actual count of each kind of item handled by the bank for a week or for two weeks at a normal time of the month. If the first and last weeks of the month are taken they would in most instances come close to normal. A daily average for each kind of check should be struck and entered in the column reserved for that purpose. Then the average total counts for the bank's daily operation is secured by multiplying the counts per type of item by the average daily number of items in each case and adding the column. It then becomes possible by dividing the total of the cost of one day's operation by the total number of counts to determine the cost of operation per count. This cost per count multiplied by the number of counts for any item will give the operating cost per kind of item.

This system differs from the one of dividing the daily total cost of doing business by the total number of items in that it loads an extra cost on items handled more frequently or by more expensive clerks. It takes into consideration both the necessary extra work of double handlings and the wage scale, and so comes nearer to the actual costs.

The normal routing of checks and the consequent handlings is a thing that, once traced, need not be retraced as long as the

system within the bank for handling its work remains constantly the same. A considerable revamping of salaries makes it necessary to check over the counts assigned to any handling. But, as this salary element is a matter of averages, it is a question whether this element is subject to any very sudden or radical changes, and the cost figures once established can generally be used with a very fair degree of accuracy for at least a year. It may be well to make a recheck on the number of items handled by taking an actual count for a day or two at bimonthly periods and so obtain an average number of items handled. This does not present a difficult problem, as in most banks there are lists in the various departments that can be counted very rapidly and with sufficient accuracy, by using a measure. To do this, make a list from one to one hundred on the adding machine used in that particular department, and by measuring this against the lists a total can be ascertained very quickly.

There may be some departments that create expense but which are not directly connected with the checking part of the bank, such as the bond department, for example. This makes necessary a division rating of expense so as to get the daily costs. First, all direct expense should be charged against the departments under examination and then the overhead items of rent, taxes, light, officers' salaries, etc., should be equitably divided among the departments. This may be done in several ways. Either according to the space occupied by departments, the proportion of the direct expenses charged against departments or some such prorating plan. From such an analysis the daily cost is figured.

After the cost of handling any item has been determined we have come to a point where we can figure the profit on an account. It is necessary to count the various types of items, find how many

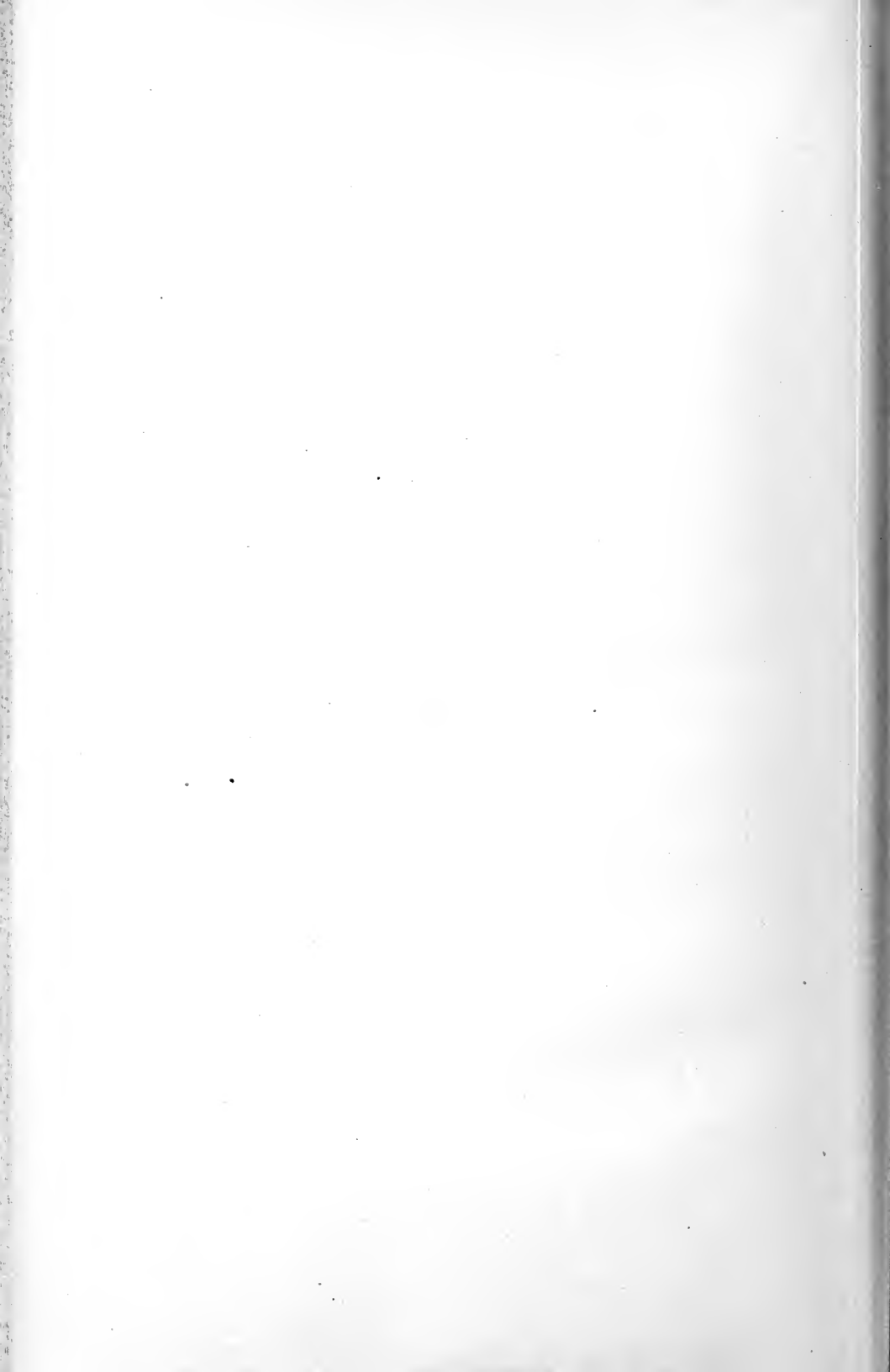
ANALYSIS OF THE ACCOUNT

of _____
 showing its value as calculated for the Month of _____ 190

Date	Balance	No. Own Checks	No. Clearings	Amount Odd Items	No. Odds	Exchange Received	Amount N. Y. Items	No. N. Y.	Amount Chicago Items	No. Chicago	Amount Cash	No. Credits
1												
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
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21												
22												
23												
24												
25												
26												
27												
28												
29												
30												
31												
Gross Bal. Less Items out												
Net Bal.												
Net Av. Bal.												
Estimated Value for Year based on this Calculation							Extensions of Balance		Own Checks			
Net Average Balance for Year									Clearing House			
Interest @ _____ % per month (as earned on investment)									Odd Items			
Exchange Received for Month									New York Items			
Charge for Banking Privilege									Chicago Items			
Average Gross Worth of Account for Month									Cash Deposit			
Cost of Handling									Credits			
Exchange Cost									Extensions			
Interest Paid on Account									Drafts Bought			
Average Net _____ for Month							Total Items		Cost of Handling Items			
Net Average Balance							Odd Items out 2 days					
Interest @ _____ % per month (as earned on investment)												
Exchange Received												
Charge for Banking Privilege									Cost of Handling Items			
Gross Worth of Account for Month									Exchange Cost			
Less Total Cost and Interest Losses									Interest Paid on Account _____ %			
Net Worth of Account for Month												
Net Loss on Account for Month									Total Cost			

Size of original 8¼ x 13

The broken dashes at right and left sides indicate the horizontal ruling



REMARKS:

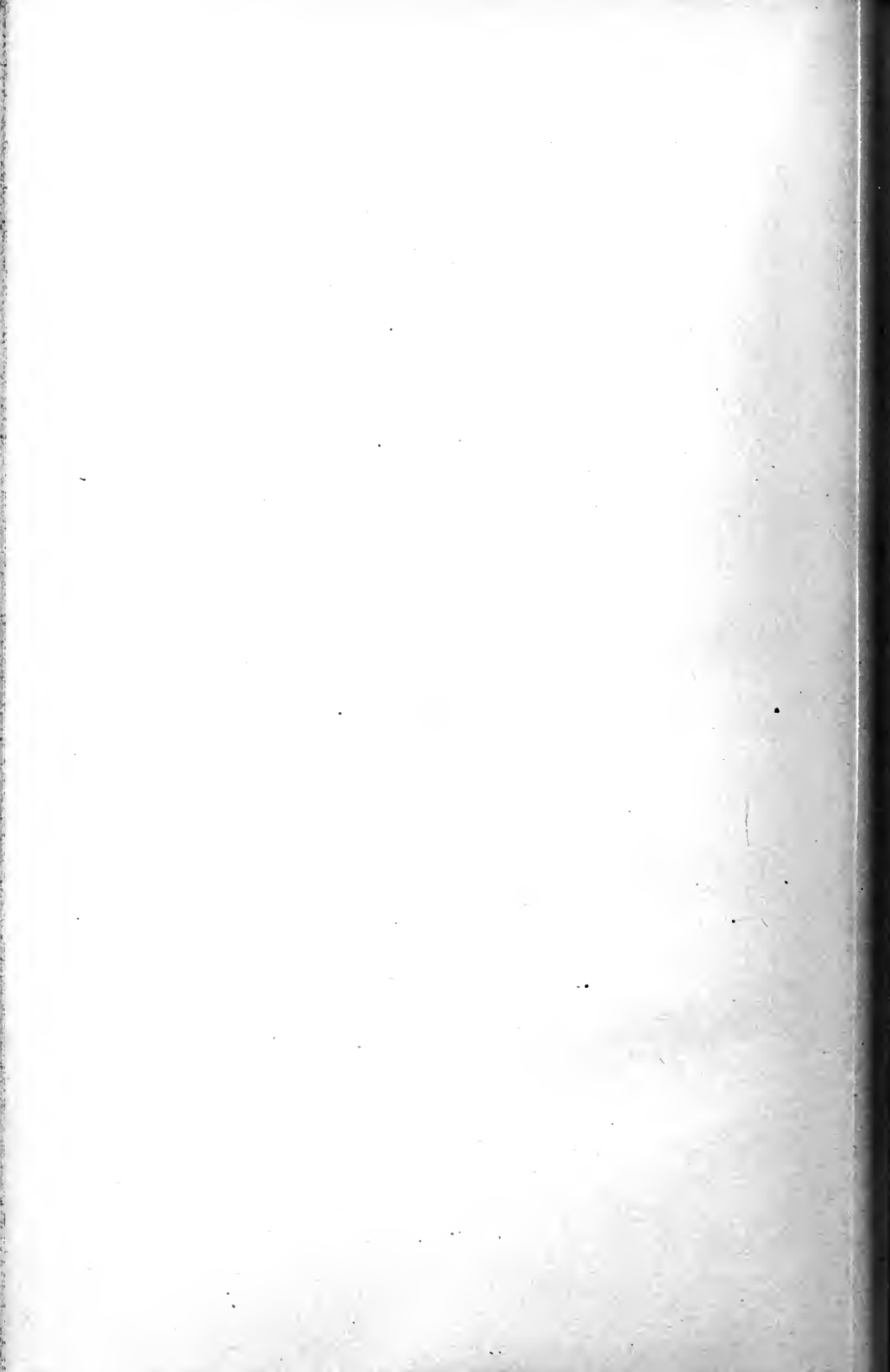
DATE	LEDGER BALANCE	INTEREST BALANCE	DEDUCTIONS FOR OUT-OF-TOWN ITEMS	BILL	EXCHANGE CHARGED	EXCHANGE COST	NO. OF ITEMS	TOTAL TRANSIT ITEMS
26				26				
27				27				
28				28				
29				29				
30				30				
31				31				
1				1				
2				2				
3				3				
4				4				
5				5				
6				6				
7				7				
8				8				
9				9				
10				10				
11				11				
12				12				
13				13				
14				14				
15				15				
16				16				
17				17				
18				18				
19				19				
20				20				
21				21				
22				22				
23				23				
24				24				
25				25				

TOTAL								
DAILY AVERAGE								

			COST		INCOME	
Average Balance,						
Average Amount in Transit,			Exchange,			
Less 10% Reserve,			Interest Paid at %			
Loasable Funds,			Interest on Loanable Funds if Loaned at %			
No. Items Handled,			Cost Handling Items,			
Cost of Handling, per Item,						
Total Cost			Net Worth of Account,			
			Net Loss of Account			

Size of original 8 1/4 x 13

The broken dashes at right and left sides indicate the horizontal ruling



are handled in a given time and determine the average balance the account has maintained so as to get at the amount of loanable funds which may be income producing and from which the bank gets its earnings. This information can best be accumulated by use of a proper assembly sheet, of which the insertions are samples, being, however, reduced materially in size.

