Eight Lectures Upon Thrift

Arranged in co-operation with the
Board of Education
City of New York

BY

The Savings Bank Section
AMERICAN BANKERS ASSOCIATION
Savings bank division

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5 Nassau Street, New York

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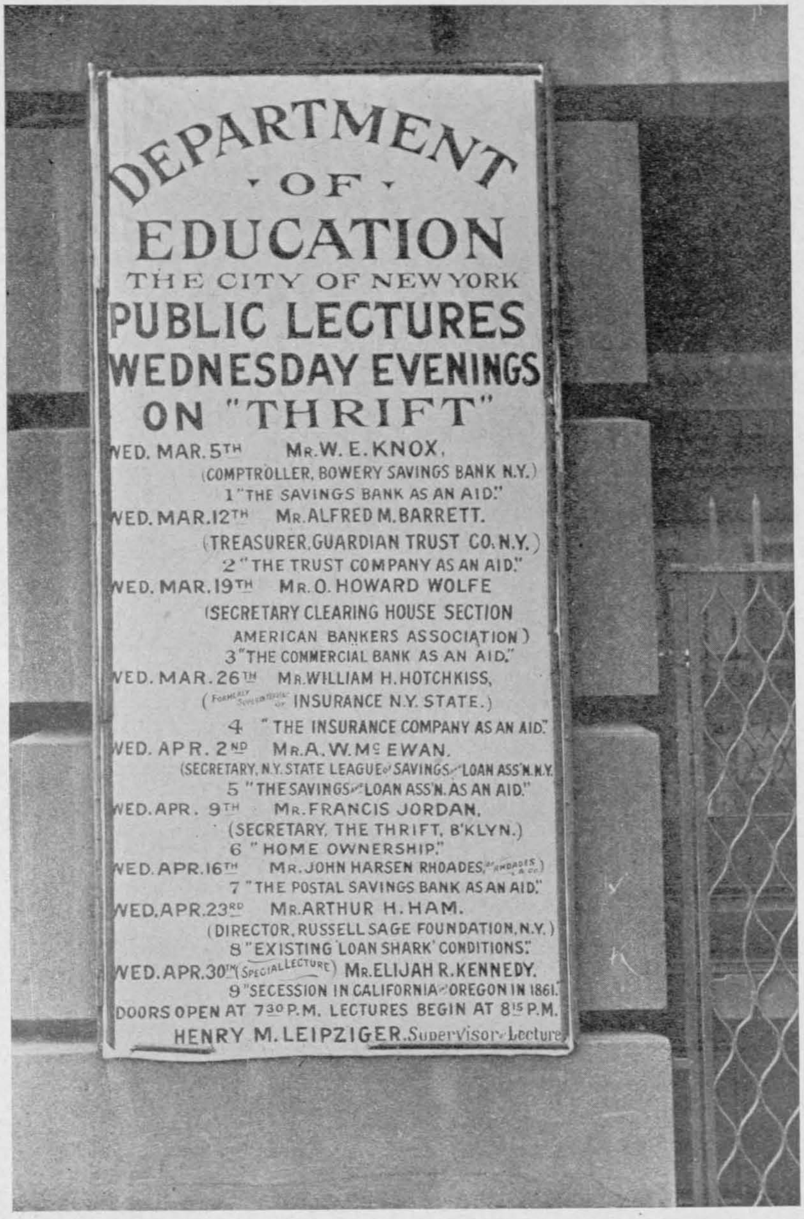

HOW THE BOARD OF EDUCATION ADVERTISED THE COURSE

FOREWORD

No more effective method of getting in touch with people has yet been devised than talking to them. Hence, in considering how best to bring the subject of thrift to the adult masses, the committee having in charge the Campaign of Education in Thrift instituted by the Savings Bank Section, American Bankers' Association, early came to the conclusion that lectures by bank men who would explain in detail each class of financial institution in their community, and answer any questions relative thereto that those in the audiences cared to ask, would, besides giving much practical information upon a subject of which the majority of people are ignorant, create a degree of co-operation between the banks and the people which would be mutually helpful, and induce greater thrift by imparting a knowledge of the aids thereto at hand.

It remained for New York to first put this method to the test, and on March 5, 1913, at Cooper Union, through the co-operation of Dr. Henry M. Leipziger, Supervisor of Lectures of the Board of Education, City of New York, to whom grateful appreciation is hereby rendered, the first lecture of the first Thrift course was delivered, and with others in the course is printed upon the following pages.

The aggregate attendance at these lectures was 4,012, an average of about 500 per lecture, and the earnestness of the questioning which followed each lecture leads us to state that in our opinion the course was an unqualified success, and that the experiment merits repetition in other cities.

V. A. Lersner
J. C. Griswold
W. R. Meakle
Committee in charge.

INTRODUCTORY REMARKS

By E. G. McWilliam

Secretary Savings Bank Section, American Bankers Association

Mr. Chairman, Ladies and Gentlemen: I assure you that I will not trespass upon Mr. Knox's time more than a moment or so. I consider it a great honor to have been invited to say a few words in introducing this course to you, for I feel that it will mark a new era in the relation of the banks and the people, the era of co-operation. Now, I presume those of you who have ever given any thought to it at all, when the American Bankers Association has been mentioned in your hearing, have thought of it probably as a huge, selfish affair, possibly a first cousin to a money trust, or something of that sort, but I assure you, ladies and gentlemen, that nothing could be further from the truth.

The American Bankers Association was organized in 1875 by banks for their mutual protection against crime and for the securing of protective legislation. Now, the closer you observe it, the more you will be impressed that the interests of the banks and the people are identical. If the banks are well managed, if men can get their money when they want it, and be reasonably assured of a line of credit to enter into new business operations, then times are good, because of confidence. If the banks are mismanaged, if anything happens to disturb the financial world, we are all bound to feet the effect. Therefore, I say that the interests of the people and the banks are identical. The American Bankers Association has now a membership throughout the United States of over 13,000 banks, and as it has expanded in numbers, so also has it expanded in its activities. For instance, realizing that unless our agricultural production was increased, we would in the very near future be obliged to call upon other countries to furnish us foodstuffs, it has set about the education of the farmer in increasing his production, and further, to provide him with some sort of a financial system which will enable him to get money at low rates, to market his crops. Also, it has secured legislation protecting those who are handling cotton from fraud, and very recently becoming impressed with the fact that we are the most extravagant nation in the world, it has undertaken a campaign of education in "Thrift," of which this meeting to-night is the first tangible result. We felt that the people really did not understand the aids to thrift, which are offered right here in the city, such as the savings bank, the commercial bank, the trust company, the savings and loan association, the postal savings bank, etc., etc., and we believed that the people would appreciate men coming to them who are occupied in these various lines daily, and telling them something about these matters which possibly they did not know before.

These lectures are in no sense of the word for bank men, although I am very glad to see some of our banking friends here to-night. They are for people who are not familiar with financial methods, and we trust that you will not be backward in asking questions. For instance, I hold in my hand a clipping from the editorial page of one of our so-called "Yellow" newspapers, the editor of which it is rumored receives a fabulous salary. This editorial is filled with misstatements. Its apparent object is to stir up discontent or class hatred by pointing out the low interest which is paid savings depositors in comparison with the huge profits made by some stock manipulators. I believe that every thrifty man and woman in the audience will agree with me that in this country we recognize but two classes, the people who work and the people who won't. Therefore, if such statements as appear in this scurrilous sheet should raise a question in any of your minds, we trust that you will come here with those questions and ask these gentlemen about it or if it occurs at some future time when these lectures have been concluded, take it to some bank man, in whom you have confidence, and get a real opinion. Do not be misled by such stuff as this.

I would like to mention the fact that the gentlemen who are to speak to you during this course are rendering this service absolutely without compensation of any kind, and we trust that your appreciation may be evidenced by a large attendance at each lecture.

FIRST LECTURE, MARCH 5, 1913.

THE SAVINGS BANK AS AN AID

By William E. Knox

Comptroller, Bowery Savings Bank, New York

Mr. Chairman, Ladies and Gentlemen: Some time ago, at the New York State Bankers' convention in Buffalo, the idea was advanced that it would be a good thing if the men in the banking business in this community could get in touch with the people and explain to them just as simply as possible what the different kinds of banks are, what is their business, how they affect the people, both the depositors and the people to whom they lend money and just what their place is in the business life of a community.

There are several kinds of banks. There are the banks of discount, known as National banks and State banks, and there are trust companies. Those banks are all commercial enterprises. They are run for the purpose of making a profit for their stockholders, and they render a very important service to the community. Then there is another class of banks, called savings banks, which, in one sense, are not banks at all. The fundamental principle and the main idea in a savings bank is not to earn money for stockholders, for there are not any stockholders, but their purpose is to encourage thrift among the people, and this whole course of lectures is to show how the different kinds of banks and financial institutions are aids to thrift.

Maybe it might be as well to get a definition of thrift before we go any farther.

Industry earns money, and prudence plans what to do with one's earnings. Economy manages wisely what one has earned. Frugality saves something out of one's earnings, but it takes all of those four things together to make up thrift. Industry, Economy, Prudence and Frugality together make Thrift. A man may be a tremendous earner. He may be able to make money very rapidly, but if he squander it as rapidly as he makes it, he is not thrifty. A man may be frugal to the point of being miserly and stingy. That is not thrift. A man may be prudent and may not have the ability to earn, but a man has to possess all these four qualities—industry, economy, prudence and frugality—before he can be thrifty.

Mr. Wilson yesterday in his inaugural address at Washington used a sentence which might very well serve as a text for this course of lectures. It was this: "We have studied, as perhaps no other nation has, the most effective means of production, but we have not studied cost or economy as we should, either as organizers of industry, as statesmen or as individuals."

This nation is one of the most extravagant on the face of the earth. We have a rich country. We have such a rich country that we had an idea that we could never get to the end of its riches, but we are beginning to learn better. We are beginning to learn that our mines and our forests are not inexhaustible; that our farms in the East have been nearly worked out, and that before many more years it is going to be a question whether or not we shall be able to raise foodstuffs enough in this country to feed our own people, whereas only a few years ago we were raising not only enough for ourselves but for a great deal of the rest of the world besides. We were sending millions of dollars' worth of foodstuffs to Europe. We are not sending so much now, and that is one reason why the cost of foodstuffs is so high. There is not as much to go around as there used to be.

As a nation, we have been extravagant, and as individuals making up that nation we have been extravagant. I heard the statement made on a public platform, not very long ago, that in this country last year the people spent for soda water three hundred and fifty millions of dollars. Think of that for soda water! (Laughter.) I suppose they can put in another three hundred and fifty millions for chewing gum (laughter), and countless other millions for other things that are equally useless. The lesson which we have to learn, every one of us, is not to throw away the pennies on things that do not do us any permanent good. I do not mean that I would like to see us develop into a nation of misers, but I do mean that there is not one of us that does not some way throw away money. If it is not the soda water habit or the chewing gum habit, it is the saloon habit or the gambling habit or something that is foolish and does not make us any better men and does not tend to strengthen our character.

Now, thrift is important to a nation. A nation that is not thrifty cannot survive. You young men who are students of history, if you look back to the Franco-Prussian War, will remember how France was beaten, and the tremendous war indemnity that Germany exacted, and you will also remember that the French people who are probably the thriftiest people in the world to-day, came to the aid of their government and brought their savings and poured them into the national coffers, and the war indemnity was paid off. At the time that the tribute was exacted by Germany, it was thought that France would be struggling under the burden for a hundred years, but Germany had not counted on the thrift of the French people. To-day France stands among the leading money-lending nations of the world, not because she has many rich men, not because her industries are so much more prosperous than her neighbors', but because the French people as a people have learned the lessons of thrift and economy that we must learn.

It is only about one hundred years ago that the first savings bank was started, and the honor of that belongs to Scotland. In 1812 they started a savings bank in Edinburgh, and four years after that they sprang up almost simultaneously in Philadelphia, in Baltimore, in Boston and in New York. The first bank in New York was chartered in 1819, the old Bank for Savings, which was located at Chambers Street and Broadway and then went to Bleecker Street, near Broadway, and was known as the Old Bleecker Street Savings Bank, and then moved to 22nd Street and Fourth Avenue, where it now is. It has had an honorable history of almost one hundred years, and I hope it will continue its good work for a good many hundred years more. There were no laws in those days under which savings banks might operate. Every bank got a charter from the State Legislature defining what it might do and what it might not do. The Bowery Savings Bank's first charter gave it permission to receive deposits until it had received half a million of dollars. That was considered to be plenty for any one savings bank to have, and it was not until several years after that that the charter was amended, permitting us to receive more.

In some of the big savings banks in New York they handle more money than that over the counters on the first business day of January and on the first day of July, and they sometimes wait on four thousand people on a busy day.

The savings bank is not organized as a money-making institution, and I am going to tell you just as simply as I can how a savings bank is organized. We will suppose that there is not a bank anywhere within two or three miles of here, and some good citizen seeing the shopkeepers and the workmen all busy, says, "It's too bad that there is not a place where people may save their money. I will see if I cannot start a savings bank." He goes and finds twelve other good men; there must be thirteen of them at least—all of whom are men of standing and character in the community—and together they apply to the State Banking Department in Albany for permission to open a savings bank. They send up to Albany their names and addresses, their pedigree and their business, and all about themselves, and the State Superintendent of Banks investigates, and if they are all honest and clean and substantial men with good records, he gives them permission to open a savings bank, and they have the privilege of paying out of their own pockets the running expenses of that bank until such time as it is able to pay its own expenses. There are some banks in New York that have never paid to the original trustees the money advanced by them for the first expenses. These trustees do that, knowing that they can never profit in any way personally by any of the money that comes into the bank. If a trustee owned a house worth $20,000, and came to his savings bank and wanted to borrow $1,000 on a mortgage, they would say, "You are a trustee of this bank. We cannot lend you a single dollar. You will have to go elsewhere and borrow it." They do not get any pay for attending meetings. They do not get any pay for anything. Whatever work is done is done solely with the idea of doing good to the people of their community.

A savings bank started in that way is known as a mutual bank. There are no stockholders; there are no dividends to be paid to anybody; there are no fees to be paid to anybody. The only people who are paid are the men who are actually engaged in doing the work of the bank, the officers who are there every day and give all their time to it, and the clerks who do the actual work.

The bank having been opened, and money beginning to come in from the depositors, the next question is how to invest it. A good many years ago savings banks could invest pretty much as they liked, because there were not any laws to govern them, but that had not been going on very long before the savings banks themselves began to see that it would be a wise thing if they could have laws which would tell just what things they might invest in. They saw how easy it might be for a savings bank to make unwise investments, so little by little the laws of the State of New York have been amended and altered and changed and improved until to-day they are the best savings bank laws that I know of.

The first idea of those laws is to safeguard the man who puts his few dollars in the savings bank to see that that money is kept safely. That when he wants it he will get it back again, and that he will get it all back again, and that there shall not be any question about it. So that it shall be absolutely safe, the law says very particularly just what a savings bank shall invest its money in. They say, first of all, "You may buy bonds of the United States Government," than which there is no finer security. At the time of the Civil War, the savings banks that are now the strong banks of the City of New York laid the foundations of their prosperity, because every dollar that they could get hold of they put into Government bonds. They bought bonds that were then paying six and seven per cent. and they bought them at a discount at that. They argued that they should be patriotic citizens and help the Government all they could by lending it money, and they showed that they were not only patriotic but wise, because I do not believe anybody who ever bought a United States Government bond has regretted it to this day. They certainly did not regret buying those old seven per cents. and six per cents., which, unfortunately for the savings banks, have all been paid off long ago.

Next to that, we are allowed to invest in State bonds. That is, the bonds of states like New York, Massachusetts, or any first-class state that has never failed to pay any of its debt.

We may buy County bonds of the counties in New York State. We may buy the bonds of cities like New York. Now, I am talking about bonds, and maybe some of us do not know what they are. Well, they are simply the promise of a State or a Government or a railroad or a city to pay you back so much money after a certain number of years, if you will lend them so much money. For example, the City of New York is about to build a new subway. The city wants money with which to build the subway and the city has not the money. The city issues a lot of bonds, so many millions—fifty, sixty or seventy millions—whatever it may need, and they offer them on the market to the highest bidder, saying, "What will you give us for these? At the end of thirty or forty or fifty years, whatever the time may be, we will promise to pay you back the face value of this bond and in the meantime we will pay you interest at such and such a rate per year."