By accumulating the balance records, deductions for float and the like on this kind of sheet and using the lower part of the form, it is possible to figure the profit or loss on an account quite distinct from the loans made to it, and thereby form an intelligent judgment as to the value of the account and the desirability of extending credit to hold it in the bank. This, of course, is subsequent to and contingent on determining whether the loan would be safe from a credit standpoint. Variations from this plan are, of course, possible, but it is offered as an aid to those who have that customer to combat who thinks borrowing is all that is necessary to the bank's health.

CHAPTER IX

COMMERCIAL PAPER

DIFFERENT IN CHARACTER FROM DEPOSITOR BORROWINGS

SOME of the mistakes made in buying commercial paper are, without question, due to a lack of a full understanding of what commercial paper is and some of the basic economic laws that apply to its issue and the necessity of its being. Commercial paper is born into another family from the straight note that is discounted by banks of deposit, and in no way can it be treated as the same kind of risk.

This does not mean that such a note is any less desirable or any more dangerous, but refers to the difference in caution that must be used in taking into the bank's portfolio a note about which the credit man can rarely have the personal contact knowledge that he has with a customer. The personal equation is nil, and more reliance must be placed on analysis and less upon the process so commonly known as sizing up. Personality almost ceases to exist in this type of investment.

Before an intelligent consideration of any question can be undertaken it is necessary to establish a premise, so we shall devote some space to a discussion of the character of commercial paper before taking up the more technical question of buying it for bank investment.

CHARACTER OF COMMERCIAL PAPER

At the very outset we are confronted with the fact that the term commercial paper is somewhat of a misnomer. In its

strictest definition the word commercial means "pertaining to trade or commerce; mercantile." By this definition commercial paper should mean the paper of trade or commerce, or the paper of merchants. Such paper would be the notes, drafts, acceptances and business paper of merchants issued for the purpose of meeting commercial debts or of settling mercantile transactions. For many years and until very recently the volume of such paper issued by houses in good standing has been limited, at least for domestic transactions.

In the place of acceptances and such forms of true commercial paper as have been used in Europe, this country has developed a system of selling on open book account, as between merchants, and bank credit, on straight paper borrowing, at banks of deposit as the credit medium. This has been accompanied by the creation of cash discount terms, designed to further prompt payment, and thereby increasing borrowings at banks of deposit in order to raise the necessary funds to take advantage of the discount. This system allows for the payment of the whole bill with a fairly liberal discount, if payment is made within a short time, generally ten days, or the payment of the face of the order at the expiration of thirty or sixty days. Any merchant who is in good standing with his banker borrows direct and takes full advantage of the discount. The merchant who has used up his bank credit line buys on net thirty or sixty day terms and loses the discount. The merchant further down the credit scale, with a limited capital and a tight credit condition, lets the account run to maturity and then may pay part in cash and offer notes for the balance. So generally is this issuing of notes so based that to the active credit mind notes receivable in a statement, lacking a close explanation, are more generally than not

looked upon as being more than likely the evidence of slow or past due accounts. Likewise notes payable for merchandise in a statement create at least a mild belief that the subject is standing off his creditors beyond the usual sales terms by issuing notes for matured accounts which he is not able to pay entirely at the time of maturity.

This development has brought about two conditions of interest. First, the commercial note has largely fallen into disrepute; and second, banks of deposit (of the buyer) have been called upon to finance on direct paper a very much larger percentage of credit operations than would be the case if a real commercial paper relationship existed between seller and buyer. In this case the banker of the seller would be asked to extend credit on the commercial paper of the buyer endorsed by the seller and credit would be based on the two-name paper of both buyer and seller, a paper that could rightly float in an open market. This latter condition is about what has prevailed in Europe with the addition of central discount markets where this paper becomes the merchandise that is sold by banks needing funds for further customer accommodation and is bought by banks having surplus funds for investment. The European method based on real commercial paper floats credit from the congested or overloaned sections of the country to such parts as have surplus funds, business in these sections being temporarily well supplied. Under these conditions the shifting of credit may not be in a geographical movement at all. It is quite possible for a bank to be a specialist on one or two lines of trade where credit requirements may be seasonal, leaving the bank with surplus funds at some times and very tight at others. With the liquidity of credit that is possible through an open market for the sale of commercial paper it becomes sim-

ple to adjust loans so as to have paper maturing at a time the home demand springs up. This, in economic theory, is the advantage of the use of commercial paper and its substitution for an open account carrying system.

ABSENCE OF GENERAL OPEN CREDIT MARKET

There has been no open market for the purchase and sale of commercial paper in this country probably due, from an economic standpoint, to the fact that no real commercial paper has existed. There has been, however, the shifting demands for credit accommodation and the usual spotted condition of the credit supply. Here a locality with banks loaned up to the legal limit; there a place in which banks had money to loan or credit to extend. This condition demanded some basic economic remedy and that remedy has been found in the so-called commercial paper broker and that type of paper which we are in the habit of calling commercial paper.

Direct banking connections, connected with credit extensions, are based on the soundness of the name and the maintenance of commensurate balances. It at once becomes obvious that there is an artificial restriction against companies finding the easy money market on the basis of maintaining banking relations at all times. It would be a practical impossibility for the deposit accounts to be so scattered that loans could be transferred from congested to free or easy markets through banks of deposit. It would require too many accounts and too much money tied up in idle balances. This difference in money markets has led to the existence of the brokers referred to, and in a large way they are like clearing houses for the credit of the country, taking notes from one

section and selling them in another. The portfolios of the leading brokers are a substitute, after a fashion, for the open market of Europe, and like that market, have a tendency to equalize and stabilize credit between the business communities of the country.

METHOD OF ISSUE

We have, at some length, discussed the reason for the existence of the commercial paper broker and found that the type of paper he handles comes from a real economic need and is based upon sound business necessities. The next step is to understand the method under which this paper is issued. In the beginning of this kind of business the note broker was far from the high type we know him to be to-day. He was a man who took few risks; sold on a very liberal discount basis, wherever he could find a market, and in many cases did not have any interest in the note until it was sold. He did business on a wide margin of commission and at no time took any risk, as the maker of the note was not paid until the broker had placed the paper. It was much more like a note-shaving proposition than a strictly clean-cut business deal. During the past ten or twelve years, however, these transactions have been reduced to a very small percentage when compared to the whole amount of paper so floated. Now, generally, the broker actually buys the paper, paying his customer at once and carrying the paper himself until sold to some bank or possibly some commercial investor. The relations between the best brokers and their clients are in many ways very similar to the relations between the banker and his customer except for the deposit requirement or custom. This condition leads to a greater conservatism on the part of the broker in buying and

should put the broker's own credit department more closely behind the risk, thereby making for better paper. Indeed, it is a good rule not to deal through houses that do not actually own the paper they are selling.

CHARACTER OF COMMERCIAL PAPER SELLER IMPORTANT

There is another reason why the character of the house selling the paper plays an important part in the soundness of the paper sold. When a company makes a connection with a brokerage house it is extended a line of credit by that broker, which, under certain sound regulations, the broker will float for the company. If the broker is one who shops for rates or is likely to be too easily frightened in troublesome times his customers are apt to be suddenly out of funds by unreasonable withdrawal of lines of credit. The fair weather banker has broken many companies that could have been pulled through, and a broker with a chicken heart can wreak havoc on a business that needs a little temporary assistance in times of stress.

This is not an argument for the broker to take on the accounts of companies that are already in rough water but is directed against such brokers as refuse to aid clients when the going is a bit bad or who rush out weak paper upon the ill-informed banker only that they may be rid of it themselves and ignore even a moral risk. There are some brokers of such high ethical standards that they would rather take a loss themselves than knowingly pass sick paper on to their buying bank customers. There are also houses that, when one of their clients turns sick or possibly looks bad, will stand by and keep their lines open, without, however, putting the name on the market. Such brokers are

clean productive builders of business, and the first thing to be considered, by the house that wishes a commercial paper broker connection for the enlargement of its credit, as well as by the bank that buys such paper, is whether or not the broker is of the right stamp. While the honesty of the house and its standing as a broker will not stop losses, it is safe to assert that the better the broker, the higher his standing, the better the paper sold by him will average. Therefore, when buying paper, the very first consideration is the broker himself and his record for strength, fairness and business honesty and ability.

Having established in his own mind the character of the various brokers and having selected such as he may care to do business with, it next devolves on the bank credit man to judge the risks involved in the various names offered to him by the broker. Too many credit men go by the rule of two for one and never get beyond a small circle surrounding their credit desks. The commercial paper risk is at once differentiated from the customer risk because in most instances the personal element is almost entirely lacking. With the customer the credit man can size up the personal element, the plant and other physical aspects of the risk. In the commercial paper field he has to rely on analysis and such second-hand impressions as he can get by correspondence. This adds to the difficulty of the task, for it requires closer analysis and deeper thought.

DIFFERENTIATION OF TYPES OF PAPER

Roughly speaking, there are four main classes of business, manufacturer, wholesaler, jobber and retailer. As a general proposition the nearer inventory is to the absolute raw ma-

terial, of standard size and fineness, the more liquid it is and hence the more advantageous as an asset. As the manufacturer deals first with the raw material it might seem that he would be the more favored risk. His receivables are more generally limited to a comparatively few customers, generally quite responsible wholesalers, and on that account should be very liquid. He is generally, however, burdened with a heavy plant investment.

The wholesaler also sells to a comparatively limited number of customers, thereby keeping his receivables in a good state of liquidness, but he is a step removed from the raw material. The jobber begins to branch out and carries a greater variety of lines of merchandise and a larger number of smaller accounts. He is also two steps from raw material. The retailer carries a very wide line of merchandise, far removed from the raw material, and in the modern development of cash business has relatively only a limited amount of receivables, which, as a rule, liquidate with the highest ratio of return in case of failure. His stock is also likely to accumulate a larger proportion of out season material. In the process of grading types the retailer would, by the nature of his business, be placed at the foot of the credit scale, the jobber next above him, the manufacturer, whose inventory shows a large proportion of semi-manufactured stock and little raw material, just ahead of the jobber, the wholesaler ahead of this kind of manufacturer and the manufacturer with a small list of customers and a short bridge between raw material and sales at the top of the list.