Savings banks in this state may also lend money on bond and mortgage, with real estate as security. We all know from hearsay what it means to walk into the store of the gentleman with the three balls up over his door and hand in our watch and borrow whatever we need on that, paying him a certain per cent. for the use of the money. Now, that is almost exactly what lending on bond and mortgage is, only you walk down to the bank and take your house down with you, so to speak, and you say, "How much will you lend me on this house, and the land it is built on?" The law says we may lend sixty per cent. of the value of a house, so we take what we call a mortgage on the house, which is an agreement that if the borrower does not pay back the money that he has borrowed, at the end of a certain number of years, we have the privilege of selling that house and lot and paying ourselves out of the proceeds. That is what we call lending on bond and mortgage, and in this city alone savings banks have lent on bond and mortgage about six hundred millions of dollars on New York property. The thing works two ways. A savings bank depositor brings his money to the bank. We will assume he is a carpenter or a bricklayer, and he puts his money in the bank, and the bank gathers up all these small sums of money until it has a large sum of money, and then it lends that large sum of money to some man who is a property owner on bond and mortgage. The money that he borrows on bond and mortgage he uses to put up another building, and he pays back in wages to the workmen who have put the money in the bank in the first place their own money in the form of wages. Now, you see that money does good all the way along the line. The workman gets his wages first, and saves something out of them, and then the builder comes along and borrows it, and gives employment to the workmen again, and the workmen get their wages out of it, and spend them in the little grocery shops, butcher shops, shoe shops, and all these make their profit out of it and save some, and take it back to the bank again, and so it goes circulating around. A dollar lying idle is no more good than a man lying idle. It must keep on the move to be useful. The savings banks keep the money moving. You know lots of people think that the money that comes into the savings bank stays there. In fact, some old ladies have an idea that the particular money that they hand in is put away in an old stocking until they come in for it again. Now, you can appreciate that that cannot possibly be so. The savings banks in the State of New York have sixteen hundred millions of dollars on deposit belonging to the people. Of that sixteen hundred millions of dollars less than one per cent. is kept in cash in the banks. The other ninety-nine per cent. is out working and earning interest, and keeping the wheels of commerce moving, keeping business going, keeping workmen at work, building schoolhouses, building hospitals, building bridges, building all sorts of public works that could not be built without those vast sums of money.

I have given you very briefly the operation of getting the money into the bank, and the way that the banks lend it out again.

I can almost hear some of you saying, "Well, what good does it do to talk about all these millions of dollars to me?" The good is just this, that any one of you, if he will only make up his mind that from now on he is going to cease to be foolish, and is going to be thrifty and save a little, will better himself very much. You may never be a millionaire by saving your money in a savings bank, but you will get a great deal of comfort and happiness if you use the savings banks in the way that they are intended to be used, and will save your money carefully. It won't be long before you have a little capital to start a business of your own and having started a business of your own, with anything like honesty and prudence and economy and all the other things that go to make up thrift, you may, any one of you, become a millionaire. There are probably several potential millionaires listening to me while I talk.

If any one of you young men who are listening to me now, will save a dollar a week for the next twenty years, putting your money in the savings bank, you can draw a dollar a week out of the savings bank as long as you live thereafter and still leave behind you every dollar that you had, twenty years from to-day. In twenty years you will have saved up enough principal to earn five dollars a week interest, if you will only save five dollars a week for the next twenty years. Just think that over as you go home. There is not one of us who does not squander more than a dollar a week. If you are going to wait to begin to be rich until some great big opportunity comes your way, you will never be rich. The only way to do it is to begin right now with the little which you have, and by strict economy add to it little by little until finally you are in a position to help yourself to bigger and better things.

If any one of you goes into any one of the savings banks and opens an account, it is absolutely confidential between you and the bank. Nobody else can find out anything about it. Anybody else going in and asking, "Has Bill Smith an account in this bank, is there any way I can find out?" always gets the stereotyped answer, "Yes, there is one way you can find out." "How is it"? "Why, go and ask Bill Smith. That is the only way you can find out."

A VOICE: "That's me."

MR. KNOX: "I didn't know you were there, Bill." (Laughter.)

Our relations with our depositors are absolutely confidential. We never tell anything about them. I am not joking when I say that people come in every day and ask such questions as that. It was only a few days ago that an old fellow came in and he said, "Is there any way I can find out if Rachel Goldstein has any money in here?" And we said, "Who are you?" And he said, "I am her father, and I want to know if she has any money here." And we said, "You can find out in just one way, by asking your daughter." And he said, "I can't find out about my own daughter's money?" And we said, "No, you can't find out about your own daughter's money except by asking her," and he was quite indignant, but he would have been equally indignant if we had told his daughter about his money, and we thought it was a poor rule which did not work both ways.

If any one of you is afraid that after he dies his will will not be administered just the way he would like to have it, he can go into a savings bank and open what we call a trust account. He can say, "I have some money I want to deposit, and in case of my death I want it to go to my wife." He can open what is called a trust account, "John Smith in trust for Mary Smith," his wife. If John wants to take his wife into partnership, it is perfectly simple. He can come in with Mary, and they can both open an account, "John Smith and Mary Smith, either to draw." If Mary gets the book first and gets down to the bank, she can get all the money. (Laughter.) But you see in a case of that kind they simply must trust each other as husband and wife should.

In case a savings bank depositor dies (but you won't die a bit sooner because you have a savings bank account, so do not let that frighten you) we are very careful about the way we pay the money out. We make the man who comes to get the money of the dead depositor prove who he is, and if there is any considerable sum, we send him down to the Surrogate, and have him take out letters of administration. It is the Surrogate's business to see that the administrator divides that money among the relatives of the dead man according to law. In case the depositor has left a will, it is our business to see that the executor gets the money and then it is the Surrogate's business to keep his eye on the executor and see that he distributes it according to the terms of the will.

There is one question that people are continually asking about a savings bank. And that is: Why should a savings bank have a surplus? "We read in the newspapers such and such a bank is going to pay three and a half per cent. interest, and such and such a bank is paying four per cent. interest. Now, why don't you all pay four per cent." Well, it is largely a matter of judgment to be decided by each bank for itself.

About twelve or fifteen years ago in the State of New York the average surplus of the savings banks was about seventeen per cent. That is, for every one hundred dollars the savings banks owed to their depositors they had one hundred and seventeen dollars' worth of securities and cash to pay it with. Three or four years ago our surplus had shrunk from seventeen dollars on the hundred to about seven dollars on the hundred—from seventeen per cent. to seven per cent., and at the same time the people had twice as much money in the savings banks as when our surplus was high. We did not like to see our surplus grow smaller every day, and our deposits getting larger. There is only one sure way to add to our surplus, and that is to save something out of our earnings. If it is a wise thing for a man to lay up something for a rainy day, for his family in case anything happens to him, it is just as wise for a bank to lay up something against the time when there may be a panic, when there may be a great fall in the price of securities, or when times are hard, and so the conservative savings banks said, "We will pay three and a half per cent. for a while and we will add a little something to our surplus." If any of you go skating, you know it is not safe to skate on thin ice that is "buckling" under you. Some of the banks felt that if the deposits kept growing larger and the surplus smaller, they might be skating on ice that was not quite strong enough, so a good many of the banks came down to three and a half per cent. The depositors, a few of them, grumbled and wondered why it was they did not get four. We always make the answer to that, "You have one hundred dollars in the bank?" "Yes." "Does it make much difference to you in the course of a year whether we pay you three and a half dollars or four dollars in interest? If we pay you the smaller rate of interest, we are sure we shall be able to pay you the one hundred dollars when you want it, whether you want it next year or the year after or ten years from now." That is the reason a savings bank has to have a surplus, because it wants to be sure that when its depositors come for their money it will be able to pay dollar for dollar all that it owes them.

If you were to start on a trip around the world to-morrow, and you figured out that your expenses were going to be one hundred dollars, you would not feel very safe in starting out with one hundred dollars and fifty cents in your pocket. You might think, "Possibly something may happen. The train may be delayed, I may have to stay over somewhere a day or two longer than I expect, and I may spend a little bit more than the hundred dollars I figure on." The savings banks take exactly the same attitude. They say, "We are going on a long journey, and we have a great many years of business ahead of us. We do not know what hard times we are going to strike, and we had better have a few dollars more than we think we are going to need." That is the reason savings banks have surpluses, and that is one reason why some of them are paying three and a half per cent. They think it is wiser.

The surplus has accumulated a little bit at a time. When a bank starts it does exactly the same as a thrifty individual. Each six months out of its earnings it puts a little aside. There is at present a bill introduced by the State Banking Department, fathered by the State Banking Department, which provides that all banks shall lay aside out of their earnings a certain portion every six months before they declare any dividend at all, so that it will force all the banks to accumulate a surplus up to ten or fifteen per cent. There never has been a law to that effect before, but now they think it might be a wise thing to make into a law what the best savings banks

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have been doing as a matter of practice for a great many years.

Savings banks cannot pay out anything to anybody except the running expenses of the bank. No trustee or officer makes any profit from their transactions. The running expenses of the banks of this state are about three-tenths of one per cent. per annum.

The savings banks are examined periodically by the Banking Department. We do not know what morning we are going to walk into the bank and find half a dozen gentlemen from the State Banking Department, who will say, "You will be kind enough to open the safe and let us see just what you have in there, what cash and what securities." We cannot take out anything which we put in there the night before, or add anything, and they go over all our mortgages, and they count all our bonds, and they see that the coupons are on and the interest receipts are on them, and they go over our books for the past six months, and if there is a fifty-cent piece out of the way anywhere they want to know all about it and why it is, and they do not find any fifty-cent pieces out of the way, either. Everything is as it ought to be when they come to examine the affairs and the condition of the banks.

Some of the other banks—commercial banks—have what they call "Interest Departments." No bank is permitted to use the word "savings" in this State but a properly organized savings bank. The money in "Interest Departments" in the business banks is not invested the same as the savings banks money, and you do not have the same safety. They do not invest in the same high class of securities as savings banks. They do not take quite such good care of your money as the savings banks do. They must earn not only whatever interest they pay their depositors in the "Interest Department," but they naturally want to make a little profit for themselves, and the consequence is that they do not buy such a high class of securities.

The savings bank is absolutely the people's bank. They are run solely in the interests of the people. The officers of the savings banks are your friends. If you have any questions to ask them about investing your savings, you may go to them and they will give you the best advice they know how. We like to see people graduate from the savings bank. We like to see a man come in and start an account with a few dollars and save his money until he has a few thousands of dollars, and then we like to have him come in and say, "Now, I have gotten up to the limit in this bank, which is $3,000. What shall I do with it? Shall I buy a mortgage, or a bond?" That is just what we are for, to help people along until they are able to help themselves.

As I said at the beginning, we are not here to make money for the banks or the trustees or officers. We are here simply and solely for the purpose of encouraging the people to be thrifty, to save their pennies, to look out for the rainy day that is sure to come. When the rainy day does come there is not any better umbrella than a savings bank account. In the banks we meet all sorts of people. In any of the big banks, especially in this neighborhood, you meet people of all classes, all kinds, all nationalities. They all have one object, whether they are foreigners or Americans, and that is, to get hold of just as many good American dollars as they can (and they manage to catch a good many of them first and last). Sometimes it is funny to watch them and to talk to them, and sometimes it is pathetic.

It has been my experience that no matter what peculiarities they have on the outside, no matter what nationality they are, no matter how they differ in their costumes, no matter how they differ in the tongues they speak, still, as David said in the Psalms so many hundreds of years ago, "The Lord hath made of one blood all the peoples of the earth, and he hath fashioned their hearts alike." Those may not be the exact words, but that is what they mean. It makes no difference what the man's nationality is. It's the man down underneath that we care for. It is the man that will respond. It is the man that will be grateful for kindness. We have all heard a great deal about this tide of Socialism which is supposed to be rising and sweeping over the country. I think that as the people come to realize that this is the best, and the biggest and the freest country that there is, and that while we do not all of us have everything we want, we are all getting a fair chance. We should realize that every dollar a man lays up in a savings bank is an argument against anarchy or Socialism. So I do not think we need to be very apprehensive about the future of this country. If we believe all the things we read in the newspapers we will think that this country is going to the dogs. They have been harping on the way we are going to the bow-wows ever since we can remember, and we have not gone yet, and we are not going, and what is more, the savings banks are going to help a great many of us from going in any such direction.

SECOND LECTURE, MARCH 12, 1913.

THE TRUST COMPANY AS AN AID

By Alfred M. Barrett

Treasurer, Guardian Trust Company, New York

Mr. Luhnow, the editor of "Trust Companies" Magazine, wrote a series of articles on Trust Companies, and has so clearly explained the various branches of Trust Company work that I take pleasure in embodying some of his papers in this address.

The Trust Companies of the United States supplement the banks, meeting needs that the banks do not supply. The birth of Trust Companies in this country dates from the year 1822, and they have grown in number and power, until to-day they are probably the greatest factor in our financial world.

Trust Companies enter into the personal element of an individual, for the powers of the companies are more diversified than any other financial institution—they are authorized by law to act as administrator, assignée, executor, guardian, registrar, trustee, receiver, fiscal and transfer agent.

Executor and Administrator.

As the result of actual statistics recently obtained from official sources and through direct inquiry, it has been ascertained that the trust companies of the United States are administering the affairs and guarding estates valued at seven billion, two hundred million dollars. This vast treasure embraces real estate, personal property, stocks and bonds, mortgages and cash funds, conveyed to the safekeeping of trust companies in accordance with instructions under wills and instruments of trust for the benefit of heirs and legatees. Among the estates managed by trust companies are those of jurists, financiers, bankers, capitalists and men who have left large fortunes. The same care and precautions with which the great estates are looked after is directed to the rapidly increasing number of small estates which are being turned over to these institutions. The same reasons which induce the man of large means to have a trust company appointed as executor and administrator of his estate to guard his family against waste or mismanagement after his death appeal with equal, if not greater, force to the man who has only a few thousands or the proceeds of life insurance to keep his widow and children from poverty.

There have been many important developments of late so that there is a general awakening throughout the country that the trust company is the only logical and safest custodian of estates and trust funds. This sentiment is largely due to the many disclosures which appear in public print describing the looting of estates, mismanagement, incompetence and application of trust funds in speculation where such property and funds have been placed in the sole custody of some individual who is surrounded by and yields to temptation. An examination of probate court records in several of the largest cities of the country revealed the melancholy fact that many hundreds of millions of dollars' worth of property, securities and funds belonging to estates and which have been placed in the hands of so-called "confidential" or family advisors as executors and administrators, have been lost through needless litigation, incompetent management or defalcation.

As executor and administrator, the so-called "modern trust company" represents stability and permanence. Unlike the individual executor or administrator, the trust company cannot abscond, cannot speculate with trust funds, cannot go on vacations or render false accounts. The only assurance which an individual gives is a personal bond which may prove valueless. Instead of only one man or lawyer to administer an estate there is a staff of expert officers, a board of directors, including some of the most successful and responsible business men in the community, and then there is regular examination by the State Banking authorities. In many states trust companies are required to make a deposit of securities with the State Treasurer as a direct pledge for faithful performance of trust duties. As executor and administrator the trust company not only complies with instructions of the will, but it preserves and often increases the value of estates through wise investments, through timely sale of securities or real estate which may depreciate in value. In fact, the trust company offers all the protection which only an institution with practically a perpetual existence can give and which is not surrounded with the dangers that beset human life.

The time-honored proverb that "truth is stranger than fiction" is perhaps nowhere illustrated in so forcible a way as in the cold, dry records of probate courts of this or any other section of the country. The pathetic and ofttimes tragic circumstances with their inseparable proof of the frailty and uncertainty of human life, which these court files contain, rarely come to the knowledge of the public. These are stories of the looting of estates, of mismanagement of estates, ruinous speculation with the belongings of widows and helpless children. Almost invariably such records point a moral. They show that when a man dies and leaves all his property to be managed by some "trusted adviser" without providing any other safe agency, that frequently such confidence has been ill-placed and that such trusts have been betrayed. It is possible that the maker of the will could not have foreseen such happenings.

In former days, before the arrival of the so-called "modern trust company," the dying man had no other alternative than to call in his most trusted friend to preserve his estate in behalf of surviving members of his family. But the modern institution, known as the trust company, has changed all this because of the fact that as a corporation it "lives on forever," because it is the most responsible agency and because it is especially equipped to handle the affairs of estates most economically and wisely.

Although trust companies have "come into their own" only within the last ten or fifteen years, there is much food for thought when it is stated that the trust companies of the United States now manage estates and handle trusts for the living and the dead amounting in value to seven billion, two hundred millions of dollars. This does not begin to include the amount which they have in their custody. If one should include the $5,490,000,000 banking resources reported by 1,586 trust companies on June 30th, last, the $7,200,000,000 individual trusts and the $25,000,-000,000 given as the face value of mortgages executed by corporations as security for bonds and stocks and conveyed to trust companies in addition to securities deposited as pledge for the redemption of collateral trust bonds, the grand total reaches the staggering figure of thirty-seven billions of dollars. How vast is this responsibility, carried by trust companies, can be understood when it is stated that the entire estimated wealth of the United States is $120,000,000,000.

In their work as executor or trustee under will and as administrator of estates, the trust company has come to be generally known as "the corporation with a soul." Eminent economists and students have also styled it "the most modern mechanic of American finance." Still others, with some degree of aptness, have called the trust company "the department store of finance." But it is a remarkable fact that comparatively few people, including business men and those who are concerned with serious thoughts as to how they shall make due provision for their families after their demise, understand the workings of the modern trust company. To many people it means simply the same as "bank." The facts, however, are that the trust company owes its success and great influence mostly to the valuable services which it is able to render the living and in behalf of the dead. As executor and trustee under wills it faithfully carries out the wishes of the dead in the way that no individual stewardship is able to perform. It is because these institutions manage estates and individual trusts worth over seven billions of dollars without the loss of a single dollar that men of large or small means in this and other communities begin to realize that it is a "corporation with a soul," and that it offers absolute assurance that testamentary instructions will be carried out. As trustee, it is frequently called upon to take care of special trusts devoted to educational, charitable or religious purposes. Special trusts are created for wayward sons so as to prevent them from "running through their inheritance." There are special "spendthrift trusts," where trust companies are obliged to keep principal safely invested and hand over income or interest to the beneficiary in certain installments. There are instances where trust companies prevent daughters from making hasty or ill-advised marriages with men who are after "dots." Often the trust company attends to the education of beneficiaries under wills. In fact, there are thousands of different variations of the services which trust companies render in their daily routine which shows that they are truly possessed of "souls" and come into personal touch with widows and legatees. They cannot run away with trust funds, they cannot go on vacations when wanted, they cannot speculate with such funds or tangle up accounts. Instead of one man to manage an estate, there is a corps of officers and a responsible board of directors. Every transaction in connection with estate management is subject to approval by officers and directors. As trust companies become more generally known, the probate records will contain less evidence of defalcation, waste and litigation.