It may be that others will disagree with this general grading, and it is certain that it is but a crude attempt. It is, however, a valuable thought to keep in mind, particularly if the proportion

of manufactured or in process merchandise gets too large, when taken in ratio analysis with the other current assets. One fairly good rule or measure is to compare the total of the cash and receivables to the total current debt. If it is equal in amount and the merchandise is left free and clear for liquidating shrinkage and if merchandise is largely raw material then the name begins to approach the best proportions.

UNDER OPTION

The commercial paper broker calls on the bank with a list of offerings and presents the figures of the last statement for consideration. A cursory reading of the statement, bearing in mind such things as debt percentage and current ratio averages as discussed in the chapter on type analysis, will make it possible for the bank credit man to determine whether or not the name is at all possible or whether it is entirely out of the class of paper he desires to buy. Having decided that the name has possibilities the credit man may take under option an amount regulated by the policy of his bank. If the name is new, or is one that his bank has not considered for some years, then he should ask for the statements for the past two years, or in some instances three years. He should get all the supplemental information the broker may have and should insist on the sales for both years of the statements under consideration. These sales are of the utmost importance, even more so in commercial paper than in customer paper, because more reliance has to be placed on analysis and because a knowledge of sales volume is absolutely necessary for a true understanding of any statement. The bank credit man is in a stronger position to demand information from a commer-

cial paper name than he is from a customer name because there is no possible loss of deposits connected with a refusal to buy the paper of a commercial paper name. Therefore he can pick and choose more carefully, buying such names as he can get the necessary information about and optioning such as he feels do not quite come through clean.

CREDIT DEPARTMENT RECORD OF PURCHASES

The statements should be subjected to a searching comparative, internal and type analysis and the records spread on such a form as will make it possible to compare at a glance the relative changes from year to year. This record should be so designed as to carry all the necessary information concerning the amount of the purchase, the date of the purchase, the rate, the maturity, a synopsis of opinions obtained and any security, endorsement or guaranty that supports the goodness of the note. Then, if more than one officer has to pass upon the paper, space should be left for initialing the purchase so that at any future time there can be no doubt as to the responsibility for the purchase. The form on page 205, used as a card file, indicates how this may be done easily and compactly.

INQUIRY LETTERS

The analysis of the statement being made, the credit man should address himself to the task of securing the indirect information concerning the moral risk and general condition of the name. For this he must rely upon the opinions of his brother credit men, who are located within observation distance of the plant, who may know the management or who have an account

that brings them in close touch with the situation. In this, acquaintance and friendship play a large part, and the credit man who makes a recluse of himself loses power. The character of a letter has a marked effect upon the recipient and on that account a good letter should be designed. It is a rather common custom to use a form letter, and as bank credit men are fairly liberal-minded with each other, a form letter is accepted as a labor- and time-saving device. The following are several specimens of letters that have been used with success:

"We have purchased, under the usual option of the broker, some of the paper of _____, and, as we understand an account is maintained with your good selves, we would very much appreciate an expression of your opinion as to the desirability of the risk for an outside bank at this time, together with some information as to your experience with the business, relative to the nature and extent of accommodation at the disposal of the concern through your facilities and the manner in which obligations are cared for.

"Some idea as to the conditions under which the business is operating at present will also be of value. Thanking you for your courtesy in the matter, I am,

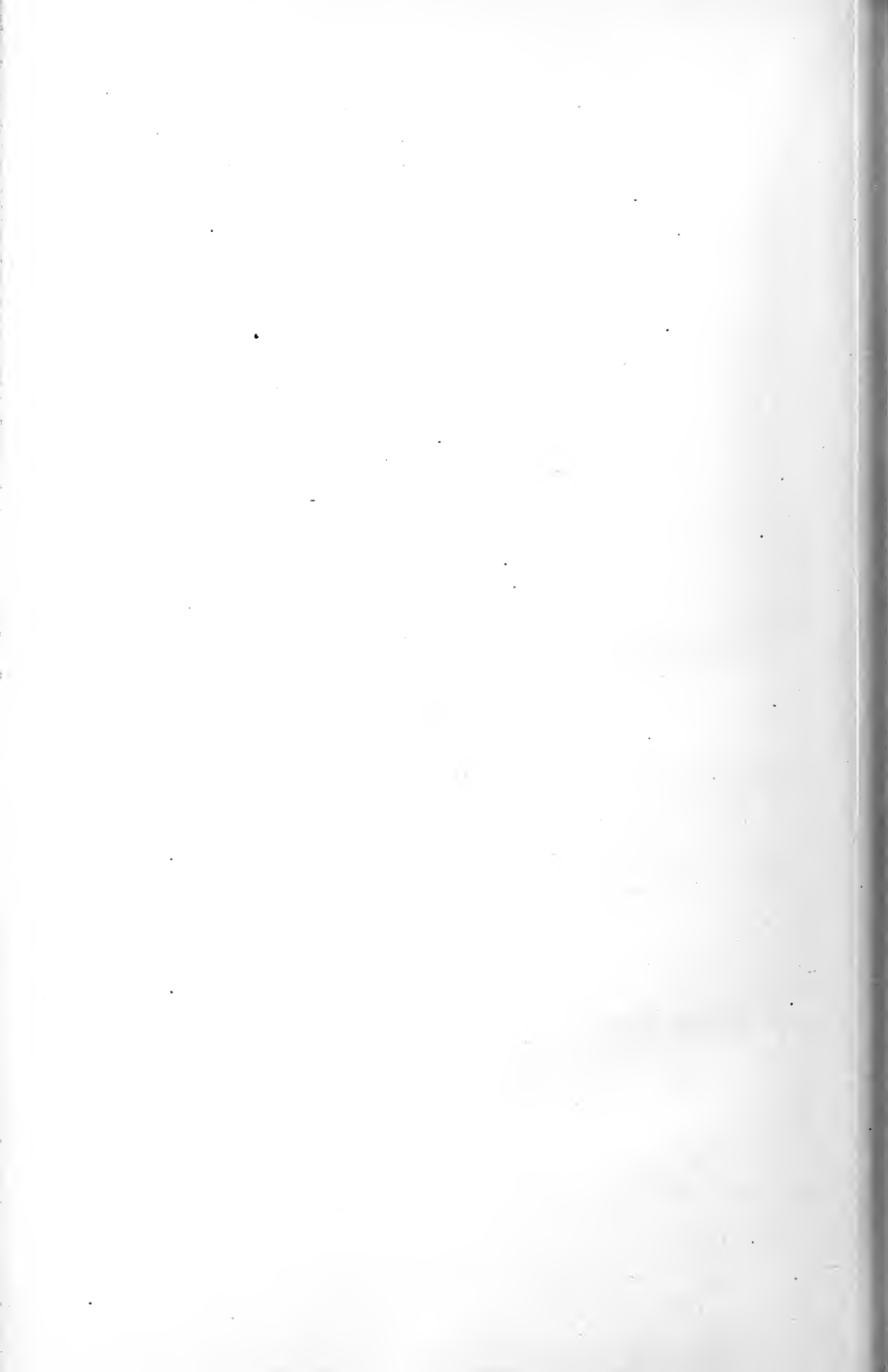
"Very truly yours,"

"We shall greatly appreciate your confidential opinion as to the financial responsibility, general standing, and character of management of _____, with particular reference to the desirability of the company's paper as a safe and attractive outside investment. If endorsements are furnished, such information as you may have at hand covering the outside means of the endorsers or guarantors will be of value.

"Thanking you for your courtesy in the matter, and assuring you of our willingness to reciprocate at any time, I am,

"Very truly yours,"

"We have to-day purchased, under the usual option, paper of the above concerns, and would appreciate receiving the benefit of what information you may have in your files relative to their



present financial responsibility and method of meeting their obligations. We would also be glad to have you advise us if, in your opinion, they are under capable management, and whether or not you would consider their paper a first-class banking risk.

“Assuring you that your kindness in this matter will be greatly appreciated, and trusting that you will not hesitate to call upon us when occasion arises, we are,

“Very truly yours,”

“Will you kindly favor us in confidence with your opinion of the present financial condition, management and business prospects of _____? Would you consider a reasonable line of their paper a safe and desirable investment?”

“Thanking you in anticipation, and desiring to reciprocate whenever opportunity offers, Very truly yours,”

“Will you kindly favor us with your opinion regarding the character, standing and financial responsibility of _____?”

“Would you regard a line of their paper for \$_____ to \$_____ a desirable investment?”

“If, to your knowledge, they borrow on collateral, endorsements or guarantee, please advise us.

“Assuring you that any information you may give us along the lines indicated above will be much appreciated and used discreetly, we are, Yours very truly,”

These are actual letters and are good. The writer has only one thing to offer as an addition, and that is the insertion of a foot-note to the effect that if the bank inquired of contemplates at any time the purchase of the same name that the inquiring bank will be glad to give the benefit of its investigation and the result of its analysis.

When a name has at any time been purchased and is being considered again the following, that have been in actual use, are submitted as good types of letters:

“We are revising our files on the above concern, and would appreciate receiving as full information as you may have relative

to its financial and business standing. We would also be pleased to have you state whether or not its bills are discounted, and if, in your opinion, it is making satisfactory progress.

"Thanking you in anticipation of your courtesy, and assuring you of our willingness to reciprocate, we are,

"Very truly yours,"

"We are revising our files and would appreciate your advising us if you have had occasion to change your opinion of _____ as expressed in your favor to us under date of _____.

"Thanking you in anticipation, and assuring you of our willingness to reciprocate whenever opportunity offers,

"Very truly yours,"

FILE REVISION ABUSES

Before leaving the matter of file revision the writer can not help but expostulate against unnecessary revision. There are some bank credit men whose sole object in life seems to be to build up a huge file, based on endless and frequently recurring inquiries, without reference to the name being actively in the market. Bringing a file up to date should only accompany an honestly expected purchase. Keeping files up to date on names that are not in the market or on those one has no intention of buying, simply gets a man rated as a public nuisance and ends in his letters receiving scant courtesy, thus practically closing a most excellent source of information, perhaps at a time when it is really needed. Revise when you are actually contemplating purchase, and do not write every bank in the city in which the name is located.

The most practical method is to pick out a small number of banks that, for some reason or other, are believed to have knowledge of a name and write to them. It is a wise thing to state that

you are writing other banks in the same city, if this is the case. The recipient bank will give letters more attention if it knows that its efforts are being relied upon.

TERRITORIAL ECONOMIC CONDITION

The statement, the inquiry and the broker's information give the greatest amount of direct information. There is, however, another very important consideration and this is the economic condition of the section of the country in which the name originates. There are at times broad stretches of territory that suffer from crop failure, labor troubles or some economic disturbance that upsets business within that territory. For this reason the bank credit man, who buys commercial paper, must study economic geography and know to a certainty the conditions that prevail in various parts of the country. If any section in which the buying public is largely rural is affected with a serious crop failure it is a certainty that the sales of merchandise in that community are going to fall off. This loss of sales is reflected in the financial conditions of the merchants and if the unfavorable condition is long protracted it is assured that the paper coming from that section will not be as desirable as paper originating in some more prosperous part of the country.

As has been said, crop conditions or some other local cause may turn a whole geographic section into a questionable commercial paper risk. It is also true that unsettled conditions may prevail in one line of industry on account of raw material shortages or some such cause. This makes it necessary for the credit man to watch closely his type studies so that he may check from year to year on the condition of an entire industry. Trade journals help in this connection and a free interchange between credit men is

another aid in finding out the true condition of affairs. This is not always easy, however, to determine, and the credit man should always look most carefully for traces of territorial or trade depressions or undue expansion with consequent weaknesses. Eternal watchfulness is the only guardian against these troubles.