Banking Facilities.

Valuable statistics, bearing upon the banking and economical development of the country, which have been recently compiled, show that the trust companies have acquired banking resources amounting to $5,490,570,000, and exceeded only by the national and state banks combined. Twenty-five years ago the trust companies of the United States numbered only 120 and their combined banking resources amounted to $441,000,000. They have increased, both in number and in the volume of their business, at a greater pace than any other type of banking or financial organization. In fact, there has been no development in the history of American banking which offers any parallel to the growth of trust companies. Nor is the reason far to seek. It has been truly stated that the "modern trust company" meets all the banking and fiduciary requirements in communities, large or small, more readily than any other class of financial institution. State laws governing trust companies have made due allowance for local conditions. The result has been to make trust companies most influential in helping to develop local resources, in stimulating business enterprise and in legitimate financial operations.

In some sections of the country and especially in small communities the trust companies devote most attention to offering banking facilities. Reliable statistics have also been obtained to show that the enormous gains in banking deposits reported by trust companies have not been secured by encroaching upon the operations of national or state banks of discount. National and state banks have continued and increased their relative expansion since trust companies came into the field, and the latter are recognized as necessary in affording accommodations which other types of banking institutions do not extend.

The banking facilities offered by trust companies differ in many respects from those offered by either national or state banks of discount. A large part of the funds of corporations and individuals or business houses, where no commercial loans are required, come to the trust companies. Among the larger and older trust companies and in certain states no effort is made to make loans based on commercial paper or to grant discounts. In a number of states, however, the laws permit trust companies to either negotiate commercial loans or purchase commercial paper.

The great increase in banking resources of trust companies is also in a large measure due to the many other services which they render to clients, and is an outgrowth of such business. If a corporation executes a mortgage to issue new bonds, it almost always names a trust company as trustee, a sinking fund may be provided to pay off obligations as they mature and balances must be maintained to meet coupon and dividend payments. Such funds are best carried by the trust companies, and the corporation does not lose any interest premiums for idle funds. There are numerous instances where banking facilities are called in connection with the appointment of trust companies as executor, trustees under will, as administrator of estates, guardian, or as trustee under corporation mortgages and reorganizations.

The Trust Company—The Corporation With a "Soul."

There are incidents, both numerous and pathetic, in the daily routine and business of the modern trust company which disprove the general idea that a corporation has no "soul." One of the reasons why men confide the administration of their estates to their lawyers or confidential friends to act as executor or trustee in the event of death is the mistaken notion that the trust company, as a corporation with a great many duties to attend to, is not able to give the personal attention or consideration to those who are left behind which an individual is supposed to render. Within recent years, however, there has been a general awakening, and men of large or small fortunes are showing their preference for the trust company because they have become convinced that this kind of an institution not only gives careful and sympathetic attention to every detail in the management of an estate, but also offers the greatest degree of safety and wise handling of property. The successful manner in which trust companies have acquitted themselves in the management of estates and trusts of various kinds has been one of the causes for this change. But perhaps the strongest reason is supplied by the great number of exposures of cases where men betray their trusts, abscond with the funds left in their care for widows and children or yield to the temptation to speculate.

There are many reasons why a trust company succeeds in the administration of an estate where an individual executor or trustee is apt to fail. The criminal and probate records of this and other states reveal almost daily the fact that women and children are at the mercy of an individual executor, that estates have been looted, that funds have been used for speculation and accounts juggled because there was no one to question or supervise such administration. On the other hand, a trust company cannot die, it cannot run away with trust funds, it cannot speculate with such funds or misappropriate them. In the first place, there is the assurance which comes from having an experienced staff of officers and a board of directors, composed of leading business men. The capital and surplus of the trust company is a "protection" fund. The State Banking authorities make regular examinations and require reports. There is "collective" experience, ability and management.

The trust companies in the United States have a vast treasure in their custody exceeding in value $35,000,000,000, which is more than one-fourth the entire wealth of the country, more than one-half of all corporations in the nation, and $14,000,000,000 more than the combined banking power of all the national and state banks in the United States. More than $5,000,000,000 of this amount represents the value of estates and trust funds turned over by the individuals. In only three instances where trust companies have failed during the past fifteen years has there been any loss of trust funds. In each case the amount has been insignificant.

The average patron of a bank or trust company little knows the multiplicity of services performed by trust companies, and how great is their influence for good in a community. Besides safely handling trust estates, they manage property, collect rents and attend to insurance premiums. They act for fraternity, social, religious and benefit societies as treasurers and custodians. They take over insolvent concerns as receiver and liquidation agents. They often manage running business or manufacturing concerns, and by able management put them on a solvent and paying basis. They are appointed by federal courts to take charge of the affairs of bankrupts, and they see to it all parties concerned are impartially recognized in the distribution of assets.

These and many other valuable services the trust companies render, which enter into the everyday life of individuals and meet the requirements of business establishments or corporations, and as the public comes more and more to recognize and appreciate these services, the trust companies come more and more to fill the place in the community to which they are entitled by virtue of their varied forms of usefulness.

Quaint and Curious Duties Performed by Trust Companies.

Incidentally, in connection with this personal service, there are many curious and remarkable facts related which make the daily routine of the trust company officer one of constant interest. He is called upon to do many things which prove that the corporation which engages his services has not only a "soul" but a heart and human sympathies as well.

In the underground safety vaults of one of the large trust companies there is a so-called "tomb of departed spirits." There are no less than twelve receptacles, steel lined and under lock, where the ashes of deceased clients are kept in silver or golden urns for safe-keeping and where future generations may express their reverence. The same trust company, like many others, has an employee whose duties include the preservation of cemetery lots and monuments. In other words, it performs duties which testators preferred not to entrust to individuals or relatives. Many wills have been written in which trust companies have been instructed to "keep graves green," to see that monuments in graveyards are maintained in good condition. They set aside a certain income from their estates which are conveyed to the trust companies for this sole purpose, and their experience with trust companies has been such that they felt their wishes would be more faithfully followed than if any relative or friend had such a commission.

In one of our large cities there is a so-called "old line" trust company which stands for everything that is conservative and dignified. The building in which its business is conducted resembles the interior of some old English cathedral. This trust company handles a vast number of estates, with a combined value of nearly $200,000,000. In connection with the administration of these estates it is called upon to perform many varied duties.

How Trust Companies Protect Women From Financial Loss and Against Fraud.

It has often been stated that the average woman is pathetically helpless in financial or banking affairs, is an easy prey to fraudulent or designing people.

The trust company is peculiarly fitted to guard the interests of women. This is not only true where a woman opens a savings account or a checking account, but especially where she is deprived of the support and protection of her husband and where an estate has to be cared for. Millions of dollars' worth of property and securities have been rescued from the clutches of unscrupulous men because women have come to the officers or the woman manager of a trust company and related some incident in the management of her estate and income which started investigation.

In the City of Chicago recently a woman, deep in mourning for her deceased husband, entered the doors of a trust company and asked for someone to advise her. She told a pitiful story of how the sole executor of the estate left by her husband sent her an accounting showing that a number of debts had been discovered, contracted by her dead husband, which practically represented the value of the estate and left her penniless. She was directed to the trust officer, who by degrees ascertained the real condition, obtained power of attorney and had the offending executor brought to court for a truthful accounting. The executor obtained knowledge of threatened proceedings before the summons was served, took what cash was available and disappeared.

But the trust company is of greater service to women not only in detecting and preventing such frauds, but in safely managing the property and sources of income of an estate where it is appointed executor or trustee under the will. It is this assurance of safety which accounts for the fact that the custom is growing of having trust companies appointed to execute wills, to handle trusts and administer estates left to widows and children. A visit to the trust department of any large trust company reveals the fact that the women patrons who come for advice and assistance largely outnumber the men callers. For the trust department deals mainly with estates left by the husband or father to wives and children. As a rule, the woman who finds herself bereft of a husband's protection, knows little of the intricacies of the administration of estates, the care of titles to real estate left to her, of securities including bonds and stocks and mortgages. She is peculiarly liable to deception and to fraud. When such property is left in trust to an individual, some personal or confidential "friend of the family," there comes the danger that such trustee or administrator may yield to temptation, speculate with the funds in his sole control, manage property for his own interests and make false statements of receipts and expenditures. The probate, civil and criminal courts are congested with litigation involving the betrayal of trusts by individual trustees, executors, guardians and administrators when property or estates have been left to widows and orphans. Frequently, the beneficiaries accept accountings without question, have no suspicion of wrongful use of their funds and make no request for court accounting until all the funds of the estate are stolen or wasted. Nor is there any guarantee that such individual fiduciaries are competent, able to select sound investments or preserve the value of the property, because there is no one to question his methods. The daily newspapers contain accounts almost daily of tragic sequels of betrayal of trusts where women and children are deprived of all their earthly possessions because of the helplessness and innocence in financial matters.

While the so-called "woman's department" of a modern trust company is largely provided to encourage the opening of savings accounts among women, it is also instrumental in bringing patrons to the trust department, which attends to the more complex affairs of estates. Many women are afraid to enter the bank or trust company because of the fear of betraying their ignorance or because they believe their small savings would not be accepted as the basis for accounts. It is likewise true that the average woman prefers to conduct the preliminaries in opening relations with a bank or trust company through a woman rather than with the man behind the desk or grating. In one of the leading trust companies in the West the "woman's department" is conducted by a middle-aged woman, who related many instances of the advantages of having special facilities for members of the gentler sex. She says:

"Very often I have women come to me and tell me that they are able to save so little after providing for necessaries that they would be ashamed to take their little hoardings to a bank or trust company. When one is told that her small balance will be very acceptable, that there will be no embarrassing preliminaries, she is amazed, and goes away happy after opening her little account. One young lady took her first position three years ago and to-day she has a savings account of over $1,000. Men have come in here and opened accounts for their wives to pay family expense bills. Others have come in and opened accounts for their daughters. I meet with all kinds of curious situations. One woman came in and after writing a check and signing it, decided to make out another for a larger amount. She went away, leaving the first check on the desk, where I found it and immediately destroyed it."

Treasurer for Societies—Protecting the Funds of Fraternal Societies, Lodges, Charitable and Educational Institutions.

Within recent years the defalcations by custodians of the funds of fraternal societies, lodges, charitable and educational institutions have steadily decreased. Tragic circumstances often followed the exposure of such betrayal of trust. It was found that funds of such societies and institutions had been used for speculation and more often had been wasted through bad investments or incompetent management. The old proverb, "everybody's business is nobody's business," was illustrated in a lamentable way by the manner in which fraternal and charitable organizations have been deprived of their funds.

The fact that the courts record a less number of such violations of duty is due almost entirely to the growing custom of having trust companies assume all the obligations and burdens in connection with the finances of fraternal, educational and charitable organizations. The logic of this policy has also been appreciated by church and religious organizations. In a number of cities the funds of religious organizations are deposited in trust companies and all the duties of receiving moneys and expending funds for the separate church, social, hospital, missionary and educational institutions are distributed through such agency.

This work is a comparatively new departure in trust company services. A large number of such companies have established special departments and equipments to handle such duties. The method most frequently employed is to appoint the trust company as treasurer, in effect, of the lodge, fraternal or charitable institution. Often the treasurer appointed by the lodge or institution is a very busy man and he is glad to turn over the books and all financial details of his office to the trust company. This relieves him of the actual work while at the same time he may supervise the transactions that call for more personal attention. Where it is a lodge there are initiation fees, dues and assessments to be collected and payments are to be made to widows and children in accordance with death benefits. The trust company attends to all these collections and disbursements. An important feature is that no bond is required of trust companies while a personal treasurer must give a bond and the cost of it is usually met by the society or institutions for which he acts. In the case of educational institutions there may be endowments to preserve, including investments. It is easily to be seen that a trust company which has so largely to do with investments, is able to select better and more profitable investments than an individual. The trust company also attends to all financial duties in connection with operating expenses of educational and religious buildings, collecting rents, attending to repairs, etc.

The successful and safe manner in which trust companies handle this kind of work is inducing quasi-public and fraternal organizations to utilize their services more and more. Not only is there the possibility of misappropriation of funds by an individual treasurer, but he may also be a man who having his own important affairs to look after, therefore has not the time or the necessary facilities to perform his work economically or with accuracy. Where trust companies have established special departments under the management of an expert, the work is done with expedition and with saving to the society or institution for which such services are performed.

Real Estate Department—Acts for Living and in Behalf of the Dead.

The wage-earner who uses the savings of a lifetime to purchase a home and the rich man who invests extensively in first mortgages on improved real estate are especially liable to suffer losses because of the many opportunities which unscrupulous agents might employ by manipulating abstracts, certificates of title or through speculation. The records of the civil and criminal courts of this city reveal many cases where such frauds have been committed. For every one such case which comes to public knowledge there are scores which are never brought to the light of day. It is just this condition of affairs which has induced owners of real estate property, investors in real estate mortgages and the humble wage-earners to employ the reliable and safe services which trust companies of this and other cities now offer. Practically every up-to-date and successful trust company now conducts, in connection with its trust, banking and other departments, a full-fledged real estate department in charge of an expert who knows all about local land-values, real estate law and has a corps of trained men at his command.

The real estate department of a trust company is not a recent departure in trust company work. But it is only within recent years that the people who have to do with real estate affairs have begun to appreciate the service it renders. Instead of one agent passing on important real estate transactions, the soundness of loans made on mortgages, or the validity of titles and valuation of property, the real estate manager in a trust company has the benefit of advice from the various executive officers and the members of a board of directors who must necessarily be some of the most successful and responsible men in the community. It is, therefore, natural to suppose that, where real estate property is conveyed to the care of trust companies either as agents for owners who are living, or as executor, trustee under will and administrator of estates, there are many advantages over the individual.

Trust companies, through their trust and real estate departments, act not only for the living but also in behalf of the dead. Time and experience have proven that in all transactions which require faithful and extended service the corporate trustee, living on forever from generation to generation, excels the individual, who may abscond, become ill, die or prove incompetent. Through the real estate department the man who has acquired a fortune and wishes to rest upon the fruits of his labors, may be relieved of all burdens growing out of the real estate holdings. The trust company attends to the collection of rents, to making repairs, to finding new tenants for vacant houses, to renewal of insurance policies when due, to payment of taxes and interest to holders of mortgage. It keeps careful accounts showing exact income and expenditures on every piece of property so that at any time the owner may know if it is profitable or otherwise. When the trust company is appointed agent and obtains the lease, it ascertains if assessments have been properly made and often secures a reduction in the appraisement. It prints lists of houses for rent and has special opportunities for quick rental of vacant houses. This applies not only to residential property but also to factory sites, business blocks, stores, etc.

It follows almost as a matter of course, where the owner of real estate has transferred the case of his property to the real estate department of a trust company and learns how economically and faithful all his wishes are fulfilled, that he makes a will in which he appoints the trust company executor or trustee and administrator of his estate. He is assured that in the event of his death, the trust company will continue to manage his real estate property as well as his personal property with the same fidelity as if he were alive, for the benefit of his wife and family. Where the trust company is consulted in the drawing up of the will, the power is usually given to the trustee to sell real estate or personal property at its discretion. It is a common occurrence with trust companies that they save estates in their keeping large sums of the money by disposing of property before it depreciates in value. In such cases, the trust officer and the real estate department manager work hand in hand. They have expert appraisers who know in advance whether real estate is going to depreciate. In one instance, a local trust company recently saved an estate $20,000 by selling a business block belonging to an estate in its charge, although the beneficiaries were at first opposed to the sale.

In connection with the real estate department there is frequently a title department where validity of titles are confirmed at lowest cost. It has also facilities for securing the best real estate mortgage loans for investors, either for those who want this kind of security or for investment of trust funds in their care. Because of these and other features, the real estate department of the Trust Company is commending itself more and more to those who may have need of the service it renders.

THIRD LECTURE, MARCH 19, 1913.

THE COMMERCIAL BANK AS AN AID

By O. Howard Wolfe

Secretary Clearing House Section, American Bankers Association

STATEMENT
of
CONDITION
"THE COOPER INSTITUTE NATIONAL BANK"
March 19, 1913.

RESOURCES.

The bank's source of income. Money loaned at interest, usually payable in 30, 60 or 90 days. Bonds and Investments can be sold by the bank and converted into cash on short notice.	Loans and Discounts	$3,800,000
	Bonds and Investments	1,200,000
Money invested in the bank building, vaults, desks, etc.	Banking House	200,000
	Furniture and Fixtures	50,000
The "Reserve" money. The proportion of this amount to deposits is fixed by law, and varies in different classes of banks.	Cash in Vaults	800,000
	Cash due from other Banks	200,000
Such as amounts due from U. S. Treasurer, exchanges for the Clearing House and sundry cash items.	Other Resources	150,000
		$6,400,000

LIABILITIES.