COOPERATION—HOW TO GET IT

In commercial paper buying the bank credit man is more dependent upon indirect information than in his direct loans. This makes the cooperative good will of his brother credit men of the utmost value. To secure this there are two prime rules. The first is to display a spirit of willingness to cooperate oneself. Do not turn credit inquiries, real credit inquiries, aside with a stereotyped letter. The second is to eliminate the dragnet inquiry method from your system. Remember, other credit men are often busy, even if you are not, and the quality of your credit file is more important than its size. Inquire when you have need to inquire, but do not inquire just to give your stenographer something to do and to increase the size of an already unused credit file. Send inquiries to those only who you believe, for some good reason, have the real information you need. If you must write to every bank in the section, at least have the courtesy to add a note to your inquiry stating that you are writing to other banks and that information on file will be sufficient without further effort on the part of the bank inquired from. This spirit of thoughtfulness and courtesy will breed cooperation, the greatest department asset any bank credit man can secure.

CHAPTER X

THE INTERVIEW AND VISIT TO PLANT

THE FRAUDULENT STATEMENT

IN considering the sources of credit information the statement, if properly and thoroughly analyzed, was given first place. This was done because it is supposed to show an actual picture of the real condition of the subject's business. Another reason is because, if incorrectly given with an intent to defraud, and credit extended because of it, it becomes an instrument through which the fraudulent debtor may be prosecuted and sent to jail. In this latter connection it may be well to note that where the false statement act of any state may be weak and ineffective, action can be had under federal law if it can be proved that the statement was sent through the mail, thereby using the mails for the purpose of perpetrating fraud. There are a number of statement forms so designed that when properly folded they make a mailable form. In this manner they retain the stamp, cancellation marks, address and such evidence that will prove beyond question that they have passed through the mails. In many instances, however, this form of statement is not adaptable to the system in use and so can not very easily be adopted. Office custom, however, can be made a substitute if well designed and strictly adhered to.

One method that is inexpensive and not too cumbersome is to have the return envelopes distinctly marked so that they will only be opened by some one in the credit department. When

opening the envelope it should be slit across the top and down both ends so that it can be spread out flat. A notation should then be made immediately upon it to the effect that it had been received in the credit department on a certain date, that it contained the statement of the subject dated as per the statement date, and the notation should be signed or initialed by the person actually performing the act of opening and registering the statement. The envelope so marked should then be permanently pasted to the statement so that they become in fact one instrument. If, in addition to this, the statement is registered on one of the statement tickler cards, formerly mentioned, and the fact of such registration is noted on the margin of the statement, the record is so complete as to be good evidence in court that the statement was actually received through the mail by the bank and used in the credit department as a basis for credit standing. If made a regular order of department routine this is not a burdensome matter and makes a very distinct claim of evidence. The form on the opposite page shows the type of envelope that can be used, so marked that any clerk in the mail department can tell at a glance that the contents are of more than ordinary importance and that the envelope is to go to the credit department in the shape and condition in which it is received by the bank. The notation referring the envelope to the credit department is printed on both back and front and is in either heavy red or green to make it more noticeable. It also serves to assure the customer that the information given is to be safeguarded by the credit department and that the envelope is not likely to be opened by any other department of the bank or by more or less irresponsible boys in a general mailing room.

Credit Department Without Opening

← Green or red ink

Deliver to Credit Department Without Opening

Green or red ink →

—THE—

National Bank of Commerce

DETROIT,

MICH.

CREDIT DEPARTMENT

Size of original 9½ x 4

QUESTIONS SUPPLEMENT ASSET AND LIABILITY STATEMENT

Statement forms, as has already been seen, contain a very large number of questions in addition to the actual balance sheet. In some cases these questions are answered in good form, but in many they are only carelessly answered or the answers may often be omitted entirely. In such a case an interview may rightfully be insisted upon and in any event an interview is of great benefit, as it brings the borrower and the credit man of the bank much more closely in touch and often makes clear many things that otherwise might be only imperfectly understood. Some credit men possess most excellent memories and rely upon them to a very great extent to retain the results of these interviews. Sometimes they later transcribe their impressions in record files, but, too often, the credit man who relies upon memory does not transcribe and so creates a credit file in his head to which he only has access and which the bank will lose in the event of his death or resignation. It is also true that time will dim even the best memory and that facts may become confused with impressions and a false mental record grow up which will lead to mistakes and misunderstanding. To obviate this condition it is a simple matter to construct a questionnaire or record sheet that can be handled during the interview and notations made thereon which the stenographer can later condense into a terse report for filing purposes. The original of the record may itself be filed in the information folder if that is deemed best, but as many of the notations on the interview sheet and the statement form are the same, valuable space may be saved by transcription of the notations in report form and the filing of the questionnaire

in transfer files under a numeral system that can be packed much more tightly than the files in daily use.

While the actual questions to be asked will necessarily vary, with the varying demands of different departments of different banks, it is still possible to consider the use of a certain number of more or less standard points of information that the credit man should have access to and should receive. Some of these will be duplicates of the questions on the statements. These can be checked before the interview to indicate whether they have been fully answered or whether more explanation is needed. With such a questionnaire on his desk, prepared in advance, the credit man is not likely to overlook any important matter that was not clear upon the statement and can conduct the interview in less time and in a more orderly manner than by the hit and miss method of general conversation. It also tends to calm a nervous or touchy customer. This questionnaire may be printed or a special form may be made for each case by the stenographer. If made the latter way the questions that have been satisfactorily answered may be omitted and the form shortened.

INTERVIEW QUESTIONNAIRE

The following is offered as suggestive material for such a questionnaire:

QUESTIONNAIRE

- Name Date interviewed.....
- Representative..... Statement of..... Date.....
- Sales
- Profits
- Dividends
- Contingent liability
- Where incorporated

- Have we on file a resolution stating who must sign notes?.....
- What are outside means of endorsers or guarantors?.....
- What is amount or extent of insurance?
- Fire \$. Accident \$.
- Use and occupancy \$. Credit \$.
- Explosion \$. Bomb \$.
- Life \$. payable to subject company
- Bad debts charged off \$.
- Accounts past due more than six months \$.
- Depreciation, machinery, \$. Buildings \$.
- Reserve for bad debts \$.
- Reserve for possible merchandise depreciation \$.
- Repossession loss reserve \$.
- Mortgage debt or bonds when due \$. Due.
- Is mortgage or bond debt a blanket liability?
- Is the statement the result of a certified audit?
- Is paper sold by brokers?
- Who?
- What line is extended by brokers?
- Was this completely retired during year?
- When?
- How long have officers or partners been in this line?
- Is there some provision made for filling their places in case of death or resignation?
- What are sales terms?
- Do you insist on customers living up to their terms?
- What percentage of sales has to be repossessed?
- Have any accounts or notes receivable been pledged, sold or re-discounted?
- What percentage of notes receivable represent matured accounts extended by note payment?
- Was inventory taken by accountants or verified by them?
- Is any part of the merchandise on consignment?
- What offsetting debit appears against such condition?
- What does money deposited with company represent?
- Is it a demand liability?
- What interest is paid thereon?
- Is any part of capital stock represented by notes or accounts receivable?

How was paid in capital paid for?
Cash \$. Real estate \$.
Machinery \$. Patents \$.
Buildings \$. Promotion \$.
Otherwise by \$.....

What does receivables due from officers or partners represent?
.....

Is any part of the receivables owing from subsidiary or allied
companies?

What other bank accounts are there?

Are any of these secured in any way when making loans?

Is the company obligated in any way for debts of subsidiary or
allied companies?

How are sales running as compared to last year?

Are collections good or do slow accounts run in greater propor-
tions than last year as compared to sales?

What additions are contemplated this year?

If selling nationally, are there any bad collection spots?

General remarks and memoranda :
.....
.....
.....
.....
.....

COMMERCIAL PAPER QUESTIONNAIRE

When buying commercial paper there are also many points that
can be covered in a questionnaire, of which the following is an
example :

To..... Date.....
.....

GENTLEMEN :

In connection with the purchase from you, under option, of
note of we would ask you to furnish
us the following information applying to the company's state-
ment as of

- (1) a. Are any quick assets (merchandise, accounts receivable) pledged?
- b. If accounts receivable and notes receivable are not separate, what is the amount of each, and how much of each item represents actual merchandise sales, how much due from allied companies and what is due from officers, employees, etc.?.....
- Accounts receivable..... \$.....
- Due from customers..... \$.....
- Due from allied companies..... \$.....
- Due from officers, employees, etc.. \$.....
- Notes receivable..... \$.....
- Due from customers..... \$.....
- Due from allied companies..... \$.....
- Due from officers, employees, etc.. \$.....
- (2) State amount and nature of contingent liability at date of said statement
- (3) a. Were any obligations secured otherwise than as provided in question No. 1?
- b. Financial worth, outside of this business, of endorsers, as follows:
- Name..... \$.....
- Name..... \$.....
- Name..... \$.....
- Name..... \$.....
- (4) Life and other insurance carried payable to the business?..
- (5)

Year	Annual Sales Three Years	Net Profits Three Years	Dividend Paid Three Years	Bad Debts Charged Off Three Years
.....	\$.....	\$.....	\$.....	\$.....
.....	\$.....	\$.....	\$.....	\$.....
.....	\$.....	\$.....	\$.....	\$.....
.....	\$.....	\$.....	\$.....	\$.....
- (6) Amount of bills and accounts receivable ninety days overdue on said statement
- (7) a. Minimum liabilities during past twelve months as on..... \$.....
- b. Maximum liabilities during past twelve months as on..... \$.....

- (8) With what other businesses are officers connected?.....
- (9) a. Names of all bank accounts with amount of each line of credit established :
 - \$..... \$.....
 - \$..... \$.....
 - \$..... \$.....
- b. What brokers handle paper?
- (10) What amount was borrowed at statement time from banks?
- From brokers?
- (11) If statement was audited, was it an actual itemized audit of books or merely a verification of balance sheet? ..
-
- Name of accountants?

This form calls for many bits of information that are not always given. Much of this is not the fault of the broker, because if he is the proper kind of broker, actually buying the paper and owning it, he too has had to assume a credit risk and is quite as interested in knowing the true status as is the bank itself. Some companies that borrow through commercial paper channels are not as frank as they should be and it is only by continued insistence that brokers and banks can get the full information they are entitled to.

In this connection bank men would get further by cooperating with brokers than by antagonizing them, and by writing such inquiries to the brokers as they may show to their clients for the purpose of getting more information.

VISITING THE PLANT

With the completion of the statement analysis and the interview the credit man has passed through two-thirds of the direct information process. The last step is really most important.

This is a visit to the plant itself and an actual examination of the fixed or capital assets. The value of this sort of inspection is getting better and better known and more appreciated every day. In the older methods of credit investigation the statement was analyzed along the lines of current assets and liabilities and no thought, or at the best very little consideration, was given to plant investment. Enough current assets were demanded to pay out all debts, by the books at least, and leave a one hundred per cent. margin for shrinkage. The machinery, buildings, fixtures, etc., were considered almost as junk in spite of the fact that, in a manufacturing plant at least, they form the productive element in the whole scheme and without them the current assets would be of shortlived nature. Of late, however, the plant, provided it be in sound condition and of a productive efficiency, is considered from a credit standpoint as of mighty good value. Nothing in the nature of explanation can begin to approach an actual inspection of the plant in operation. Therefore it is well worth the time and effort in order to determine whether its productive condition is up to such a standard of efficiency as will make it possible for the credit man to pass it as a good, live, if not a quick or liquid asset.