The shareholder's money invested in the bank. Anyone may become a shareholder by purchasing the stock of the bank. Amount of capital fixed by law according to size of city.	Capital Stock (paid in)	$500,000
	Surplus (earned)	500,000
Depositor's money. Banks also redeposit money with one another for the purpose of reserve and collecting checks.	Deposits (due to individuals)	4,000,000
	Deposits (due to banks)	1,000,000
These are the Bank's "promises to pay" secured by a deposit of bonds with the Treasurer of the U. S. They are redeemable in cash on demand. The amount can never be more than the capital.	Circulating Notes	300,000
Such as unpaid dividends, amounts reserved for taxes, re-discounts, etc.	Other Liabilities	100,000
		$6,400,000

In addition to the Loans and Discounts the depositor may look to the items shown below as absolute security for his money. This is not the exact method of liquidation, but it is a practical illustration of the safeguards thrown about the depositor.

The Law requires National Banks to issue at least five statements annually on dates named by the Comptroller of the Currency.

Capital Stock	$500,000
The Shareholders may be assessed an additional	500,000
Surplus Fund	500,000
Cash in Vault and due from Banks	1,000,000
Bonds (less amount to secure circulation)	900,000
Other Resources	150,000
Banking House	200,000
	$3,750,000

Printed and used as illustration in connection with Third lecture.

Of all the great institutions that serve the people, such as railroads, schools and colleges, churches, the post-office, the newspapers, and, if you please, the banks, I think we know least of all about banks. I recognize the fact that there exists in the minds of many people a sort of prejudice against banks, a tendency to regard them as in some way unfriendly or opposed to the interests of the great masses of common people. This is no new thing; it extends all through our early history, and while it is fast disappearing it is still present in no uncertain degree.

Why is this? I believe it is largely due to the fact that we know little about the banking business and the things we do not understand we are always suspicious of. That seems to be human nature. I shall try to-night, to explain in as simple terms as I can command, something of the business of banking from the viewpoint of the Commercial Bank; not exactly a lecture on banking, but an attempt to show you to what an extent the Commercial Bank is dependent for success on the thrift of the people of a community and how in turn, the Commercial Bank gives back to the people, directly and indirectly, the full benefit of their industry and saving.

If we were to go into an orchard, we would naturally think of apples; if we were to step into a railroad station, we would think of engines and trains and tracks. And so as we start to talk of banking our minds immediately turn to thoughts of money. Did you ever stop to think how little you know about money? I appreciate your smile at that question; very few of us care to know any more about money than how to get it. Yet much of the lack of knowledge of business in general, and banking in particular, and indeed many misconceptions of what constitute the better things of life are based on the general ignorance of what real money actually is. We know what will it do for us, how hard it is to get it or to get along without it, but what it is and why it is, few of us know—and it is a subject not taught in the public schools as it ought to be.

Money has little or no value itself. It is of benefit only when used. Money is not wealth, but is the medium through which we exchange wealth. Wealth may be defined as anything wherewith we supply our wants. Food is wealth, clothing, education, recreation and, in fact, anything is wealth that tends to increase happiness or lessen pain. You will note that money in itself does none of these things. We cannot eat it, wear it, or derive very much pleasure merely from looking at it.

It is not necessary that money, or the medium of exchange, should be made of metal, such as gold. The Government has taken twenty-three grains of fine gold and labelled it "one dollar." It might just as well take a bushel of wheat, tie it up in a sack and call that "one dollar." Or it might take twenty pounds of sugar and call that "one dollar," or, in fact, anything which man uses, but if our money consisted of such bulky articles, it would not be convenient to handle. Furthermore, it would be perishable, and could not be stored up easily. Therefore, all Nations of the earth have long since decided that the best substance which we may use for money is gold. First, because it is very durable and does not rust or wear out easily. Second, it is hard to counterfeit. Third, it may be divided into any number of parts without lessening the value of it. Fourth, it may be easily carried, and finally, it does not exist in too abundant quantities.

We can best illustrate the qualities that the value of money depends upon by a simple example. Let us suppose that some well-known scientist should discover a cheap method whereby common clay could be turned into gold. Gold would at once lose its value as money. Everyone would stop working, supply himself with a few tons of clay and set about turning it into gold, which he could neither eat, drink or wear. We would then have to search about for some other thing of value, something that man wants, and use that as money. Real wealth, then, must not be confused with money, which is merely the medium through which we exchange our products. Nor must money be confused with capital. Money is not necessarily capital any more than money is labor or money is land. We speak of the capital of the subway, for example, as so many millions of dollars, but we do not ride up and down New York on dollars. We use cars, which run on tracks. These are the real capital, but for convenience we speak of them in terms of dollars. It will be seen, therefore, that money is of use to man only as it works.

Nor is it necessary that we have as much actual money as is represented by other values. For example, we say that this building is worth $200,000; that automobile costs $5,000; the ocean-liner, $5,000,000; the watch which you carry in your pocket $20; and so on. The amount of money which any nation, or individual, needs depends entirely upon the number of times he trades, or makes exchanges, with other people, and inasmuch as we are not buying buildings, automobiles, ships, watches or clothing every day, it is not necessary, therefore, that all these forms of wealth be represented by an equal amount of money. It is important, from the start, that we keep this distinction very clear, because most of the evils that befall nations in such crises as bank failures and panics and all the other evils that may be traced to them, have at their base this misunderstanding of what wealth is and what money is. We are apt to envy such men as Morgan and Rockefeller, and our friend Hetty Green, because they are so wealthy. You have all gotten tired of the common saying that "a wealthy man is not any happier than a poor one," yet this is entirely true, because the wealthy man can put no more food into his stomach, wear no more clothes, breathe no more air, or enjoy no better health than the poorest man among us. The money which he has is of value to him only as it works, and by so doing gives work to others.

There is a kind of wealth which we may call surplus wealth. This, too, is a very important item not only in our personal welfare, but on account of its influence in the development and progress of civilization. Every one has in him the power to produce more than he needs of any one thing. The farmer, for example, can, in a single season, raise enough wheat or potatoes to last him for ten years. The shoemaker can make enough shoes in one day to last him a year. The housewife can bake enough bread in one day to provide herself with food for a month, and the coal miner can take enough coal from the ground in an hour to keep him warm all winter. It is plain, therefore, that whether we are producing food, or whether we are engaged in manufacturing articles necessary to man's welfare, whatever we do, no matter in how humble a sphere, we can always make, or do, more than is necessary for our own existence. It is this characteristic that distinguishes the civilized man from the savage—this habit, or instinct, to produce more than is necessary for temporary needs. The savage kills enough game to provide himself with skins for clothing and meat for himself and family, and lives from day to day. He provides nothing against the future and his life is a constant struggle.

Surplus wealth, however, is of no use to the producer unless he can exchange it for the surplus wealth of some other man. For example, the shoemaker has produced five pair of shoes, and the farmer has produced many more bushels of wheat than he can use. Each wants to exchange with the other, but it is not easy for the shoemaker to hunt about for a farmer who wants shoes, so he converts the surplus wealth into money and the farmer does the same thing with his wheat. Thus you see that if we are to have money, it is necessary that we produce something in some form or other. In short, money—good money—always represents work, or the product of somebody's work. It happens that some people are so fortunate as to have money given them, they inherit it or come by it in some manner without working for it, but if you trace it back you will find that it originated in the sweat of somebody's brow. Right here let me state the fact that work of the brain is just as necessary and important as work of the hands, and it usually receives better wages because it is more rare and, hence, more valuable.

After we have worked or produced something for which we have received money, we use a part of it to provide ourselves with our needs and we have remaining as much money as represents our ability to produce surplus wealth. With this surplus money, we can do one of two things: we may spend it, or we may put it to work for us. Let us see how this may be done.

If we should walk along Broadway or any of the busy streets of the city, we would pass rows and rows of stores and shops, all filled with goods for sale. We might ask ourselves where did all these store-keepers get the money to pay for their counters and shelves full of shoes, dress goods, groceries, cigars, and a thousand and one other articles. Well, they have bought a part with their own money, but most of the goods they have bought with the money they expect to get from future sales. In other words, they have bought their stock with credit, with a promise to pay at a later date. The farmer plants his crop in the spring; he must buy seeds, pay for labor and keep his own family in food and clothing till the fall, when his wheat and potatoes are ripe and can be sold. He, too, secures the things he needs with credit, his promise to pay when he can sell his crop.

So you see our population consists of two sets, or groups, of people, those who have some surplus money which they don't need for the time being, and another class who need money to conduct their business which they will pay back after they have sold their produce. Now, if every man who wanted to borrow money in business had to search about for some one who had just the right amount to loan, we would not be able to do very much business. Furthermore, lots of people who might have money to loan wouldn't know if the man who wanted to borrow it was a safe person to loan money to. And so we have the Commercial Bank, a place where people who have money to loan put it on deposit in one common fund, and the people who want to use money for a limited time can go there and borrow it.

The name "bank" signifies a heap or a mound and is almost the same word we use when we speak of a cinder bank, that is, a pile. In the earliest days, a bank was a place where people stored their money for safe-keeping, and they later took back the identical money they had deposited. Later it was recognized that this money so stored might be set to work while waiting till its owners had use for it. And so from small beginnings the banking business has developed until we have many different banks, differing both in size and functions. In this country there are three main groups of banks:

The Savings Bank,
The Trust Company,
and the Commercial Bank,

which may be either a state or national institution. You have already heard of the first two, and I shall try to explain about the Commercial Bank.

Commercial Banks are organized under either state laws or national laws, and are known as State Banks or National Banks. The chief difference is that one is supervised by the State Banking Department, and the other by the National Government. They also differ in some states with respect to reserve laws; laws permitting them to establish branches and in the kind of investments they may make. There is also the distinction of circulating notes which we will mention later.

Perhaps we can best understand a bank by referring to the statement a bank issues from time to time. You will find it divided, one set of figures under the head of "LIABILITIES," or what the bank owes, and the other set of figures showing the "RESOURCES," or the money the bank has to pay its debts. The Resources are the assets in the possession of the bank and the Liabilities show to whom these assets ultimately belong. The first debt the bank puts down is its Capital. This is the amount of money the bank has received from its shareholders. It is usually followed by an item called the "Surplus," which is money set aside from the earnings to provide security for the depositors in case the bank should be unable to collect some of the money other people owe it. The next item is "Deposits," which represents the money that people have placed with the bank that it may be set to work. Then if it be a National Bank, you will find another item in the statement known as "Circulation." A National Bank is required, by law, to purchase a certain amount of Government Bonds, that is, it is compelled to loan a certain amount of its Capital to the Nation. You have all seen bank notes, paper money on which it is stated that a certain bank will pay to the bearer on demand the face amount of the note, which promise to pay is secured by a deposit of United States Bonds. If the bank should fail to pay these notes, the Government would sell the bonds and use the money to redeem the bank notes.

These are the main debts or Liabilities of the bank. To pay these, the bank has certain Resources. The first is the Loans. These consist of the various sums it has loaned to people who have come to borrow. Here is where the bank uses its specialized knowledge. Borrowers can only secure loans if their credit is good—that is, if the bank believes that they will pay when their notes, or promises to pay, fall due. Every Commercial Bank has a credit department whose duty it is to know all about every firm or individual doing business in that community. The bank takes great precautions in making loans, because it is loaning out not only its own money, but its depositors' money as well. At times, the bank will require that the borrower put up some collateral, or security, for the loan, but generally the money is loaned on faith or credit. I have said, earlier, that anything that has value may be used as money. For example, we might use subway tickets in small quantities in place of nickels. But why would a man accept a subway ticket as a five-cent payment? Because he believes that the subway will carry him home. In other words, that ticket is a promise on the part of the subway, to carry you up-town wherever you want to go and you will accept that promise at its face value so long as you know the subway is working. You see, we cannot get away from the word "work"—money—credit—work, all are dependent upon one another; try to dodge work as we will.

A bank could not loan money and thus earn a profit, were it not for the fact that not all its depositors want their money at the same time. However, to meet the demands of some of the depositors who may withdraw their funds without notice, the bank is required by law to keep a certain percentage of its deposits on hand in cash. This is called the Reserve. These, briefly, are the main items that you will note on the bank statement.

One of the greatest services that the Commercial Bank renders the public, and a service with which you are all familiar, is the system of using checks, which makes it unnecessary for you to carry large sums of money about with the risk of loss. If you have some money in a bank, and wish to pay a bill to your coal-man, or butcher, you may write an order on your bank to charge your account and pay a certain sum to whomever you owe. It is not necessary for you to step outside your door. This order we call a bank check. You may be surprised to learn that of all the tremendous volume of business of all kinds done in the United States, only five per cent. of it is done with actual money. The rest is done with these convenient pieces of paper, called "checks."

I could not possibly describe to you the complete detail of the work which the bank performs in making possible this great labor-saving device. Millions upon millions of checks pass through the 28,000 banks of this country every day, representing payment for goods bought in every section of the country. The development of the railroads and the increase of banking facilities make it possible for us to buy goods at great distances, and we need not send the actual money in payment. We use checks instead, and the banks perform all the labor of accounting and settlement. These checks cause fully ninety per cent. of all the expense a bank is put to so far as clerk hire, stationery and postage is concerned. Much of the work is lessened by the operation of Clearing Houses.

I have described the two most important functions of the Commercial Bank, that of loaning money and that of enabling business to be conducted, and payments to be made without the actual handling of notes and coins. There are many other functions; such as conducting a foreign exchange department which means the settlement of trade balances between nations, but these other functions of a Commercial Bank are secondary to the main purpose, which is to facilitate the transactions of commercial affairs. Without the Commercial Bank, we should at once go back to the dark ages when every man had to provide for all his own needs and trade and exchange were practically unknown.

Before bringing this discussion to a close, it might be well to refer to one thing which every bank, as well as every individual, dreads, and that is a panic. Perhaps some of you do not know just what a panic is. It may be defined as an unreasoning fear that takes hold of people, and makes them want to get hold of all the money they can and hold on to it, for fear that something may take it away from them. The banks are the first point of attack, and the depositors at once begin to withdraw their money. This does damage in two ways. First, it makes it necessary for the banks to call upon all people to whom they have loaned money to pay at once, which seriously embarrasses many sound business men and perhaps ruins many of them. Then it makes it impossible for other people who need money to borrow it, and so all business is paralyzed and commerce is stopped until the people regain their senses and restore money again to its proper channels, that is, put it to work. The suffering that panics bring about illustrates what necessary institutions Commercial Banks are, because at such times the fears of the people make it impossible for banks to perform their proper functions and business comes to a standstill. Men are thrown out of work, and general suffering results. Let us suppose that someone should spread the report that all the water in the great reservoirs that supply New York was to be withdrawn. Then suppose everybody got a bucket and began to scramble to get all the water he could, whether he needed it or not, until all the reservoirs were empty. Without water, the business of the city, life in fact, would be impossible. That is exactly what happens when a financial panic occurs, and people take their money away from the banks.

I have tried to show you in this rambling talk how our commercial progress and prosperity depends upon the banks, and in turn, the banks depend for existence on the money which is put in them by the people. This money is the direct result of the saving and the thrift of the people, not necessarily the rich, but the plain people. the people who work. I understand that you do not always recognize how your interests are bound up in the banks, and how their chief interest is concerned in your welfare. Unless you are engaged in business, you do not always come into close touch with Commercial Banks, but the interdependence is there, just the same, and it is vital. Never look upon the well-managed and well-conducted bank (and the vast majority are well-managed and well-conducted) as having any interests contrary to yours. The banks cannot get along without you and you cannot get along without them. Their success depends entirely upon your thrift which produces the surplus wealth and money with which all business is done. The poor man has only two enemies, and they are, the man who does not work, and the man who is not thrifty. Be he rich or poor, the man who does not produce anything, or who does not save anything, is the enemy of progress and prosperity.

You have heard it said, and you will hear it said again, how money will work and produce an income. To sum up, I would say that the Commercial Bank is the task-master that sets money to work for you.

FOURTH LECTURE, MARCH 26, 1913.

THE INSURANCE COMPANY AS AN AID

By William H. Hotchkiss

Formerly Superintendent of Insurance, New York State

The historian, Parkman, in his account of the discoveries in the Northern Wilds—now the Dominion of Canada—tells us of a tribe of the aborigines that, though they were good hunters in the summer months, laid aside no store for the winter season and, when that season was severe, hunting being impossible, they died before the springtime came, literally blotted from the earth by their own improvidence. The hand-to-mouth wage-earner of this industrial age, in whom there is no thrift, differs not one whit from the savage of Parkman's story.

Insurance has been well defined as "A present means of obtaining a certain advantage over an uncertain event." You will note the adjectives in this definition. A present means; that is, a means which is present now to all of us. There are hundreds of companies in the various fields of insurance, all offering us policies, and all thus offering us that present means. Next, insurance results in obtaining a certain advantage, for that insurance which does not provide certainty of payment is not insurance at all. It is a sham and a fake. Then, again, there must be an uncertain event. The event is what we call the hazard. It may be uncertain in point of time. as in life insurance; or it may be uncertain as to the happening itself, as in fire or accident insurance; but it is the uncertainty of the event against which we seek indemnity. I deem it, therefore, proper to read again the definition already quoted: "Insurance is a present means of obtaining a certain advantage over an uncertain event."

Now, insurance is essentially a wagering contract. Most wagering contracts are thought contrary to public policy and are frowned upon by the law and by the courts. Not so with this kind of a wagering contract. If you take a life insurance policy you bet with the company that you will live a shorter time than the company bets you will live. If you take a fire insurance policy, you bet with the company that you will have a fire and it bets that you will not—and so I might continue through the various fields of insurance indemnity. In England, they have companies which will insure you on a bet on your part that it will rain on a certain day and they bet on their part that it will not. Indeed, there are recorded instances abroad where the insurance entity of which I now speak—Lloyd's, London—has granted a policy to a prospective father as against the hazard of twins. (Laughter.) There is practically nothing that Lloyd's, London, will not bet with you about, that is, insure you against, and yet it is one of the greatest insurance entities on the globe.

That you may get a concept of the vastness of insurance, as a system and as an agency toward thrift, I call your attention to the various kinds which can be written in this state. Here, we do not permit insurance against twins, nor do we permit insurance against rain; but we do permit most of the kinds of insurance indemnity commonly demanded by the people.

Generically, there are two kinds of insurance—property insurance and human insurance. Included in the former, is that great field, fire insurance. It is, of course, the indemnity granted against the hazard of the element of fire. Then, there is marine insurance; which indemnifies not merely the owner of the ship against its going down when at sea, but also against various hazards that may happen to the ship or to its cargo or to its master and sailors, not merely while at sea, but even when the ship is tied up in port. And then there is automobile insurance; and I have no doubt, very shortly, we will have aeroplane insurance. In addition to these, there is teams property insurance, that is, indemnity against damage done by a team to the property of another; and, in addition to this, there are burglary and theft insurance, plate-glass insurance, cyclone insurance, use and occupation insurance, steam boiler insurance, fly wheel insurance, live stock insurance, and many others. Each of these is a division of property insurance, and all are a present means of obtaining a certain advantage over an uncertain event.

Human insurance may also be called personal insurance. In this division we have, first, the great field of life insurance. Of that I shall speak chiefly to-night. Then, there is the field of health insurance, that is, insurance against disability due to sickness. Akin to this is accident insurance, and akin to the latter is employers' liability insurance, now fast becoming workmen's compensation insurance. And, beyond all these, there is public liability. And, still further, there is fidelity insurance, which takes the form of surety bonds. While, in the future, we may have in this country insurance against unemployment as well as the disability due to old age. All these and other analogous kinds of insurance have to do with the hazards of the human being, and each of them is to us a present means of obtaining a certain advantage over an uncertain event.

These various kinds of insurance are in this country written almost exclusively by corporations. Of these corporations I shall speak more at length later on. But, bear this in mind, that insurance itself is not a hidden mystery, as some people seem to think it. It simply amounts to the aggregation together of a fund through the relatively minute contributions of a large number of persons, with the understanding among all of such contributors that if one of them suffers an injury or a loss he can take out of that fund a sum proportionate to his contribution and thus compensate himself for the injury or the loss.

Insurance is found in its simplest form in the grange insurance societies. There are hundreds of these in the United States; indeed, in the State of New York there are several made up of the inhabitants of and-operating only in a single township, the contributors to the fund, all farmers, agreeing with one another that if, say, the barn of one burns they will all respond to an assessment at a definite rate, usually depending upon the amount of insurance that each of the contributors has, say, on his own buildings, to the end that the loss of the farmer whose barn has been burned shall be made good. And from this simple form of neighborhood insurance property insurance of all kinds has been developed.

Some say that insurance is now an exact science. Indeed, there is nothing more exact than the actuary's tables in life insurance. The actuary can tell you with the exactitude of a mathematician how many men in, say, 100,000, all of the age of twenty-eight, will die in a given period. The actuary's tables are at the basis of life insurance. Of course, there are changes in them from time to time due to improved sanitary conditions and thus a reduction in the death rate, but the actuary is the scientist of life insurance. In that field insurance is essentially an exact science.

Not so in the fire insurance field. I need only refer to the San Francisco catastrophe and to what is happening in the middle west at this moment to indicate the so-called "conflagration hazard."

Hence, fire insurance is not as exact a science as life insurance, for the element of extra hazard must always be reckoned with and reserves and surpluses held against the same. Likewise of employers' liability, or, to speak more modernly, of workmen's compensation. Such a disaster as that of the Triangle Shirt Waist fire indicates how a catastrophe can step into that field and, aside from the great public loss due to the wiping out of so many lives, reduce profits or wreck companies. It follows that insurance against the liability of the employer to the employee is also far from an exact science.

In this State we divide insurance into several fields, not merely into the two fields of property insurance and human insurance, and these fields are indicated in the various articles of the insurance law. First, there is the life field, to which one article is largely assigned; second, the fire field; third, the marine field; fourth, the casualty field inclusive of employers' liability, public liability and fidelity bonds; fifth, the fraternal field, that is human insurance through fraternal societies; sixth, the assessment field, that is where the company assesses the members to make up the loss met by one; and in addition there are the town and county co-operative fields, made up of small companies doing business in agricultural and village territory; and then finally there is the Lloyd's field. (A voice: "Speak about the corruption." Mr. Hotchkiss: "I will speak about that later. I have had something to do with investigating it, so can speak from some experience.") These differing fields of insurance have been so arranged because in each there must be a different kind of reserve. That is the reserve which the life company puts up against its liabilities is on an entirely different basis from that of the reserve a fire company puts up, and so on through all the fields. Hence in this country we do not allow a life company to do a fire business, a fire company to do an accident business, and so on.

For the purpose of this occasion, particularly in that I fancy most of you are more interested in life insurance than you are in insurance of any other kind, I will in whatever is hereafter said, and unless I specify to the contrary, speak only of life insurance.

Life insurance is really death insurance, that is it is insurance against the hazard of death. In this State it is done by various kinds of corporations. First, the legal reserve life insurance companies, second, the fraternal societies, third, the assessment associations, and then the trade and industrial mutuals, for instance those in the department stores and in the large manufacturing plants.

The legal reserve companies operating in New York are 34 in number. Three of them are among the largest insurance companies in the world. One of these companies has assets now amounting to over \$700,000,000; two others to over \$500,000,000; and the fourth to over \$300,000,000. The total assets of the 34 life insurance companies which can do business in New York, only one of them being a company from a foreign land, is given in the last insurance reports as \$3,695,000,000. The income of these companies from premiums alone, to say nothing of their income from their investments in that same year, was \$535,000,000, and they had in insurance in force, that is the total of their liability on all their policies, \$14,680,000,000.

Now the legal reserve life insurance companies in this State, as well as some 250 more organized under the laws of other states and not authorized to do business in New York, are divided into various groups. First, there is the mutual company, that is one conducted for the benefit of the insured and presumably controlled by the insured, and not for the benefit of stockholders or controlled by stockholders. The characteristic companies of this kind in New York are the New York Life and the Mutual Life, and in other states, The Northwestern of Wisconsin and the Mutual Benefit of New Jersey. These mutual companies to-day are theoretically and I believe actually—so much in answer to my friend over there—run for the benefit of their members and without any corruption.

Not only have we these mutual companies, but we have also stock life insurance companies. The Metropolitan here in this city is such a company as is the Prudential of New Jersey, the Aetna and the Travelers of Connecticut and the Union Central Life of Cincinnati. These companies are controlled by their stockholders, though in each there is legally or effectually a limitation on the annual dividends to stockholders. There is still another class inclusive of the Equitable of New York and some of the Massachusetts companies where, though there is outstanding stock, the control and the business are substantially on a mutual basis.

Life companies are also divided into two classes, dependent upon their method of distributing earnings. Technically, they are called non-participating companies and participating companies. A non-participating company is one in which you pay your premium and get nothing back in the shape of a dividend. A participating company is a company which promises to and usually does pay back a dividend, which since the Armstrong investigation must be so paid every year. The basic distinction between these two classes of companies is that a participating company charges a little larger premium. Indeed, the dividend that is returned is but an overcharge and is not a dividend at all.

Life companies are also divided into two classes, dependent on the premium paid and the benefit promised, into ordinary companies and industrial companies. The ordinary company promises a fixed benefit, but charges a premium graded in accordance with the age of the insured when the policy is taken out. The industrial company on the other hand charges a fixed premium, so many cents a week, but promises differing benefits dependent on the age of the insured. I need hardly add that the New York Life, the Mutual and the Equitable are typical ordinary companies and that the Metropolitan and Prudential are typical industrial companies.

It has been suggested that I discuss somewhat the forms of policies used by life companies. The policy contract of a life insurance company was originally a very simple instrument. It provided in effect that the company, in consideration of a specified annual premium, will on the death of the person who pays the premium pay a certain sum to somebody that that person names. No contract could be more simple. Yet these contracts have grown and grown until there are many complexities in them. Into these complexities I will not go, save merely to say that all the policy contracts issued by ordinary life insurance companies can be reduced to four. First, the whole life contract, where you insure your life as you do your house, and you pay a level premium, a premium that is the same every year, until you die. Second, the term policy, in which the insurance company agrees to insure you for a definite number of, say, ten years. Third, the limited payment life policy, where the premiums are payable for ten, fifteen or twenty years, and then the insurance goes on without further payment. And fourth, the endowment policy, or as it is sometimes called the investment policy, under which not only the beneficiary of the person insured is entitled to the principal sum on the death of the insured, but the latter is himself entitled to that sum in case he outlives the time specified in the policy—ten, fifteen or twenty years. All of the policies that are different or that the interesting insurance agent brings to men and women for sale can be reduced to one of these four forms.

These policies also have what are called additional benefits. For instance, there is a provision in the insurance law since the Armstrong investigation that, after a policy has been in force three years, the insured is entitled to borrow from the company against that policy. There is a great deal of borrowing of this kind. Then there is the cash surrender clause, under which, if the person insured is unable to continue the policy, the company does not keep all the money that it has received on the policy, but is compelled to pay the insured a sum specified therein. In addition there are what are known as paid-up values, that is, after the policy has run for a certain length of time, the insured may if he wishes get a paid-up policy for the amount of the insurance which the reserve warrants. And there are, further, a number of other clauses for which you pay, say, a little more, but every one of which stimulates men toward thrift and makes the insurance policy not merely a protection against the hazard of death but literally a means to saving.

Now a word as to the premium which we pay for these policies. It consists really of three parts. If we pay thirty dollars to an insurance company for one thousand dollars of insurance for a year, a certain portion of that money is by the company immediately set aside for the reserve, that is the sum held by the company as against its liability on that policy in the future. Another portion is set aside as representing the losses; that is the death payments of that year, and still another portion is used for the expenses of the company.

The reserve is simply the sum of money which put at interest, say at three and a half per cent. for the expectancy of the life of the policyholder, will mature in full every policy obligation of the company even should it write no more policies whatever. This reserve is, therefore, a very different thing from the reserve of a savings bank. Another fact which you should also have in mind is that in all insurance computations a large proportion of the premium goes into reserve. Hence, should anyone say to you that insurance companies make for their stockholders the difference between the total premium received and the total of the loss payment and expenses in a given year, tell him flatly that he is wrong, for more than half the total premiums goes into reserve to protect the policy. I mention this for the reason that a member of the New York Assembly in debate once made the astounding statement that the income of a great life insurance company from premiums was $80,000,000 a year, that it cost it $20,000,000 to collect the premiums and run the business, the expense element, and that it paid to policyholders, say, $25,000,000 a year, the loss element, and, therefore, that the stockholders of the company took the other $35,000,000. This man knew better. The $35,000,000 went into reserve to protect the policyholders of that company; the stockholders had no right nor interest therein.

Now, in rejoinder to my friend who wishes me to speak about corruption. We Americans are too prone to criticize, but there was reason for criticism before the Armstrong investigation. That investigation made it clear that these reserves of which I speak were being used by their officers as they should not have been used. Syndicate agreements whereby the officers profited rather than the company, so-called yellow dog legislative funds, and a lot of other discreditable things were developed in that investigation. These shocked the country. Indeed, the Armstrong investigation was the very beginning of the present movement for the uplift of our public and our private business life. And these criticisms were justified. But that was eight years ago.

No man, however, is justified in urging these criticisms to-day. Instead we should recognize the changed conditions. You need not fear, men and women, that the things these companies were then caught doing will be done by them again or that they are doing those things now. The wrong financial practices were stopped by public opinion and by law. The forced draft methods in the agency field which made it possible for an insurance agent in the last days of December in any year to go into a business man's office and say, "Here, I will give you $100,000 of insurance practically for nothing," that that agent might increase the volume of business for his company at the end of the year—these methods, too, have stopped. Deferred dividend policies, as they were called, were at the root of the evil of that day; such policies can no longer be written in New York. Indeed, the very policy forms, themselves, which were then quite varied, have now been standardized. The agency forces of the companies have gone through the fire and come out a great force for good in this country. This is my answer to the man who asked me to speak about corruption. There is none at this time in the great life insurance companies of this State.

Now, a few words as to insurance and thrift. In our social system we have several thrift agencies. Let us note some of the basic differences between these agencies. The savings bank is an individualistic agency for thrift. You deposit your money and you draw it out. It earns a little while it is on deposit, but you have nothing to do with the management, the trustees of the bank. They are self-perpetuating. Further, in dealing with a savings bank the benefit sought is for the depositor, not for his dependents or his family; and still further, savings bank deposits are purely voluntary. There is no compelling force except the individual's desire to save.

The building and loan association has been called the compulsory bank. It, too, is individualistic, but it has some mutual features. Essentially, however, it has a different purpose, namely, that the depositor may borrow therefrom with which to build a house. This thrift agency is, therefore, for his benefit and the benefit of his family. It is not, however, purely voluntary. There is an element of compulsion in that the deposits must be made regularly or the member's rights cease.

An insurance company, on the contrary, is essentially mutual, not individualistic. In it, the benefit sought is not for the person who pays the premium, but for that person's dependents, and, as in a savings and loan association, the requirement that the premium must be paid regularly amounts to a compulsion that increases the value of the insurance company as an aid to thrift.

Have you ever considered what a vast thing life insurance is in these United States? We have here pretty nearly 100,000,000 of people. These people hold about 30,000,000 life insurance policies, which taking account of duplicates means that about 25,000,000 of our people are insured. Even in industrial insurance there are two holders of such policies to one savings bank depositor. Indeed, there is more life insurance per capita in the United States than in any other nation on the face of the globe. Thus, insurance is much the largest of the thrift agencies known to us.

Now why this form of thrift so popular here? One reason seems to be that ours is a land of limitless opportunity. Each man is pretty sure that he can get something to do and the wherewithal to get on. Hence, he thinks chiefly of the needs of his family after his decease. Not so abroad, in Germany or in England. Poverty is far more general than with us; opportunity for productive labor much less. And the individual as well as the State look more to other thrift agencies.

Another reason is that most of the other kinds of thrift are voluntary, that is there is no form of compulsion operating upon the individual. In insurance the premium must be met regularly or the policy will lapse. This is indirect compulsion. Indeed this fact considerably accounts for the extent of insurance thrift in the United States.

Now a few words as to ordinary insurance. It is that kind of insurance which is written for those who can afford out of their income to pay a fair sum quarterly, semi-annually or annually, as a premium with which to buy a fair amount of indemnity on death. Many of the great companies which I have mentioned write nothing but ordinary insurance. The size of the policy varies, say, from $1,000 to $100,000 or more. The premium is based on the actuary's tables and, of course, on the man's age at the time the insurance is placed. It is so reckoned that through his early years, say up to forty-five, he is really paying more for the insurance than he should, but beyond that time he is getting it cheaper than he should. The premium has been leveled out to so much a year, and hence is called a level premium. This is the basic difference between ordinary life insurance and the insurance furnished by the fraternal societies. The latter charge a certain sum for everyone, irrespective of age, and the sum charged is usually what should be paid by the younger man. Thus, it usually happens that the older members in fraternal insurance are getting more insurance protection than they should get for the dues they pay. The difference between ordinary insurance and industrial insurance has been expressed in the phrase that the former is class insurance and the latter mass insurance. I do not like this phrase, but it perhaps expresses the distinction. In ordinary insurance there are many investment features. Indeed you can treat some policies as you would a deposit in a savings bank. Thus a policy of ordinary insurance makes for thrift in the well-to-do. It also performs a larger function, for the aggregated reserves of the companies transacting ordinary business, to say nothing of those transacting industrial insurance, bring together great funds that are loaned out and thus put to work in great industries and great railroads.

Now as to industrial insurance. It has been said that it is modern workmen's insurance on the basis of voluntary thrift. I accept that definition with the elimination of the word "voluntary," for industrial insurance is modern workmen's insurance on the basis of somewhat compulsory thrift. It comes to us from the old burial gilds of England three hundred or more years ago. Its basic thought is to provide indemnity against a pauper burial. It is transacted in England not merely by great industrial corporations, but by the famous friendly societies, thirteen of which, still existent and prosperous, date from the first half of the eighteenth century. It is, however, not of these forms of industrial insurance, but of the forms typified by the industrial life insurance corporation and the industrial health and accident corporation that I wish more particularly to speak.