THINGS TO CONSIDER AT THE PLANT

⌈ In visiting a plant a credit man has three things to consider, namely, the records, the plant as a productive force, and the morale of the organization. The order in which these should be taken up and examined is to a very large extent a matter of opinion. It seems, however, that the examination of the books may more rightly be classed as an accounting proposition. If the

statement has been an audited statement compiled by a certified accountant then the figures can be taken as authentic and analyzed for their value as the best interest of the bank may appear. The verification of the books, however, is only to make sure that the records, upon which the analysis structure is reared, is consistent and honest and that the analysis is being made on a sound premise. It is in truth an accounting proposition to prepare for credit, and such an examination should be conducted by the accountant for the bank, perhaps acting under the direction of the credit man. It is not the business of a visit but rather a protracted stay. The things to do are simple enough in as they affect credit. The honesty of the statement should be proved and the quickness and nature of the current assets should be assured. Old accounts should be segregated. Old bills receivable should be set apart, as should those that seem to have been given in settlement of accounts that have reached maturity. The testing of the inventory is a long and arduous task, but if a proper material cost record is kept, and if the credit man takes a trial balance and uses it in conjunction with the last statement, some very interesting sidelights can be found that will in a measure help to check profits and losses and will aid in forming an opinion of the present condition. In the matter of trial balances that are sometimes given between statements the credit man should insist on getting the material cost of sales for the period, as without this item an intelligent reading of a trial balance is an almost impossible task. For this reason one of the most valuable things the credit man can do in his office investigation at a plant is to ascertain something concerning the method of cost accounting the company may have installed. If it shows clearly this material cost of sales item, the

credit man may feel assured that the head of the plant has some chance of knowing between inventories whether he is making any real headway.

THE ROUTE THROUGH THE PLANT

The element of plant efficiency is a most important matter and one that the credit man should take time to investigate. There are many different angles from which to view a plant. But a little thought will demonstrate that there is one best and most natural way. While a haphazard trip through the plant, such as is offered to sightseers, would be interesting and perhaps instructive, it gives little real chance to understand processes or production systems. And though there may be many sightseeing routes, there is, in the mind of the writer at least, only one inspection route that covers the ground thoroughly, gets a real bird's-eye view and makes it possible for the inspector to carry away a true and concise opinion of the efficiency of the production management. This route enters the plant over the receiving platform and leaves through the shipping room. Between these two points the route should cover exactly that that the raw material covers in its transformation into the finished product.

By following this plan and sticking to the main product—if there be by-products—until the point where the main product is complete, even a tyro can tell whether the advance has been logical and direct. If the examiner follows the material he can easily see whether the route is a direct one or whether it is full of back currents and eddies. If the material goes back and forth or up and down and is not handled progressively so that every stage brings it nearer the end of its journey, there can not help but be unnecessary steps on the part of labor. This creates a large

unproductive percentage in what may be called, on the cost sheets, productive labor. The most efficient office and production managers often spend hours and days over the floor plans of their factories with cardboard cut-outs of machinery reduced to scale, placing them and moving them so that the material will be handled, when in production, with the least back-draft or production drag. In antithesis to this there are many plants in which new machinery is placed in any vacant spot quite irrespective of whether that spot is near the line of march. These men operate under the plan of having the mountain come to Mohammed and do not care for the expense of inefficient or superfluous handling.

GENERAL PLANT EFFICIENCY

Efficiency in plant operation is also cut down immensely by poor lighting. The credit man who is interested in the efficiency of his risk can well remember this and note both lighting and general cleanliness. If a plant is dark and full of litter, piles of junk and scrap material, it is a pretty safe thing to decide that the management is not keen to the results that can be achieved by efficiency.

Of a similar nature are the precautions that may be taken against accident. Open moving machinery is a menace and should be avoided whenever possible. The installation of safety devices is not an expense but an investment that pays handsome returns. Whenever a factory is found that is fully protected against accident by the latest protective devices, one may be reasonably sure that the management is in conservative and intelligent hands.

During the trip through the plant it is well to note the fire prevention arrangements, the location of fire hose stations, etc. If there is a sprinkler system the danger from loss by fire is very

greatly lessened, and as the likelihood of continuous operation is increased, the credit risk becomes a better one. Fire drills may or may not be a part of the routine. If they are they further reduce the fire risk.

One very important item in the success of any manufacturing plant is the spirit of the organization. A look at the payroll or employment record will do something to determine the average length of employment and the steadiness of the company's labor. But it is not a difficult matter to start a conversation here or there on the way through the plant, with this foreman or that and get his view of the management. Many little sidelights may be thus secured that in the aggregate make for a very clear general impression.

USE FOR A KODAK

The general impression can often be fixed for future reference if the credit man will carry a small pocket camera, of good lens quality, and take frequent pictures. These, when mounted in the credit file, will recall to the credit man much detail that might otherwise escape his memory. It is a simple way of recording physical facts for the benefit of boards of directors or discount committees. Very often the photograph of a well-arranged plant properly housed, will make possible the extension of a credit, through committee action, that could not possibly have been handled in any other manner, as it is practically impossible to have the committee see the plant.

CHAPTER XI

DEPRECIATION AND GENERALITIES

THERE seems at times to be a misunderstanding of the term depreciation, and the place it fills, both in the productive world and the credit field. We too often hear of instances where, companies having made a very handsome profit, the directors charge off liberally for depreciation. Again, where profits are scant, depreciation is sidetracked or materially reduced. Managements that work along such a line have lost track of a most important fact, in that depreciation is in no wise an offspring or aftermath of profits to be written big when profits are big, and to be written small or not at all when profits are small. Depreciation is absolutely a constant condition and a steady average charge in the transacting of business. No business can be conducted without depreciation of some kind any more than it can be conducted without the payment of wages. It is absolutely one of the penalties or costs of doing business and must be figured as such by the honest and conservative business manager. The nature of depreciation accounts is to set aside a reserve from profits to take care of the reduction in the value of certain assets through wear and tear of manufacture or otherwise; the idea behind the creation of the reserve being to achieve a present value for the item under consideration.

No matter how careful a business man may be it is certain that in selling his product he will sell to a certain number of names

from whom he will receive no pay. In fact, as has been said before, a normal loss is better than no loss, as an indication of prosperity.

SALES AND LOSSES

But even though knowing some sales will result in loss, the exact amount can not be foretold. It should be then the custom to set up a reserve for depreciation of accounts and bills receivable based upon a certain percentage of sales that has, by experimentation, been found to be the normal loss in that particular line of business. From a business standpoint this is good judgment. From the standpoint of the extender of credit the lack of provision for this depreciation is a display of ignorance of one of the first costs of doing business and shows an unwillingness to protect the creditor against bad judgment in credit granting by the management. Whenever no such reserve is present the bank credit man can be sure that in a liquidation the current ratio would be bound to suffer through a material shrinkage in receivables. There is a strong probability that, lacking a reserve, this shrinkage would be more than normal because the poor accounts have probably not been charged off regularly. The selling loss is as much a part of the cost of doing business as the salesman's commission, and the wise business man will treat it as such, setting aside from each month's business a definite percentage of profits or sales as a reserve for bad debts or a depreciation on receivables.

REPOSSESSION LOSS

Houses selling on the installment time-payment plan have another condition to face. Of all the goods sold on time it is certain that some will be repossessed because of non-payment of de-

ferred claims. The percentage of such goods that will have to be taken back, refinished and sold again, with the selling and renovating as an added cost, can be reduced to an absolute average percentage by experimentation and a proper analysis. In some lines this repossession loss and expense may be high or it may be low, but it can be determined and the house that has its accounting system arranged to handle this correctly makes the better credit risk. It is a question about which the bank credit man should have a thorough understanding.

MERCHANDISE AT COST

The next item among the assets that is subject to a serious reduction in value is the merchandise account. Merchandise is almost always called for at cost or less than cost if the present market is below cost. It seems that any reduction in value of this item is not one that can easily be averaged or foreseen. It is more a matter of market conditions and fluctuations in values and therefore not a very good subject for a reserve account but rather is connected more directly with the profit and loss account. But the question should be asked and a comprehensive answer should be demanded as to whether old and out-of-season merchandise has been disposed of either through forced sale or charge-off so that the inventory really represents a fair value.

PLANT DEPRECIATION

The next asset that comes in for consideration under the depreciation program consists of the plant and its equipment. In these items we may make two main distinctions. First, there are

the buildings which, if of good construction, are subject to a slow decay and hence a low depreciation charge; second, the machinery, fixtures, tools, etc., that are of rapid consumption, as compared to buildings, and hence should be subjected to a more liberal depreciation reserve charge. Of course, the thing to do is to figure the life expectancy in these items in numbers of years of service and charge them with a depreciation each year so that at the end of that expectancy there will have been created a reserve sufficiently large to wipe them off the books. If we take a typical example we may more readily see the argument. Suppose the case of a large press for handling sheet metal. The expectancy is that this press will last, as a productive unit, for ten years. Then each year ten per cent. of its cost should be taken from profits and set aside as a depreciation reserve, so that at the end of ten years the whole cost of the press will be accumulated in the reserve account and the press can be removed from the assets, without affecting the expressed net worth of the company's statement. It is not a proposition of arbitrarily setting a yearly lump sum aside that bears any relation to the profits, because the profits have no resultant connection with the wearing down of the press. This wear is the result of handling the product and fabricating it and there can be no real profits until this loss of value has been replaced just as absolutely as it has been necessary to pay for fuel that has been used in running the plant. They vary only in degree of speed in consumption, both being destroyed in their present form to produce wealth. The depreciation is a thing that can not be dodged and no risk is a good one that is not taking this absolute cost or penalty of doing business into its calculations and providing for it.

DEPRECIATION DUE TO OBSOLESCENCE

There is another condition that presents itself and against which reserves are sometimes attempted. This is depreciation in value due to obsolescence. The life of a machine may not yet have run out the normal course of its existence from wear, and still it may be desirable not to keep it in service because of improved machines that would do the work cheaper and faster while not lowering the quality. Let us suppose a machine that cost originally ten thousand dollars, with an expectancy of ten years, and has actually run seven years, against which a seventy per cent. depreciation reserve has been created and which has become obsolete.

The value still stands on the books, basically, at three thousand dollars. A new machine is to be substituted at a cost of ten thousand dollars. The question arises: what is to be done with the three thousand dollars not accounted for by depreciation? First of all, the old machine will be sold for something, and to make the example as bad as possible we will suppose that it brings only six hundred dollars as junk. This leaves a margin of twenty-four hundred dollars to be taken care of in some way. Should this amount be charged at once to profit and loss or can some other way be devised of handling it? The first and most patent thing seems to be that the cost of the new machine is really going to be twelve thousand four hundred dollars. Supposing the life of the new machine is estimated at ten years, would it be fair to assume the cost twelve thousand four hundred dollars and create a reserve of ten per cent. of this each year. This is an action that would find support from many good accountants. But there is another consideration which is at least worthy of mention. The new ma-

chine is substituted in the hope of greater gain through better production. It would seem, therefore, that in the face of greater hope for profits a greater reserve could be carried. The old machine would have been completely charged off in another three years. Would it not therefore be a proper thing to put into effect a depreciation charge of one-third of the remnant of the old value, or eight hundred dollars, and one-tenth of the market cost of the new machine, or one thousand dollars, thereby creating a yearly depreciation charge of eighteen hundred dollars? At the end of three years the old machine would be entirely wiped out in accordance with the original expectancy and the reserve charge could then be reduced to the regular ten per cent.

This method would allow the plant to enter the new machine at market cost plus obsolescence loss not provided for by normal reserve. At the end of three years the reserve account and the machine account could be adjusted and thereafter the machine carried at market cost and depreciation run accordingly. This would load an extra depreciation charge on the expected increased earnings while the new machine was most productive and before there was any material danger of it becoming obsolete itself. At any rate it is an angle on depreciation that the credit man can well discuss with his borrowers and which will help him to determine the degree of their conservatism and their willingness to carry plant at proper depreciated values.

APPRAISALS

In connection with plant assets an appraised value must sometimes be considered. Appraisals are most excellent things to have but sometimes an appraisal seems to the management to offer an

opportunity to show an increase in net worth because the appraised value may be in excess of the book value of the plant assets. In a period of rising prices for materials of all kinds, it is quite possible for the present reproduction value to exceed cost value less depreciation, if the appraisal to establish this reproduction value is based on the present cost of materials. This may be a most excellent matter to have for insurance purposes, but if this valuation is in excess of cost it should not be presented on the property statement, that is, used for a basis of credit, because merchants and manufacturers are not in business to make a profit or loss from the fluctuations in the value of their plant. Such errors may have crept into the figures and the credit man should apply about the same rule as in the case of merchandise. Let the plant be carried at cost or appraised value if that be less than cost, and insist that proper depreciation accounts be set up against the cost and run back to cover the life of the plant to date.

PATENTS AS ASSETS

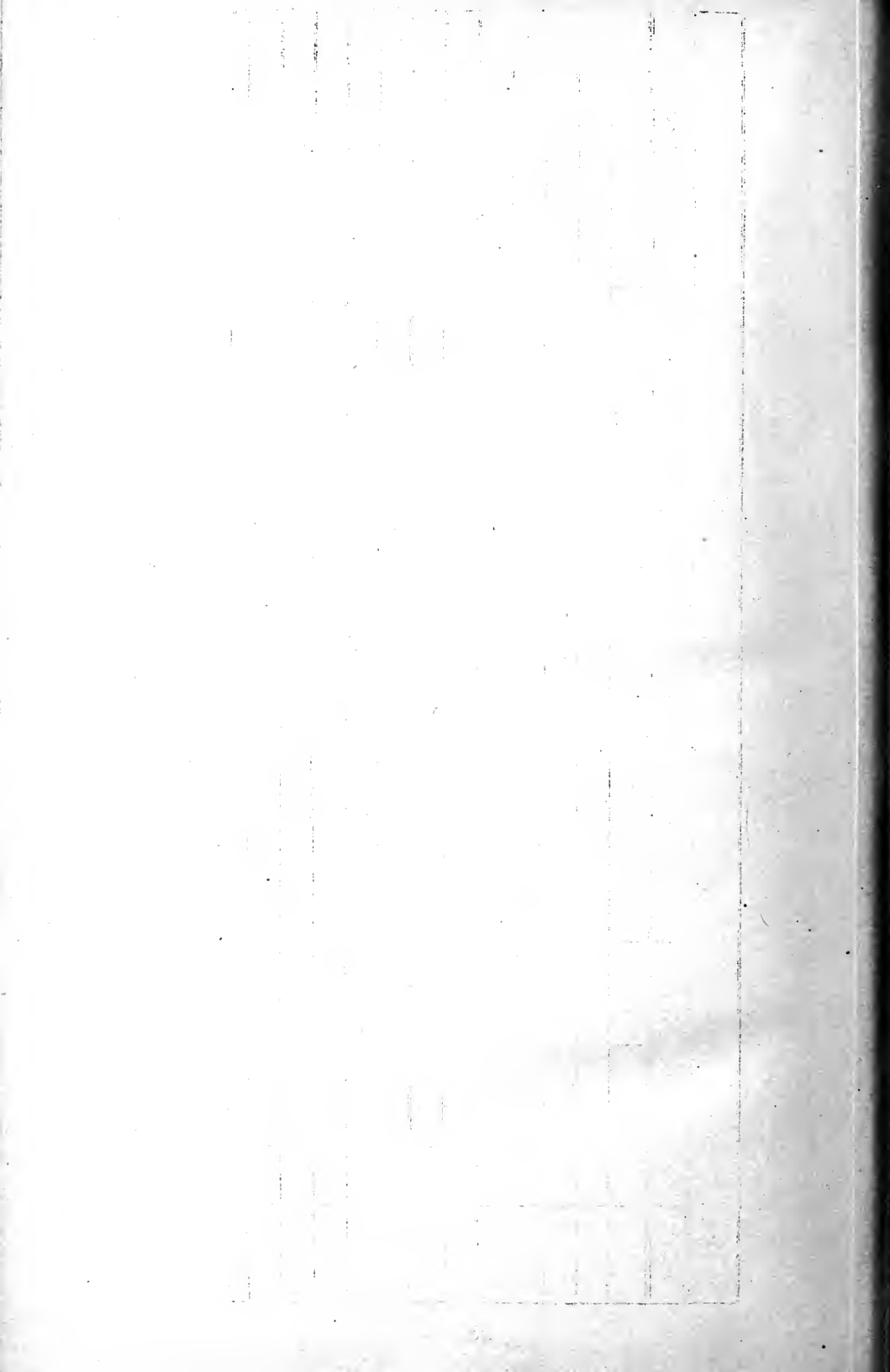
Some companies carry a rather heavy item in the assets to cover patents. If these have been put into the statement at actual purchase price it may be fair to allow them as an asset. They are, however, sharply subject to depreciation according to the length of time the patent has yet to run, and a reserve or an actual charge-off should be made in accord with the legal life of the patent. At the expiration of the legal life of the patent there is no further patent monopoly. There may still be a value due to monopoly of the market and the establishment of a sale for the goods. This is, however, in the nature of good will and of questionable value as a liquidating proposition. Here and there the fact that patents are being carried as assets is concealed by organ-

izing a holding company whose sole asset is the patent right. The stock of this company may be held under stocks and investments and so be passed as a non-depreciating, fixed, or, in some cases even as a current, asset. Possibilities such as this make necessary an accurate detailed statement of the securities held as assets and this being properly examined may disclose some very interesting information.

COLLATERAL LOANS

Collateral loans are not primarily in the same class as commercial loans and are often handled in an entirely separate department. There are, however, several points that are worthy of note in the matter of recording collateral that can well be kept within the credit department for reference and study in connection with the bank loans. First and foremost is a record of the collateral that exists as a security on any one loan. This is often a mixed lot and a proper record must be made to indicate the number of shares that are pledged and the present market value. At the time of surrendering the collateral it is also well to secure a receipt for its return. This can be accomplished easily by the use of a card file, of which the form on the opposite page is a reduced reproduction.

On such a card or a number of cards can be kept the total collateral back of any loan. There is, however, a further record that should be kept. Any one kind of stock or bonds may be pledged for the loans of many different people. Untoward fluctuation of any securities may therefore affect the collateral value on many different names. This makes necessary the establishment of a proper cross-record of the kinds of collateral which



Business

Common—Preferred

Direct Line
if Any

Transfer Agent

Address

Date

Capital Pfd.

“ Com.

Net Worth

Book Value

Date

Quotation

Owner

Shares

Delivered

Owner

Shares

Delivered

Owner

Shares

Delivered

the bank may have in its files and the names of the borrowers who will be affected by market fluctuations. This can be accomplished readily by keeping a record card and the form on pages 235 and 236 is submitted as one method by which such a record may be kept.

There is another form of loan on a collateral that is different in some vital respects from the loan on stock market collateral. This is the loan made to receivers of grain. In the first stage of this loan the security is generally based upon a bill of lading representing the shipment of a definite number of pounds of grain of a certain kind. When the grain reaches the receiving city it may have to be switched to the elevator from the regular railroad tracks, and before this is done the railroad generally demands the surrender of the bill of lading and issues in its place an interim switching order. This order binds the railroad to make delivery of the car and the grain designated to the elevator tracks. The form on page 239 is similar to those in general use.

In the larger grain centers the boards of trade generally keep a record of car movements, etc., that makes it possible to consider these switching orders good interim collateral. Outside the main grain centers, however, they are subject to some possible manipulation. The railroad does not hold itself bound to insist upon the return of the switching order when making delivery of the car. This makes it possible for the elevator to accept a weigh and reload order and allows the possible forwarding of the grain, the securing of a new bill of lading and the actual hypothecation of the grain without disturbing the switching order in the collateral files of the bank. To overcome this possibility the writer has followed the policy of demanding that the elevator acknowl-

edge the switching order by stamping the following phrase on its face and having it signed by some official of the elevator company: "The Blank Elevator Company will receive but will not weigh and reload, or forward, or ship, the grain covered by this switching order without the return to them of this original order. The Blank Elevator Company, by _____, Secretary."

This allows the elevator company to receive the grain but binds it not to forward the grain except upon the surrender of the receipt. It makes the switching order very closely approximate an interim elevator receipt.

The forms on pages 241 and 243 are filled out as a collateral record to indicate the grain pledged and are so self-evident that they need no detailed explanation.

ACCEPTANCES

Until quite recently most business has been transacted in this country by means of the open-book account. The trade acceptance, while not by any means a new form of commercial instrument, is a new force in the business of this country. Its principal feature is to make it possible for the merchant or manufacturer to have the credits for his sales in such shape that he can raise money, to finance the business, by hypothecating them promptly. The trade acceptance is being advocated to make the receivables liquid and do away with the necessity of the merchant performing a banking function. It expands the credit field and liquifies what has been a so-called "frozen asset." A great many articles have been written about the trade acceptance and it has been so widely advertised and extolled that one may almost believe it a panacea for all business ills. It may not be beseeming to criticize this trade acceptance, for its proper use is undoubtedly going to

ORIGINAL

Detroit, Mich., _____ 191_____

Received of **Burdick-Thomas Co.** STRAIGHT
ORDER Bill of lading for following car by the
Agent of _____ **Railroad**