In some ways industrial life insurance is the reverse of ordinary life insurance. In the latter we have a fixed benefit, $1,000, $2,000, or the like, and yet the premium varies in accordance with the age at the time the policy is written. In industrial insurance we have, not a varying but a stated premium, 5 cents or 10 cents a week, irrespective of age, while the benefit varies in accordance with age. In ordinary life insurance we pay our premiums by check. No one comes after them, and if they are not paid the policy is lapsed after a brief period of grace. In industrial insurance we pay once a week or in some cases once a month to a collector representing the company who comes to our homes for that purpose. In ordinary life insurance the insurance of infants is almost negligible—and I use the word "infant" in the legal sense, that is under twenty-one years of age. In industrial insurance there are more infants insured than there are adults, indeed, industrial insurance has been well called family insurance. The average policy in ordinary insurance is about $2,100, in industrial insurance about $115.

The reasons for the success of industrial insurance in this country will, I think, be apparent to everyone who has followed me thus far. Originally the idea was that a man insured himself or the members of his family against pauper burial, than which there is no more hateful thing. This is the first reason. The second is the convenience afforded the policyholder through what is in effect the establishment of an agency for the payment of premiums in every man's house. The third is the weekly payment idea, the premium being payable in effect when the wage comes in. The fourth is, of course, the semi-compulsion on the policyholder, in that, if the premium is not paid every week, the policy after a certain time lapses and all benefits are lost.

As a result of the combination of these ideas or reasons great industrial life insurance companies have grown up in this land, two of them already of vast proportions and writing upwards of one million policies a year.

Coincident with this industrial life system, where the hazard dealt with is death, there has also grown up in recent years, largely in the middle west, a group of companies known as industrial health and accident companies. These operate in much the same way, that is through collectors who call weekly or monthly and collect a stated premium which is the consideration of a policy that grants indemnity against disability due to illness or accident. This system is still young and has of late been much criticized.

So much, then, for industrial life insurance and its auxiliary industrial health and accident insurance, and so much also for the insurance company in the life field, whether ordinary or industrial.

A well-known insurance president once said that the insurance agencies of our day "must adapt themselves to the varying phases of social necessity which they are ordained to minister to." We are coming to a time in this country when these companies must measure up to our economic needs or yield the field. Certain benefits must be produced by these companies, or, if they fail to provide them, the people will turn to government for insurance protection. It follows, that the salvation of private insurance as a system rests upon its ability to ascertain the wishes of the people and to give the people what they want. If private insurance does not do this, there will be an irresistible demand for government insurance. Indeed, as an instance, if industrial insurance stop short, forsooth, because it may not pay so well and refuse to grant indemnities against disability due to illness or accident, or if the industrial health and accident companies continue to be merely profit-making enterprises, then the people will turn to their government, and state insurance for the masses may become a fact. If, on the other hand, the companies now doing this industrial business shall measure up to the needs of the people, state industrial insurance will make no headway here. Nor should it. This is not Germany, nor even England. Bureaucratic compulsion and a state monopoly of any social service are foreign to our ways and habits of mind.

Another thought, and I close. It has been well said that abstinence from the use of money as soon as earned is of the utmost importance to the economic development of our people. Insurance is a means, and a beneficent means, to compel that abstinence. It is again the old parable of the talents, but with a different application. For he who either hides his dollar where it does not earn or spends it where the spending is not needful is without thrift, and, like the unfaithful servant of old, risks being cast out, he and his family, into the outer darkness of indigence and want.

FIFTH LECTURE, APRIL 2, 1913.

THE SAVINGS AND LOAN ASSOCIATION AS AN AID

By Archibald W. McEwan

Secretary, New York State League of Savings and Loan Associations

It is not intended that this talk shall be an essay on "Thrift." For elaborate essays and definitions I refer you to Samuel Smiles, Benjamin Franklin and later-day political economists whose books may be found in the libraries. The object of this lecture is to point out a practical way whereby men and women, by economy and prudence, not penuriousness, can get a few dollars together by saving even the odds and ends of their incomes. There are several plans for promoting thrift, with which you are familiar, savings banks, postal savings, life insurance, for example, and these plans are excellent; it would be absurd for me to criticize them in view of the great good they are doing.

I believe, however, after giving the subject considerable thought, that the co-operative savings and loan system is the ideal thrift plan; first, because it encourages persistent, systematic saving; and second, because it promotes the ownership of homes among persons of modest means, which is only another form of thrift. The more small home owners, the more stable government. Then, too, the co-operative plan of these associations draws them closer to the people than any other savings institution. The suffrage question was settled by these institutions long ago—there are many women directors and women officers.

There is some confusion in the minds of the general public as to the objects of the institutions which belong to our leagues. This is not surprising, as more than one man of prominence has requested league officers to explain the methods. It was stated on this platform by a lecturer, a leader in his special field, that savings and loan associations lend ninety per cent. on first mortgage. He is mistaken. These associations can lend eighty per cent. under the law, but the conditions are unusual when more than seventy per cent. is loaned—the borrower must be A1 in point of character and ability to meet his payments.

It is well to state that these associations are organized under the State banking law and are under the same strict supervision as savings banks, trust companies, and State banks. The first section of the New York State laws states clearly the objects of these institutions. I quote verbatim:

"Savings and Loan Association— . . . The term 'savings and loan association,' . . . means a corporation formed for the purpose of encouraging industry, frugality, home building and the saving of money by its members, the accumulation of savings, the loaning of such accumulations to its members, and the repayment to each member of his savings when they have accumulated to a certain sum, or at any time when he shall desire the same, or the association shall desire to repay the same."

There are many safeguards thrown around the management of these associations, and all are now operated under a uniform law which went into effect two years ago. The directors of all associations must have a certain number of shares in their institutions, or one income share paid in full; they must be sworn in when they take office, and these affidavits are on file in the State Banking Department at Albany. At least once a year examiners from this department go through the books of associations. At the end of every calendar year a detailed report of the business of the association for the year, filled out on blanks furnished by the department, must be sworn to by the president and secretary, and filed in Albany. The State Banking Department conducts a strict investigation into the character and standing of men who apply for a charter to operate an association, and more than one application has been refused.

In connection with State supervision, attention should be called to the fact that every Superintendent of Banks in the States where these associations operate highly commends their value to the community both for thrift and home-owning. The United States Government through Congress has exempted them from the corporation tax law, and this State gives them many privileges. The present income tax bill also exempts these institutions from its provisions.

These associations, under the State law, are preferred creditors in State banks and trust companies. For example, to bring it home, when the Northern Bank failed, savings and loan associations' accounts had to be paid, and were paid immediately without any discount. Another provision of the law is that a savings and loan deposit is exempt from execution to the amount of six hundred dollars. An association cannot adopt any by-law until it has received the approval of the Superintendent of Banks; in fact, it is illegal for an association to move its office from one building to another, or even to another floor in the same building, without giving the reason for the removal on a form submitted by the State Banking Department, and the Superintendent of Banks has the power to reject or approve it.

Every association issues a detailed report each year of assets and liabilities, receipts and disbursements, for general distribution. Detailed statements of the condition of all associations may also be seen in a book of reports published by the State Banking Department and on file in associations' headquarters and in libraries. Members have a right to attend board meetings and examine the books of their institutions. Every savings and loan association is also required to set aside a part of its earnings at each dividend period until it has a surplus of at least five per cent. over the amount due its depositors. This surplus cannot be touched except for losses on real estate acquired by foreclosures. No other savings institution in this State is required by law to have a surplus, at the present time.

An association cannot lend money outside of a radius of fifty miles from its office. Few of our city associations will go so far as thirty miles, and boards keep an eye on all real estate on which loans are made. When there is no demand for mortgages from its members, it is limited to investments in the same securities as savings banks. There are many other safeguards thrown around these associations; I have merely given you sections of the law which seem to me most important.

These institutions are popularly called "building and loan associations, which is the official title in New Jersey. The official name in this State is "savings and loan associations," in Massachusetts "co-operative banks," and in Louisiana "homestead associations." Philadelphia has the honor of organizing the first association in the United States. This was about sixty-five years ago; it had one set of shares, and, of course, long ago liquidated its affairs. The plan originally came from England, and is modified to meet our demands.

In the beginning the plan was somewhat different in detail from that of these days. Then a number of men subscribed for shares, aggregating to pay certain amounts each month. The books were then closed to outsiders and this money was loaned to the borrowing members. When all the shares had reached their par value in twelve years or less through dues paid in and accrued profits, the institution went out of existence. This plan was soon found to be unsatisfactory, as it involved the incorporation of a multiplicity of associations. The policy now in vogue in our league associations gives a person the privilege of depositing at any time; there is no red tape, thus giving associations an indeterminate existence.

Philadelphia has always been the greatest building and loan city in the Union; and it is due to this fact that it is called the "City of Homes." The oldest association in the United States is located there; it was organized fifty-six years ago. That city has nearly 150,000 dwellings purchased through these associations and owned by their occupants. The associations there have 200,000 members and $20,000,000 assets. Wherever these institutions are strongest, the home-owning growth is most remarkable. Here at home on Staten Island the associations have more than 800 borrowers for homes, and at least 4,000 savers of amounts averaging five dollars a month. Fifty per cent. of the houses built in that borough are financed by association funds. In other sections of the State many homes in Troy, Elmira, Corning, Port Jervis and Ilion stand out as conspicuous examples of the good these institutions can do in the direction of thrift and home-owning when properly managed.

I say properly managed advisedly. In this city some years ago were concerns that had "building and loan," "savings and loan," or something similar, tacked on to their corporate names, which were not conducted in the interest of their shareholders, but in the interest of unscrupulous officers working for their own selfish ends. These concerns were not co-operative in any sense, they simply used the name as a cloak. Unbusinesslike methods caused them ultimately to fail; and their failure cast a shadow for a time on our league institutions in Greater New York. It was difficult for the average citizen to discriminate when he saw in large type in the newspapers "Building and Loan Association Fails." Even the editors of metropolitan dailies were woefully ignorant of the co-operative plan of our institutions; and it is only within the last few years that the scales have dropped from their eyes so that many of these editors now see the unequalled opportunities for home-owning and saving that the truly co-operative association offers. I know of two editors on morning newspapers here in New York that are paying for their homes through these associations, and at least thirty or more are saving through them for the rainy day. Under the new law in this State it is now impossible for these associations to go outside their own field or for their managers to grind private axes. The leagues and the Banking Department get after recklessness in management with a club. The league association is operated on altruistic lines and personal interests are often sacrificed for the general good. We all know that real co-operation is always inspired by an ethical motive, and you will find this motive the foremost in nine-tenths of our institutions.

Twenty-two per cent. of the membership are buying their homes, the others are savers. When it is remembered that building and loan associations in the United States have 2,100,000 members and $1,000,000,000 assets, that in this State they have 162,000 members and $60,000,000 in assets; that in our neighboring State of New Jersey there are 216,000 members and $106,000,000 assets; that these institutions have stood the test of more than fifty years, passing through at least three panics; that in the panic of 1907 no association in Greater New York or among the two hundred and forty in this State closed its doors, and in fact paid out money over the counter to members who applied for it when every other door was shut in their faces, so to speak, it is self-evident without going any further, that they rest on a substantial basis, and do not feel panics to any extent; in fact, the law protects in such a manner that a "run" in one of these institutions is quite impossible. Yet savings and loan associations are not rivals of the savings institutions; they are co-workers with them in thrift, and each has its own way of working it out.

It is known to every man and woman who has studied co-operation that the building and loan association system is the only plan of co-operation that is widely successful in the United States. The reason for this is that while these institutions are essentially co-operative, one man being as good as another, there is nothing of the rainbow character in their financial methods, and all interested are equally benefited; not a few salaried officers or preferred stockholders. Their safety lies in the fact that all their money is invested in first mortgages—small mortgages on homes, and that these mortgages are being paid off every week or month; that these mortgages are within a limited radius where the property can be and is readily inspected by the members. Any real estate man will tell you that these mortgages on homes are the best security it is possible for any financial institution to have. A man will get to the last ditch before he will let the family roof go from him. And these associations will help him—foreclosures do not work automatically with them.

It is generally true of this city and its suburbs that the co-operative savings and loan association is the only place nowadays where a man with a few hundred dollars, who has a longing for a home in the less congested sections, can get that longing satisfied. That is to say, where he will get one hundred cents on the dollar every time, and disinterested men will advise him on a home purchase. He can pay for his home in a long or short period of time, and arrange his payments so that the expense of carrying will not bear him down. Large money lending institutions will not take loans with small equity that are being reduced by monthly payments. They simply collect interest every six months. They prefer the big mortgages which sometimes run up into hundreds of thousands of dollars or else they buy guaranteed mortgages. Then again, most institutions organized under the State laws which lend money on first mortgage are limited by law to sixty or sixty-five per cent. of an appraised valuation, a wise measure when the mortgage is not reduced at intervals. One or two institutions allow you to reduce your mortgage by small payments on interest days, but you cannot get more than a sixty per cent. loan and only in a limited territory. The savings and loan association is given the privilege by law to lend as high as eighty per cent. of an appraised valuation for the reason that the mortgage is being reduced every week or month.

You cannot buy a home by simply wishing for it, neither can you enjoy the pleasures of living in a home of your own simply by longing for them. You must be willing to help yourself, and our league savings and loan associations give you the opportunity. The associations do not give anything for nothing, however; none of us who are self-respecting want charity. Their object, in fact, is to bring out the best that is in you, to make you optimistic, to bury selfishness.

It is self-evident to any person who has given the subject a moment's thought, that the man who owns his home is likely to take more interest in civic affairs and is generally more interested in the government of his community than he who pays rent. The home-owner has a stake in the community. He has a direct interest in the amount of taxes and assessments because he pays them directly out of his own pocket, the rent payer pays only indirectly.

The savings and loan association plan is exceedingly simple; yet there are thousands of persons who imagine that it is involved. The average person does not realize that if he can afford to pay $25 and even $20 a month rent in an apartment in this city, it is quite possible for him to buy a home in the suburbs through one of these associations, and completely own it in about twelve years. Elsewhere, of course, land and houses are much cheaper. If you have no money saved, you should begin to save in an association now, as these institutions lend you more money on the purchase price of your home than you can obtain elsewhere. When you are enrolled as a saver, your prospects for getting a mortgage later on are far better than the man who walks in from the street and makes application.

It must be understood that these associations have no part in the building of the Borough of Manhattan, which must be left largely to the great financial institutions with millions at their command. The savings and loan plan is for the modest home-owner, for the man or woman who is anxious for a home that costs a few thousand dollars. Few associations will lend more than $6,000 to one person, and generally prefer three $2,000 mortgages to one of $6,000, for the reason that three are likely to be carried easier than one. As a matter of fact, the average mortgage in most city associations is less than $3,500; in the State the average is $1,900.

The building or savings and loan association builds no houses itself, neither does it buy any property. It cannot do it; that is the law. It may own its office building, but nothing else. The home-getter has his deed and the association has the bond and first mortgage as security for the money loaned. The deed has no strings, and a borrower can sell at a profit, if he wishes, at any time, just as if he had any other loan. Occasionally, an association may get property on its hands because a borrower on bond and mortgage has been unable to make the required payments, and the institution is forced to take possession to protect the interests of all the other depositors. Thus, if a report of an association has a real estate item among its assets, you will know it means property which it had to take back; if it owns its office building—and even this is a modest building of three stories at the most—it probably will be a separate item.

As I have just stated, the savings and loan association may need to foreclose a property occasionally to protect the interests of all members. It should be kept in mind that the depositors in these institutions are partners, the board of directors representing partners' interests. All the profits and losses are equally divided and the member who pays his 25 cents a week has a voice in the managament of the institution along with the member who pays in ten dollars or more a week. There can be no favoritism shown in granting loans, providing satisfactory security is given. Every member has equal rights, and loans are granted on the security and the personal character of the borrower; this latter factor is most important. The humanitarian element is always in the foreground. Association's boards will not lend money to a man with bad reputation, no matter what security he offers.

These institutions—referring, of course, to our league institutions—are not conducted on the hard and undeviating lines of the average money-lending corporation. The boards of directors of building or savings and loan associations are made up of men who are well known in their communities and in the neighborhoods where these associations operate, and who have the confidence and respect of their neighbors and acquaintances. They are public-spirited men who are thoroughly alive to the advantages of these societies for saving and home-owning. They feel that the American home is the safeguard of American liberty, and that these institutions make for good citizenry. Many have acquired modest fortunes through hard work in professions, trades and business. Many saved their first dollar and own their homes through the medium of the saving and loan society. They appreciate what these institutions have done for them; and it has imbued them with the lend-a-hand spirit that leads many men unselfishly to give considerable time to the improvement of the condition of their fellow-men. Thus, thousands of men serve year after year as directors in these institutions without pay; they have the feeling that it is a privilege to watch over their fellow members' interests, to be factors in the management of institutions that have for their objects home-owning among persons of modest means and the inculcation of thrift through saving little bits of money systematically every week or every month. Yet these men do not perpetuate themselves in office, they are simply re-elected when their terms expire.