CAR		CONTENTS	WEIGHT	ORIGIN	DATE
NUMBER	INITIALS				

With instructions to forward car mentioned to _____

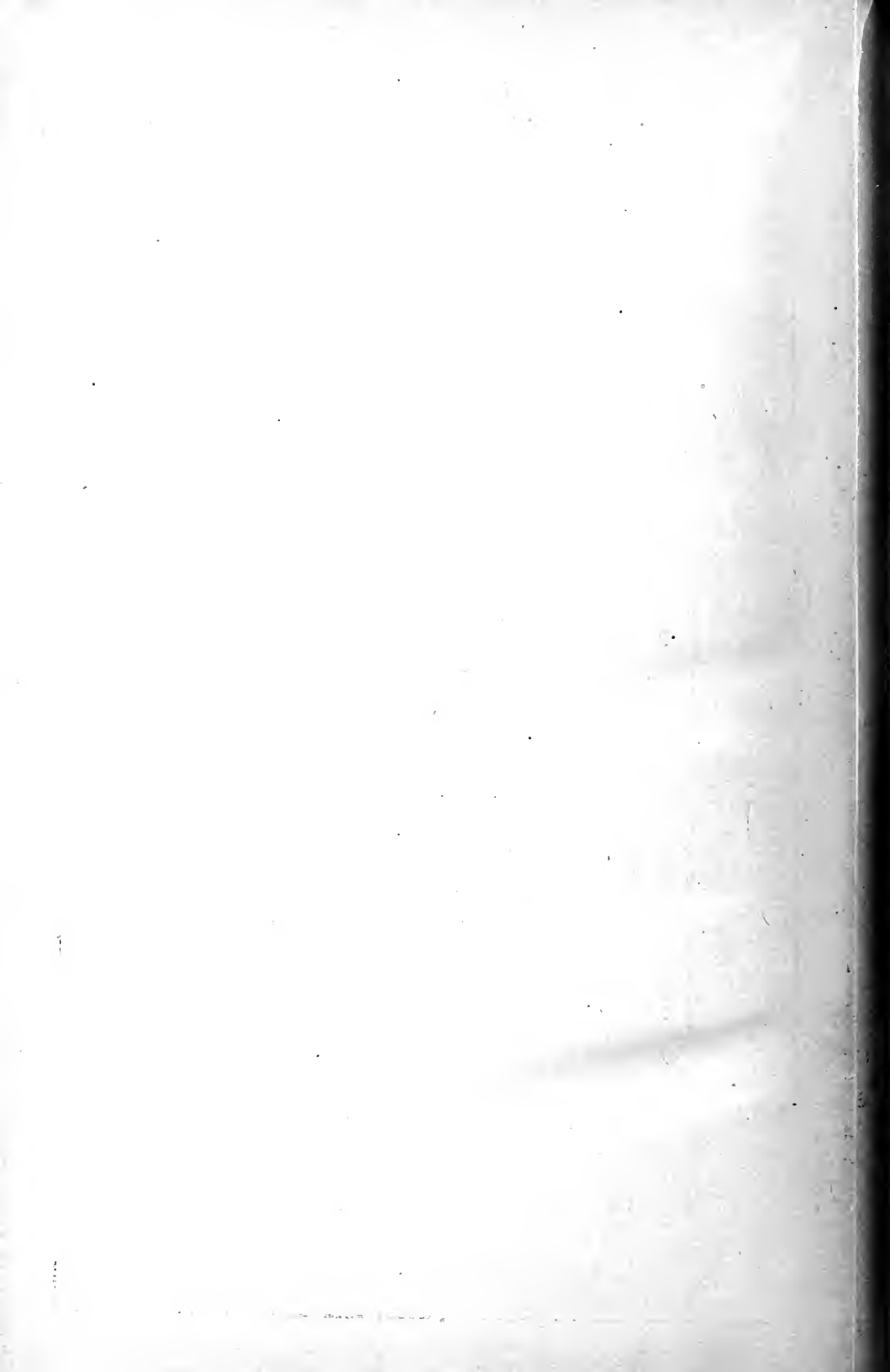
At _____ On _____ Railroad.

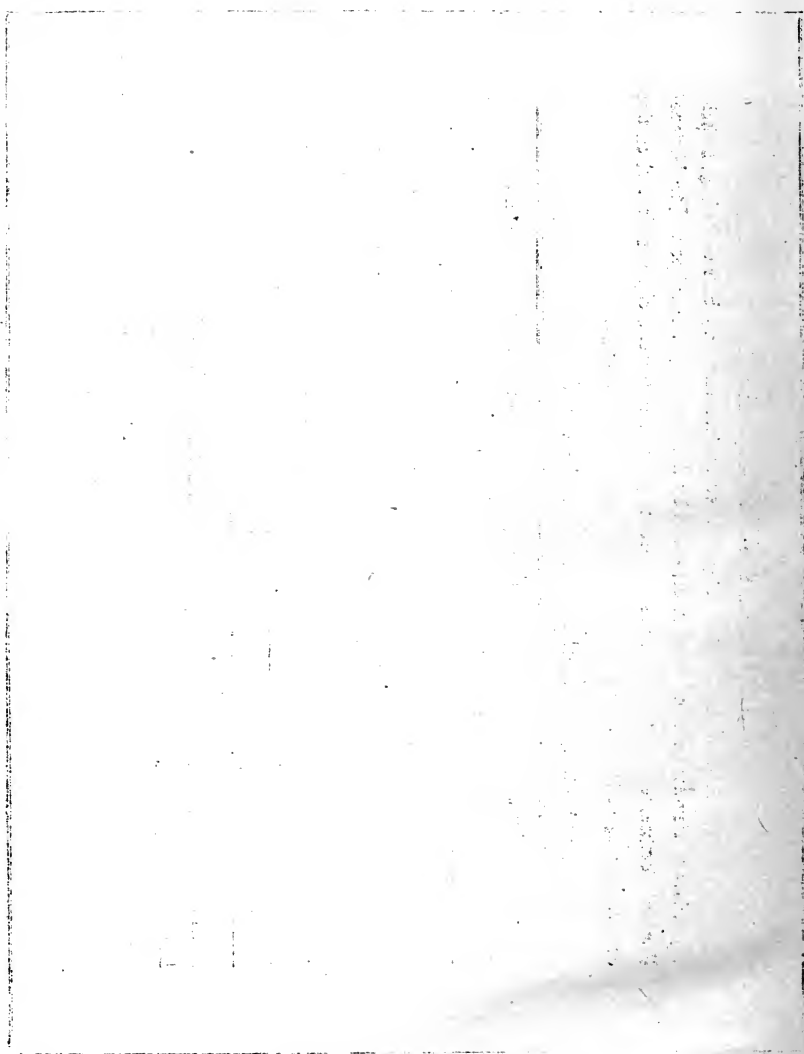
Said instructions have been received over the signature of party or parties to whom this receipt is issued.

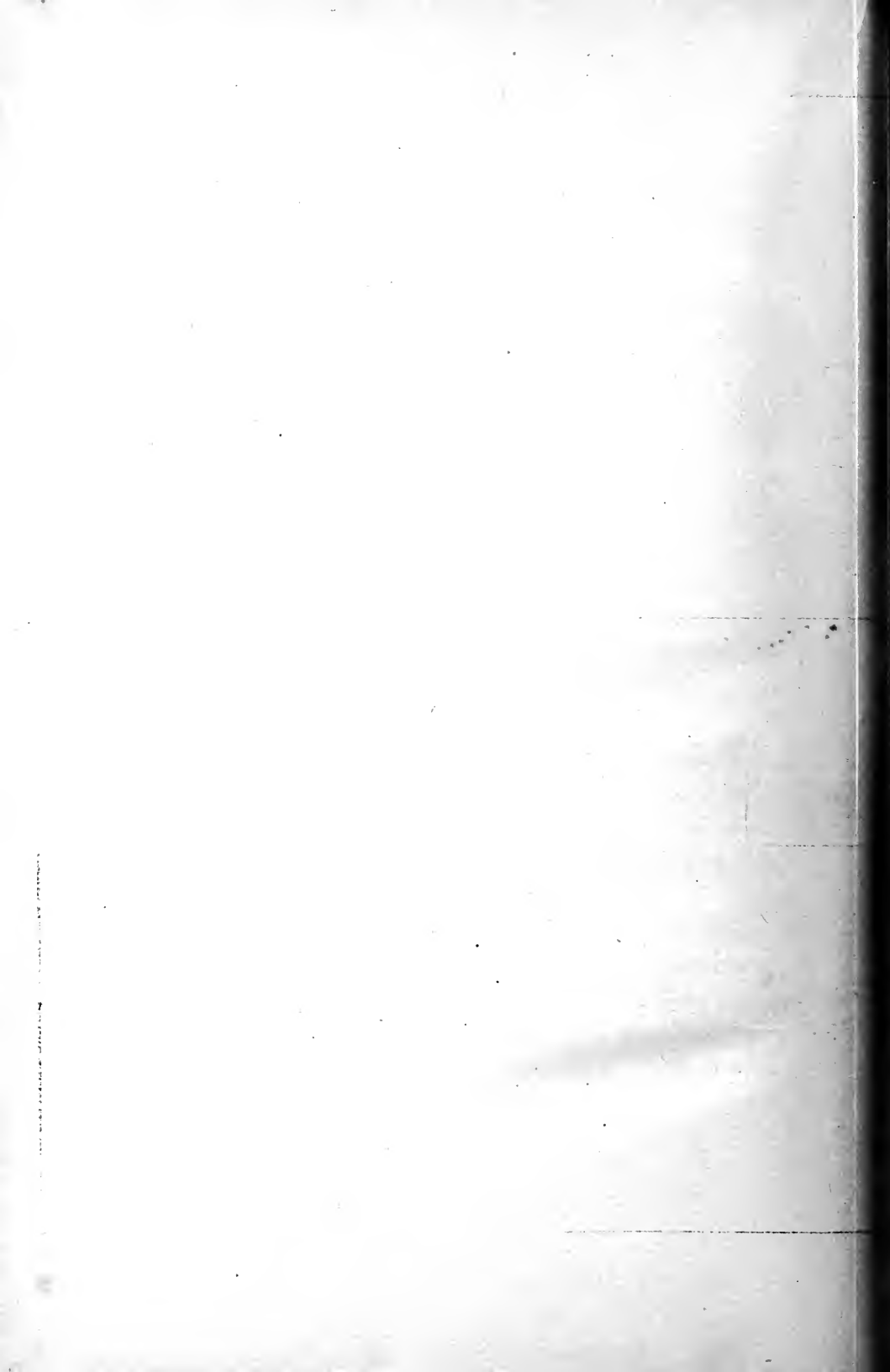
In compliance with the original order for disposition no change in original instructions, of which the foregoing is a copy, will be accepted without the surrender of this Original Receipt.

Note A.-Disposition orders on this blank must be made **Straight** to the party named and not to "Order" or "Notify."
Note B.-This blank to be used only for instructions to switch cars to points within the Detroit switching District.

_____ Railroad
_____ Agent







accomplish much toward rendering credit more liquid and making for a better relation between buyer and seller.

It is to be presumed that a merchant will make the effort to get his receivables into the shape of acceptances because he plans to use this more liquid form of debt, for if he did not so intend, one most potent reason for forcing the change of form would cease to exist. For the ordinary merchants who have one or perhaps a few banks of deposit and who confine their borrowings to these banks this may be all right. But we are faced with a different problem when we consider names that are offered in the open market as commercial paper. Here it is considered a very bad credit sign and in truth prevents the sale of the paper, if the maker of the note sells or hypothecates his receivables.

The reason for this is basic, sound, and thoroughly in accord with good business procedure. The buyer of the notes in the open market, lacking the personal connection of the bank of deposit, insists on the best paper that the maker of the note in any way issues. The hypothecation of accounts weakens the assets by giving a prior lien against them. It is giving to some one a secured or two-name paper as against a single-name paper and when this happens the name must vanish from the open market. Few bank men buying commercial paper will for a moment consider the notes of any name if that name borrows in any other market offering better security, and the two-name rediscounted acceptance would very probably be classed as such. Therefore, if a company, using the open one-name market for commercial paper, wishes to arrange for its borrowing by substituting the method of rediscounting acceptances in place of floating its one-name note, it must have in its possession a sufficient quantity of acceptances to cover the peak load of its borrowings. If it has not

enough such acceptances and it can not float two kinds of paper it is, *ipso facto*, compelled to retain that form which can be floated in sufficient amount to secure the funds necessary to its demands, or, in other words, the straight note of to-day.

It is perhaps a good thing to urge merchants to get their receivables into the shape of acceptances because of the more general reasons advanced so ardently by the advocates of the acceptance plan, but the wiser credit man will caution his client against the indiscriminate use of these acceptances unless they are available in sufficient quantity so as not to cut off necessary avenues of credit by their use.

It is possible that single-name paper and the negotiated acceptances, accumulated by the same company, may appear in the market side by side, the buying banks differentiating between the strength of the one- and two-name paper by the establishing of different rates of interest. In this kind of a market the credit man should use every effort to ascertain the amount of acceptances rediscounted, so as to know what part of the receivables have been hypothecated, and also what the contingent liability is on this type of financing. As a matter of sound economics, it is probable that the registration of acceptances sold might be developed to good advantages both for the name selling the paper, and for the bank buying it. If this type of registration could be developed, the enlargement of the commercial paper market on a sound basis would be assured, and the criticism now existing against the sale of acceptances would be largely vitiated.

There is in some fields a well-defined movement to have the bank of deposit of the customer wishing to sell his acceptances establish trust funds with these acceptances as security, and issue against the same participating certificates, which could be sold

by the bank or through brokers. The establishment of such funds would make it possible for the buyers of the straight paper, or the discounted acceptances, to ascertain the volume of such discounted acceptances, and would be thoroughly economic.

It seems to need only a word in passing to point out that such matters as require legal knowledge should be left to the bank's attorneys. No matter how well versed a credit man may be in law, the lawyer is still the specialist, and legal matters or legal papers should always be approved by him. Supposed sound contracts, securities or guarantees have not held water and loss has resulted that might have been averted by a proper legal opinion.

THE ROBERT MORRIS CLUB AND A CODE OF CREDIT
DEPARTMENT ETHICS

There is an organization of bank credit men, banded together under the name "The Robert Morris Club, of the National Association of Credit Men," with the purpose of bettering credit department ethics, system and knowledge. In February, 1916, this body adopted a set of resolutions embodying a code of ethics that every bank man should study and become thoroughly familiar with. By strict adherence to this code much misunderstanding will be avoided and far better cooperation gained. It would also materially benefit credit methods if the commercial credit men could become well versed in this ethical code.

Credit Department Ethics

RESOLVED: The first and cardinal principle of credit investigation is the sacredness of the replies, and any violation of this principle places the violator beyond the pale of consideration of the honest credit man.

RESOLVED: Every letter of inquiry should indicate in some definite and conspicuous manner the object of that inquiry.

RESOLVED: When more than one inquiry on the same subject is simultaneously sent to the banks in the same city, the fact should be plainly set forth in the inquiries.

RESOLVED: Individual consideration by the recipient of a credit inquiry of the distinguishing marks therein will increase the efficiency of credit investigation.

RESOLVED: Indiscriminate revision of files regardless of the presence of the note in the market is unnecessary, wasteful and undesirable.

RESOLVED: That it is the sense of this conference that the continued observance of high ethical principles in the conduct of the credit departments of banks and banking institutions insures the best results and cooperation in safeguarding banking credits.

RESOLVED: It is not permissible nor the part of good faith in soliciting accounts from a competitor to seek information from the competitor without frankly stating the object of the inquiry.

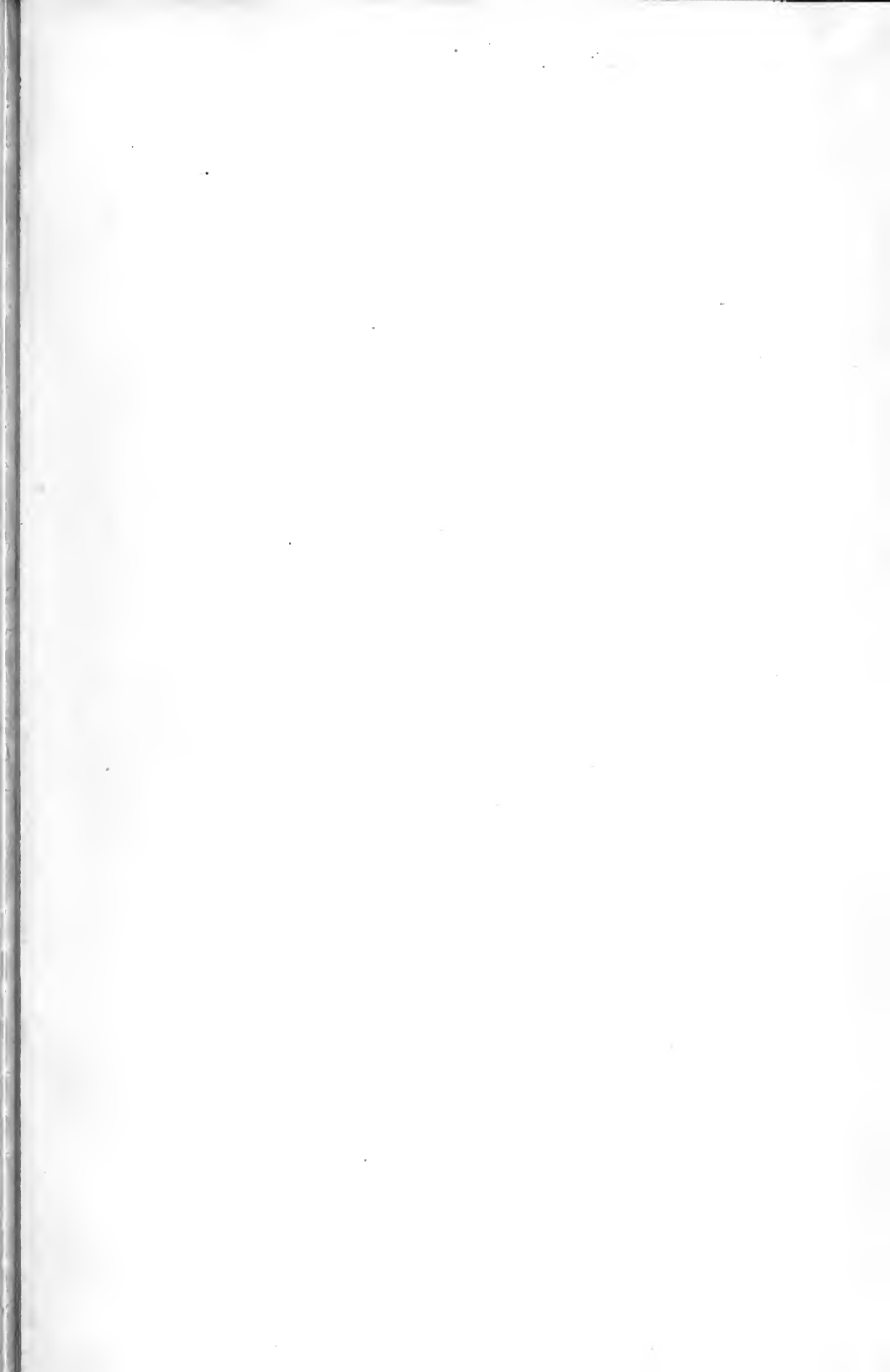
RESOLVED: That it is the sense of this meeting that in answering inquiries the source of the information should not be disclosed without permission and that letters written in answer to inquiries should be held inviolable by the recipients.

RESOLVED: That in seeking information the name of the inquirer in whose behalf the reference is made should not be disclosed without permission.

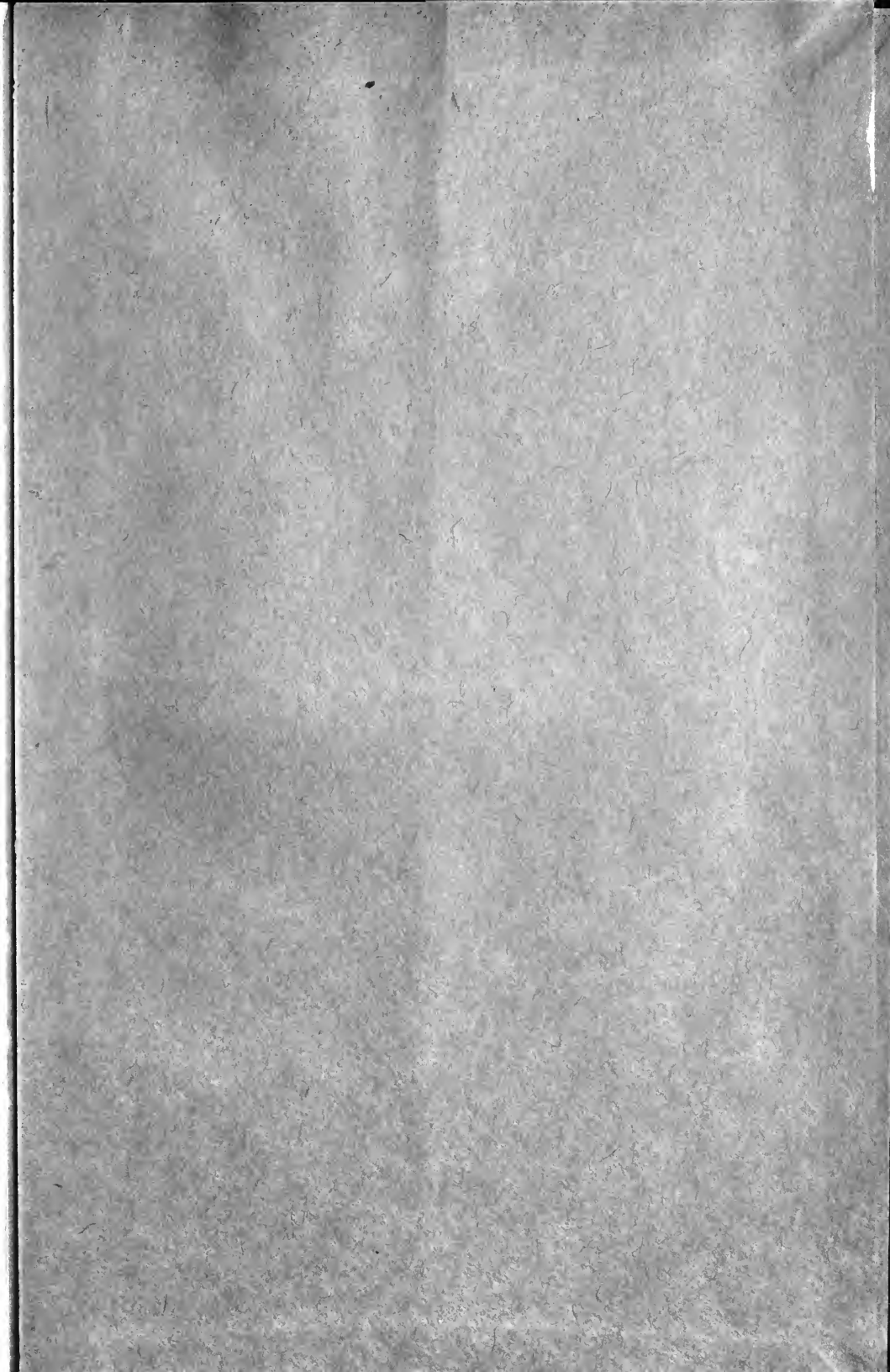
RESOLVED: That in answering inquiries it is advisable to disclose all material facts bearing on the credit of the borrower to the end that the paper offered in the open market be of the same description as that held by the borrower's own bank.

Adopted February, 1916, by

The Robert Morris Club
of the National Association of Credit Men







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