It is quite common to find men who have served continuously on boards of directors for twenty years, and even twenty-five years, without getting one penny for their services. They not only manage the finances, but are persistent propagandists for the extension of the work of their institutions. They point out to men and women how important it is to get some money saved as an anchor to the windward, and to married men and women, especially those who have children, how easy it is to get a home in the suburbs through these associations, if they will only make a beginning. These directors are the means of bringing in thousands of persons who become savers and home owners. These men and women did not realize that even a dollar a month means two hundred in twelve years until it was personally pointed out to them by directors. Directors even go so far as to collect the monthly payments themselves, handing to the secretary on meeting nights the money of perhaps fifty persons, who pay amounts ranging from one dollar to ten or more dollars a month. The associations, as a rule, are open evenings for two or three hours, weekly or monthly, and you can see this scene enacted time and again if you go to the meetings that are held to receive money. Several associations here in the city are also open every business day and all persons therefore have an opportunity to make inquiries or send their savings at times most convenient to them.

It is not surprising that many directors in after years meet men and women time and again whom they persuaded to save in an association, and who afterwards "made good" either by owning their homes or by getting a little money saved that otherwise would have been frittered away; and these persons are not slow to express their gratitude. It makes directors feel that they have not lived in vain to be greeted with such remarks as "I would not have had a dollar saved if you had not urged me to join the savings and loan association. I made pretty good money, but some of it dribbled through my fingers—spent for a lot of foolishness. This regular saving is of great value to me; it jacks me up in other directions and has a good effect on my general habits—makes me more systematic in my everyday affairs."

A director of one association received a letter the other day. Part of its contents may interest you. The writer says: "We are at least $4,000 ahead of the game through your advice. We had been paying $25 a month rent for several years—didn't see my way out of it, and couldn't figure that we would be ahead on any other scheme. We have three children, and my wife and myself always felt the call of the suburbs. After we had regularly paid $5 a month in your association for a few years, it amounted with profits to $500. This was really found money, because we never would have gotten it in any other way. As a matter of fact, several times I had to borrow the monthly dues from you, as you will remember, because I wanted to keep up the habit—felt that the money must be paid at all hazards.

"When you said to me that I could just as well have a home of my own with a little patch of ground around it, and that probably the only additional cost to me over rent would be a couple of dollars a month more carfare, I began to investigate. Wife and I spent Saturday afternoons and Sundays for several weeks looking for a real home. We found a place for $3,200 that looked well, and as you had previously pointed out to me the fact that the seller would get cash for his property, it proved to be an inducement to reduce the asking price. The cash figure was cut $100 and I paid $3,100. Your association loaned me $2,600 on first mortgage. I put in my $500 on the purchase price. The payments on the $2,600 were $26 a month, one half of which went to pay off the mortgage, the other half for interest. Additional carfare, taxes, and insurance brought it up $5 more a month; but I never counted this for it was offset by the vegetables we raised, no doctor's bills for the children, and the money saved on outings—don't need them as the veranda and the flowers and the garden and the chickens are too satisfying to lure us away from home in the summers very often. The mortgage is all paid off now. We are behind the breakwater, and care not how rough the sea is outside. Advancing values have made our property go along. The other day I was offered $4,500 for it, so you can see the difference between a bunch of rent receipts in one hand and $4,500 in the other, and all accomplished without any sacrifice whatever."

There is considerable of the human factor running through the management of building or savings and loan associations which cannot be found in other business institutions run for purely money-making purposes. It has already been pointed out that directors serve without pay. The management of these institutions is conducted with due regard to economy, but never at a sacrifice of business principles. Salaried officers in most associations are the secretary and treasurer, and these men are paid far less than they would receive from other corporations or persons engaged in private business. A report of any league association will conclusively show that. Compare the expenses of these institutions with those operated on purely business lines, and you will find a great difference in favor of savings and loan associations. All through the co-operative movement in this State and New Jersey, and in fact throughout the Union, extravagance of management is unknown. In this State the annual expenses of these associations are limited by law to two and one-half per cent. of the assets—that is to say, if an association has assets of $50,000 it cannot spend more than $1,250 for expenses. The co-operative savings and loan associations of this State last year spent an average of about three-quarters of one per cent. for expenses of doing business. They have never yet reached an average of even one per cent. for expenses, although the law allows two and one-half per cent.

Savings and loan associations do not care to foreclose property. Boards of directors will help you out without, of course, jeopardizing the interests of all the other partners. If you are buying a home and find that through no fault of your own you are temporarily unable to keep up the stipulated payments, there are many avenues open to you before the house will be taken away because you cannot meet payments at the moment. Several associations allow suspension of payments if a borrower gets out of work or has sickness or death in his family; but the majority take up each case of this nature and settle it on its own basis. The associations, therefore, in these days rarely have foreclosures; and there are societies that have been organized more than twenty-five years and have aided hundreds of their members to get homes that have never taken one home back—some way has been found to save the homes of honorable men and women who had "hard luck" so to speak, through no fault of their own.

A man who wishes to get his home through a savings and loan association must select it in one of the boroughs outside of Manhattan—Bronx, Brooklyn, Queens or Richmond, or the New Jersey suburbs. It is possible to buy a modest house with a little ground around it in some sections of the greater city for $3,000, and even less. It may be a little walk from the transit line and perhaps so-called improvements are lacking, but a man should be ready to make some sacrifice for his family. Suppose it does take more than an hour to get to work; is it not worth while in order that the children may have pure air and sunshine and some other place than the street for a playground? Those rent-payers who lived in congested sections of New York for many years and paid out hundreds of dollars for rent, before they saw a light, so to speak, and bought their homes through co-operative savings and loan associations, can appreciate the difference between walk-up-stairs flats and six and seven-room cottages—between air-shaft bedrooms and light from out-of-doors.

I stated that many persons who pay as little as $20 a month rent can live in their own homes if they make up their minds to do it. They should, however, have a little money at the start, as a savings and loan association requires equity. If you haven't any money, begin immediately to save, even twenty-five cents a week, and you will soon accumulate enough to buy a lot. The equity which you offer the board in presenting your application for a loan may vary, but it must be twenty per cent. at least, as required by law. That is to say, if you want a house that costs $2,500 you should have at least $500 in cash; if you desire to build a house, the lot should be worth $500 and you should own it. The values are fixed by the association's appraisers. The association must always have the first mortgage, as required by law. Two thousand five hundred dollars will build a six or seven-room frame house in the suburbs, and I have seen houses built for even less money that looked well outside and were comfortable inside. Payments are made as the building progresses, and the association's appraisers, composed of an architect and builder, see that plans are carried out—a most important matter to the average man or woman who knows nothing about such things, and is likely to build but one house in a lifetime.

If you are determined to own your own home and have only a few hundred dollars, a wisely managed co-operative savings and loan association is the only open door so far as getting in on the ground floor is concerned. If you have little or no cash, the procedure to get a home is like this: Begin to save in the co-operative savings and loan association near where you now live. After getting together a few hundred dollars, decide on how much money you can afford to pay each month on a home. Before you start looking for a cottage, see to it that your wife is heart and soul with you, for without her co-operation you will probably get sick of any such undertaking. Visit the section in which you think you would like to live, and get a list of properties from real estate men in the neighborhood. If you are timid it would be well to rent there for a time, so that you can see the conditions on dress parade in June and in the bleak winds of December.

This is not essential, however; you are both matured and sensible. Your wife and you can determine, after considering the matter thoroughly, what you can do. Select a home at a price that will be within your limitations; don't carry too heavy a burden of monthly charges. The real-estate agent will give you a few days to decide. When you see some place that looks good, and within your means, with a full description you start for the savings and loan association that you know about. An interview with the president and secretary will be wise before you place your application officially before the board of directors. The officers know values, and can generally tell you whether the board is likely to grant your application. It is always wise to get advice from these officers before you buy; it is disinterested. But in any case do not sign papers or bind yourself in any way to buy a house until the association officially says that it will lend you the money you require.

Assuming that your application is favorably considered, after an inspection of the association's board of appraisers for which you pay a small fee, you also pay the expenses of searching title and legal fees, which are moderate. As showing still further the humanitarianism which runs through these organizations, many associations provide that their lawyers shall charge reduced fees, and state the fees that they shall charge.

In most institutions for every $1,000 that you borrow you will pay ten dollars a month, five dollars of which goes to your credit, reducing the mortgage, and five dollars is interest at six per cent. The general results are practically the same in all these institutions, with perhaps difference in details. You can have your mortgage reduced at intervals, when one hundred or two hundred dollars are paid through dues and accrued profits. The home is free and clear in about twelve years on the basis of monthly payments of ten dollars on each one thousand dollars borrowed. Several associations will give you a statement showing the exact time a mortgage will be paid off at the rate of ten dollars per thousand. If you had paid rent in the meantime, you would have nothing to show for it except receipted bills.

Latterly, several associations in the greater city have opened the door still wider to the man or woman who has a home as the heart's desire. These institutions will give you a divided mortgage, part of which is on the plan just mentioned, and which cancels itself in twelve years; on the other mortgage you pay six per cent. monthly interest, no dues; it goes on indefinitely. The object is to help out those men and women who find that even twenty-five dollars a month payments are a burden which they could not stand many years.

There are no renewals to pay every few years under any of the savings and loan plans as there are on the ordinary mortgage. It can run one or twenty years as you desire. You never have the fear hanging over your head that the mortgage expires in a year or three years and that it may not be renewed. That is why many persons prefer the savings and loan mortgage over other mortgages. It cannot be called in at times of financial stringency or at any other time until it is ready for cancellation. Many persons figure that even if they can get another loan at five or five and one-half per cent., the fear of renewal is ever before them, and that it is worth one-half or one per cent. to sleep nights.

I have tried to give an outline of what a league savings and loan association does in the way of helping men and women to own their homes. The money, of course, comes from the investors. These associations are a great aid in helping one to form habits of thrift. A person can become a depositor and have all the rights and privileges of membership by paying in as little as one dollar a month. Everybody realizes the importance of having a few dollars in hand for emergencies and opportunities, and no self-respecting man wants charity at any time. There are thousands of men and women who acknowledge a debt of gratitude to these institutions—it gave them their start, sometimes in business, sometimes to get a fund together for the education of children, and the thousand-and-one other objects for which a few dollars are needed. It means self-respect to them. I will not go so far as saying a few dollars are a person's best friend, but they come mighty near it.

This $1, $2, or $3 a month, whatever you can afford, you save continually, persistently. You do this because there is an incentive—perhaps some penalty in the shape of a small fine or loss of part of a dividend if you do not pay regularly. Thus saving becomes a habit, it has a steadying influence, and has a good effect on you all around. Before you know it, you have a hundred or more dollars together—which probably you wouldn't have gotten in any other way. Your money goes to help provide members with homes—it is a first lien on these homes. Can you imagine any better security for your earnings than that? It is acknowledged by real estate experts to be the best security in the world.

These associations also have income shares, where multiples of a hundred dollars or more can be paid in; and four to five per cent. dividends are paid on these shares. And if you find that, through irregular employment or other causes, you cannot agree to pay a stipulated amount regularly, the savings and loan association can take care of you through what are known as savings shares. You can pay in when you please and as little as you please on savings shares—there is no loss of interest for irregularity.

You will always get from four to five per cent. interest on your money, on any class of deposit in these institutions. Here again is an advantage, as the returns are larger than in other financial institutions which cater to the small depositor.

It must not be forgotten that every member gets the same profit on every dollar paid in; there are no preferred shareholders in these institutions. The associations are co-operative, and every member—borrower and investor—has a voice in the affairs of his association. If the management is not to his liking, he can protest and throw it out, or go to the Banking Department and courts. Boards of directors are not self-perpetuating. The savings and loan association is the most democratic financial institution in the world for the reason that the members are partners and each knows where his money is going; he has a right to examine the books of his institution. If he so desires he can inform himself where every dollar of mortgage money is invested.

The children can be inoculated with the thrift germ through the medium of savings and loan associations. The law permits these institutions to have children's branches, and in Corning, N. Y., one association receives the deposits of more than 1,200 children, who have saved $36,000. In Elmira, one association is authorized by the Board of Education to receive the school children's savings and at least two-thirds of the scholars are depositors; in East Rutherford and Carlstadt, N. J., building and loan associations have prosperous and growing juvenile annexes. All these children's branches are operated practically without cost, as business men and corporations send their clerks to help in some cases, and in others the principals and teachers of public schools receive the money and turn it over to the associations. The money deposited is controlled by the children themselves.

It is of course understood that accounts can always be opened in savings and loan associations by parents or guardians as trustees. Thousands of men and women in this State and throughout the Union are saving a dollar or two a month for their children; even two dollars a month means four hundred dollars in twelve years, which will go a long way toward paying the expenses of the boy or girl through high school or giving them an opportunity to specialize on some subject.

I appeal to you who have children to think it over. I appeal to you who are thoughtless about the future and yet occasionally feel that you should get a few dollars together to preserve your self-respect through the years, to get the thrift germ. This is the day of uplift, and savings and loan associations are uplifting organizations—they stand for the making of good citizens.

SIXTH LECTURE, APRIL 9, 1913.

HOME OWNERSHIP

By Francis Jordan

Secretary, The Thrift, Brooklyn, N. Y.

To-day we hear constantly of this class and that; workingmen and capitalists, employers, employees, but little of the more fundamental divisions—those on the one hand who in their hearts wish to get something for nothing, and on the other hand those who intend to pay a fair and generous price for everything received.

The first class includes the idlers, the tramps, the gamblers, the thieves; the second, the faithful workmen, the honest business men, the earnest professional men, the heroes of the world. Each one of us here to-night determines day by day to which class he belongs, and no one of us always acts consistently as a member of either class.

The purpose to get something for nothing is always ignoble and dishonest whether it be found in the pickpocket who steals your money, the schoolboy who cheats in examination, the workman who wastes his employer's time, or the employer who takes an unfair advantage of his employee or a business rival. If we would only once for all make our own the truth that what "costs nothing is worth nothing," and its counterpart, that "what we sow we reap," much of the distress of life would disappear.

It is useless to look for an easy road to success, for there is none; success in any line is only another name for growth or progress, rising from the lower to the higher; we can easily run or slide down hill, but it costs effort to walk on a level, and if we climb heights it often taxes our breath.

The underlying theme of this course of lectures will never be popular because it has very little romance about it; it involves daily plodding, hard work, the expenditure of less than is produced, and careful attention to detail. We are too inclined to restrict the thought of thrift to the saving of money, while it should include the best use of time, strength, mental activity, personal and family efficiency. Our constant aim should be to make every effort produce more than it consumes.

We like to throw upon others the responsibility for our failures, while in nearly every instance it is practically wholly our own. In looking over the titles of these lectures it is interesting to note that each of the means spoken of, savings bank, trust company, life insurance is only an aid, and always will remain so; whether or not you and I will make use of the aid is for each of us to decide.

There is a great deal of talk these days about the hard conditions that surround us, and there is much truth on that side, but since time began conditions have been hard, and they will never be made easy if we are depending upon others to solve the problems which face each of us. You and I have got to conquer those conditions and remember that what costs us—not someone else—nothing is worth nothing, and that the value to us of any result will in every instance be what we pay for it—not necessarily in money but in real personal effort. Your success in life and mine depends not upon opportunity, for each of us is throwing away day after day opportunities by the score, but upon the use of opportunities which are right at our hand.

I scarcely ever come into this hall but that I seem to see upon the platform, a tall, awkward, homely man, born in poverty, a rail-splitter, flatboat hand and country store clerk, too poor to receive anything but the slightest schooling, whose education and preparation for his life's work were obtained from reading Æsop's Fables, a Life of Washington, Robinson Crusoe, Pilgrim's Progress, the Bible and Shakespeare and a few other books. Such was his opportunity—have you and I less? There are no books we cannot read for the asking. At the end of the day are we tired by hard work? are we poorly paid for our work? His work was as hard, his hours longer and his pay less than that of any able-bodied man in this room. Yet it was Abraham Lincoln, who on February 27, 1860, upon this platform delivered a speech before the people of this city, that made it probable he would be nominated for the presidency and gave him the opportunity four years later to save his country at the cost of his own life.

Those who knew him intimately never tire of telling of his kindness of heart, and many a patriotic boy who went to the front to fight for his country and, after a day's forced march, wearied almost beyond endurance was placed on sentry duty only to fall asleep, found in him his best friend, and through him was saved from death at the hands of a court martial.

Mr. Lincoln had a stepbrother whose chance in life had certainly been as good as his own, who was shiftless and lazy, and it was the kind-hearted Lincoln who wrote this letter I wish to read to you.

Shelbyville, November 4, 1851.

"Dear Brother:

"When I came into Charleston day before yesterday, I learned that you are anxious to sell the land where you live and move to Missouri. I have been thinking of this ever since, and I cannot but think such a notion is utterly foolish. What can you do in Missouri better than here? Is the land any richer? Can you there, any more than here, raise corn and wheat and oats without work? Will anybody there, any more than here, do your work for you? If you intend to go to work, there is no better place than right where you are; if you do not intend to go to work, you cannot get along anywhere. Squirming and crawling about from place to place can do no good. You have raised no corn this year; and what you really want is to sell the land, get the money and spend it. Part with the land you have, and, my life upon it, you will never after own a spot big enough to bury you in. Half you will get for the land you will spend in moving to Missouri, and the other half you will eat, drink, and wear out, and no foot of land will be bought. Now, I feel it my duty to have no hand in such a piece of foolery. I feel it is so even on your own account, and particularly on mother's account. The eastern forty acres I intend to keep for mother while she lives; if you will not cultivate it, it will rent for enough to support her—at least it will rent for something. Her dower in the other two forties she can let you have and no thanks to me. Now, do not misunderstand this letter; I do not write it in any unkindness. I write it in order, if possible, to get you to face the truth, which truth is, you are destitute because you have idled away all your time. Your thousand pretences for not getting along better are all nonsense; they deceive nobody but yourself. Go to work is the only cure for your case."

One brother complained of circumstances, the other surmounted them. The stepbrother we know nothing of, Mr. Lincoln will be remembered as long as our country lives in history.

Our special thought to-night concerns the home—the foundation of everything—the place where the family meet and upon which every country depends. To the extent the home is pure and healthy, so will be the State. The boy and girl who can look back to the house in city or country where their parents and grandparents lived certainly have a heritage which has a value of its own.

It is of course possible to have a true home in a hotel suite, but I do not now recall any man of prominence who was born in the Fifth Avenue Hotel or the Windsor.

Home ownership as an aid to thrift is our theme to-night.

As the ownership of your own house gives the greatest promise of a real home, we shall not expect it to be the easiest to secure, but the very effort it necessitates brings corresponding advantages. What are some of them?

First: A sense of independence. If you own your own house there comes with it an unconscious sense of dignity, the feeling that there is a place which is in truth your castle, and where you may exercise and devolop both your own taste and that of your family. There can be no doubt that it also tends to give a healthy family individuality, which is lacking where the family moves from place to place.

Second: It makes the owner more valuable to the community because he is more deeply interested in civic questions. When the tax rate goes up, the tenant is inclined to smile because the landlord is hit, but the owner is pretty likely to take a lively interest in what the Board of Aldermen and the Boards of Estimate and Apportionment are doing. It is in districts where there is a large number of home owners that careful watch is kept over assessments for public improvement, such as street openings, paving, sewers, etc. Like all direct burdens that come upon us in the form of taxes, we wish the assurance that the cost shall bring a corresponding benefit, and that the improvements shall be obtained if possible without either waste or graft.

The father of a family, who is more or less tied to a particular locality because of the ownership of his house, is likely to feel a keen interest in the wise enforcement of excise laws, and he will do what he can to secure decency and cleanliness in his neighborhood. It will be no academic question for him which he will relegate to the landlord, but the character of his boys and girls and his wife's happiness will depend in no small measure on the kind of stores and houses which immediately surround his, and he will fight to keep them the best possible.

He will regard the tenement house and health departments not as his natural enemies, but as instrumentalities with which he must work to prevent contagion and death being brought to his door.

He will be less likely to join in the ignorant and indiscriminate condemnation of the police force, but he will study its manifold difficulties and will support the thousands of strong, earnest and upright members of that force in an endeavor to maintain order and to make his community a law-abiding one.

Third: It should make him of greater commercial value. Other things being equal stability is certainly a business asset. A clerk who has been for years in one line of employment becomes accustomed to the routine and so can do almost automatically what it will take a stranger months if not years to learn. The very fact that he owns his home will help to keep such a clerk from the vagrant tendency, which is such an enemy to all business progress.

The very hostage that has thus been given to fortune will spur his ambition and make him work harder to deserve the promotion which all earnest workers look forward to.

Fourth: With the exercise of reasonable judgment, the purchase of a house may be expected to yield a fair pecuniary return on the investment.

Many look upon this as of the first importance, whereas it should be the least. The other advantages should be weighed at their true value, and this one regarded as only a possible piece of added good fortune. If it is so regarded it will be found that the prize comes in this line quite as often, if not oftener, than in most business ventures. In my own experience it has been no uncommon thing that those who have had a hard time to possess themselves of a home have told me that this has been the means of their securing the only competence they have been able to acquire, and that the return has been large and very satisfactory.

Granting then that the ownership of one's home is a great advantage, how may we secure one?

The first and quickest way is of course to purchase one outright, but there are so few of us able to do this that we may pass it by with mere mention.

The vast majority will never own a home except through assistance from some source, and it is the various forms of such assistance that is to occupy our thoughts for the remainder of this evening's lecture.

First: The straight mortgage.

Whenever we think of this form of assistance there inevitably comes to mind someone who has already learned a great deal about thrift, for already he has in hand forty or fifty per cent. of the cost of the home he desires. This being the case, the trust companies, savings banks, life insurance companies and title insurance companies are ready to lend him the rest of the money to complete the purchase.

Let us take a specific illustration. You see a house you wish to buy and find it is worth the price asked—five thousand dollars. You have saved two thousand dollars and wish to borrow the remainder of the money. You can get this three thousand dollars from almost any of the institutions I have named. You will be asked to sign a bond—that is, a written promise under seal to repay to your lender, or whoever succeeds to the lender's rights this three thousand dollars on a specific day, usually three years from the day the money is lent you, and you will also be asked to promise to pay interest (usually, five, five and one-half, or six per cent. per annum) upon this three thousand, semi-annually. You will also be expected to give to your lender a mortgage, on the property you have bought as security for the repayment of this three thousand dollars; the mortgage will recite in substance the contents of the bond you have signed, and will convey to the lender the property purchased which will be described in full in the mortgage, but this conveyance will be upon condition that if the interest is paid as called for in the bond and the three thousand dollars is repaid on the date named, the transfer of the property shall become void, and that all rights of the lender in the property shall cease. If you are married your wife will be required to join with you in the mortgage so as to transfer to the lender any interest she has in the property. The bond and mortgage will also contain promises on your part to keep the property insured against fire for the benefit of the lender and, further, until the three thousand dollars and all interest is repaid you will promise to pay any taxes, assessments or water rates that may be assessed against the property. While the mortgage in form transfers the property to your lender, in fact he has no right of possession so long as you keep your promises, and in case of your failure he would have to foreclose his mortgage and sell the property at public auction to the highest bidder, and upon such sale he can recover only his three thousand dollars, the accrued interest, costs of foreclosure and any unpaid taxes, etc., the balance, if any, of the purchase price would be applied to your benefit.

As will be seen the whole three thousand dollars thus becomes due at one time and you will have to exercise the will power and have the forethought to prepare to meet this obligation at that date. If this be not done your only alternative will be to secure from the lender an extension of the time for its payment or you must again borrow the amount from some other source; in the first instance there is usually a moderate expense, and the second being an entirely new transaction, calls for as great, or even greater, expense than that called for by the original loan.

This is about the simplest form where any assistance is required; but now let us consider a similar transaction of a more complicated form.

A. has a house worth five thousand dollars, upon which he has placed a three thousand dollar mortgage with interest at five per cent. per annum, payable semi-annually, June 1, and December 1, in each year and the principal of three thousand dollars is to be repaid June 1, 1914. He wishes to sell and you are willing to purchase for five thousand dollars subject to the three thousand dollar mortgage, but you have saved only one thousand dollars. In that case, you can carry the transaction through if he is willing to take your one thousand dollars from you and a mortgage for one thousand dollars with interest at six per cent. per annum, payable semi-annually, installments of one hundred dollars each to be paid with the accrued interest on each interest date, and the whole amount then unpaid to be due June 1, 1915, in addition to the one already on the property; or you may be able to find someone else willing to lend you a thousand dollars upon such security, and with this money and the thousand already in your hands you can complete your purchase.

It will readily appear you are taking considerable risk in such a transaction as this. Your interest cost for the first year will be one hundred and fifty dollars on the first mortgage; first six months' interest on the second mortgage, thirty dollars, second six months' interest on the second mortgage, twenty-seven dollars and two installments, two hundred dollars, making four hundred and seven dollars.

In June, 1914, the first mortgage against your property will become due and you must then pay it, arrange to have the time of its payment extended or procure a new mortgage from some other source. If the present mortgagee is willing to extend the time of payment the expense will probably be anywhere from ten to fifty dollars. Should he insist on having the three thousand dollars you will have to incur the expense of getting a new mortgage for this amount and, as the transaction is practically a new one, the expense is likely to be equal to that of getting the original mortgage, which will probably be from fifty to a hundred dollars. If an entirely new mortgage is to be placed on the property, the holder of the second thousand dollar mortgage may prevent your securing a new first mortgage, because he will not subordinate his own mortgage. Assuming that you have passed June, 1914, with comparatively little expense, you have still to meet pretty heavy interest and installment charges in that year, and in June, 1915, the balance of seven hundred dollars on your second mortgage will have to be paid or renewed. Should you wish to renew this mortgage the expense is likely to be from seventy to one hundred and fifty dollars.

Should you fail to arrange for the payment of either the first or second mortgages when they become due, the accrued interest and expense of foreclosure in addition to the amounts of principal due on the first and second mortgages are likely to be very nearly, if not more than, equal to the sum anyone will bid for the property at auction, and so you may lose not only the thousand dollars invested in the property, but you may have a deficiency judgment against you as well.

Many have purchased homes with the assistance of two mortgages and have carried the transactions through successfully, but it is only persons of determination, sagacity and resource that should attempt it, and there are thousands who have lost their savings by trying to do something beyond their power. Under its very best form the aggregate interest on the first and second mortgages, installments on the second mortgage, taxes, water rates, insurance, repairs and occasional assessments for public improvements, make a burden which only the strong can bear.

Last Wednesday evening, the Building and Loan Association as an Aid was fully explained by one thoroughly familiar with its methods, so I need take no more of your time to speak along that line.

The last aid which I shall bring to your attention is that of the installment or partial-payment mortgage. This mortgage is similar in every respect to the "straight mortgage" except that the amount borrowed is not repaid in a lump sum at a future date with semi-annual payments of interest in the meantime, but is repaid in monthly installments of a definite amount, the interest is calculated on the whole sum borrowed from the date of the loan until the first installment is paid; this installment is applied first to the accrued interest and the remainder deducted from the principal; the interest is then calculated on the balance to the time the next installment is paid; this installment is applied to the accrued interest and the remainder deducted from the last balance as before, and so step by step until the entire indebtedness is cancelled.

To give a concrete illustration:

A. borrows a thousand dollars at six per cent. and pays each month $11.33 on account of his debt. By making these payments for a term of ten years, or one hundred and twenty successive payments on the first of each month, he will entirely cancel the indebtedness, principal and interest. In other words, the total payment of thirteen hundred and fifty-nine dollars and sixty cents has repaid the loan of one thousand dollars and interest, notwithstanding the fact that he has paid six per cent. upon every dollar he has owed in the meantime. Should he borrow the same amount, one thousand dollars on a straight mortgage, at five per cent., and not repay the amount borrowed for ten years he would have paid in interest five hundred dollars, and if he then paid the thousand dollars borrowed, the total cost to him would be fifteen hundred dollars to accomplish precisely the same result that thirteen hundred and fifty-nine dollars and sixty cents did by the other method. It thus appears that there is a difference in outgo of one hundred and forty dollars on each thousand borrowed in favor of the instalment mortgage. Nor is this all, for we know from our own experience and from observation that there are a hundred persons who can pay from ten to eleven dollars a month, where there is one that can pay a lump sum of one thousand dollars at any one time. And this is leaving out of account the additional expense to which he would be put for the extension or extensions or renewals of the straight mortgage which we have already seen he would be almost sure to have incurred, for the term of a straight mortgage is usually three years.

As compared with the method of a first and second mortgage the question of expense to the borrower is greatly in favor of the installment mortgage, and experience has shown that it is perfectly safe to lend to an earnest and thrifty owner an amount repayable in installments, equal to both of these mortgages; certainly any such mortgages as the borrower could safely assume. And when he has an installment mortgage he runs no risk, for if he makes the payments he has agreed to make, the loan can never be called in. Should the lender wish the money never so much he can get it only from someone who will step into his shoes and receive the installments month by month, as they become due.

Perhaps some of you are thinking, if not asking, what is to prevent the owner putting aside a given amount each month in the savings bank, and when the first or second mortgage becomes due using this fund to pay his mortgage. There is nothing—except that human nature is what it is. Of those who have tried this method very few have carried it through. We make poor creditors of ourselves, others are much more likely to hold us to such a promise. Further than this when a considerable sum has been accumulated, say a thousand dollars, a four-per-cent. return seems very small, and there is great temptation to use it for some personal desire or to invest it at a higher rate of interest. At any rate the money goes and the mortgage is not paid. An installment mortgage has this in common with life insurance, it is enforced saving.

One's own home brings with it many advantages, but it can be had only at some cost; almost any method is better than none. It will demand sacrifice and determination. We must be prepared to do real work for it, and like everything else it will not come by dreaming.

Grover Cleveland was once asked whether he was an optimist or a pessimist: he replied that he did not know, but of one thing he was sure he was not an "Ifist." He described an "Ifist" by the following illustration. With a party he was once being led through the Maine woods by a guide; they lost their way and wandered aimlessly for some time, then left their packs and food under a tree while the party sought the blazed trail they were looking for; this they did not find nor were they able again to find the tree where their belongings had been left. It began to rain, darkness was coming on, it was cold and they were all hungry. At this juncture the guide rather irresolutely said, "If we only had some ham we could have some ham and eggs if we only had some eggs."

It is not essential that one own a house to have a home, it is the spirit of sympathy, love and sacrifice that make it. The family may have to live in one, two or three rooms and may still have a perfect home.

There is a German woman of my acquaintance whose husband only a few years ago was a successful grocer, doing a good business and employing seven or eight clerks. He was stricken with a dire disease, their savings have been spent in trying to restore him to health but without success. His trouble is of a progressive nature, and there is apparently nothing for him to look forward to but increasing weakness until he is released by death. His wife works hard day after day making the houses of others more cleanly and pleasanter places of abode. She is thus taking care of her husband and educating a son and daughter. She is as cheerful a person as comes to our house, and only the other day, with radiant face, said, "I could cry for joy that I am strong and able to care for him." Such a spirit makes home wherever the family may be.

SEVENTH LECTURE, APRIL 16, 1913.

THE POSTAL SAVINGS BANK AS AN AID

By John Harsen Rhoades

Rhoades and Company, New York

Thrift. What is thrift? Turning to my dictionary, I find the following synonyms or equivalent words: Economy, Good Husbandry, Savingness. Turning to my practical experience, I find that it is that which everybody preaches about but which few Americans put into practice.

One of the earliest examples of thrift that history records may be found in the scriptures, when Joseph, availing himself of the seven fat years of harvest, made provision for the seven lean years. Thrift then is that quality of the mind that impels us to prepare for adversity. It is the basis of domestic independence, the cornerstone to the Home of Contentment.

While thrift has many meanings, such as prosperity, success and the like, which call for spending as well as saving, our task this evening is to confine ourselves to that kind expressed by the word savingness, by the practice of which we hope to secure comfort and ease.

Poor Richard says—most of you have read Poor Richard's Almanac—"A man may, if he knows not how to save, keep his nose to the grindstone all his life." No truer words were ever written. Poor Richard said many good things, such as, "Beware of little expenses, a small leak will sink a great ship"; "If you'd know the Value of Money, go and borrow some"; "If you would be wealthy, Think of Saving as well as Getting."

While theoretically we agree that saving is wise, the difficulty lies in putting our theories into practice. It is not so much that we want to ape others as it is that we like to associate with and live as well as those who have more means than we have. This tendency falls doubly hard upon those with a moderate income.

Not long ago an employee asked me for an increase in salary, asserting that he could not support his family on what he received. Believing that he was being justly paid, having only a short time before raised his salary, I suggested that he economize. "It is easy for you to suggest economy," he replied. "You are in a position where at any time you can save money, but I cannot afford to do so." Now that man little appreciated that it's just as disagreeable for a man with a comfortable income to cut down his expenses and sacrifice his foolish pleasures as it is for the poor man to do so. It is merely a matter of proportion. People of moderate means rarely appreciate this fact. I do not wish to imply that the man who is getting but two dollars a day can cut down much, for one must eat to live, but I hold that where economy involves the giving up of a useless extravagance, the man upon a moderate salary suffers no greater hardship than does the rich man who sacrifices a luxury.

I have laid stress upon this point because so many assert that their incomes are not sufficient to warrant thrift. As I have said every wage-earner can save something. Once establish the habit and the task will be easy, and what is more if keenly interested it will in time become a pleasure.

It is the habit of systematic or regular saving that we should try to form.

In discussing this subject a man who had mastered the art of self-denial told me that in his youth he had tried in many ways to save, but had always met with failure. He had placed funds in the savings bank, but found he did not keep it up. He came to the conclusion that he needed the whip of compulsion to make him save, and it was not until he invested in the shares of a building and loan association that he began to make progress. Here in order to secure the profit, that is to reap the full benefit of this method of thrift, he was obliged to put aside a certain sum every month. If he failed to do so, he forfeited a proportion of the profits.

He explained that, in his experience, starting with an initial deposit in the savings bank, and intending to make regular deposits thereafter, he discovered that instead of making such deposits, he spent the sum for other purposes, the result being that at the end of the first year his savings account had but one deposit. As a system he concluded that so far as he was concerned it was a failure.

It is a pity that there is no way in which the savings bank can encourage systematic thrift by imposing a penalty where deposits are not made regularly, or better still, by offering an inducement to encourage periodical deposits. In Germany there is a scheme in operation by which a savings bank, in order to induce systematic saving, opens accounts with the understanding that an amount equal to the first deposit shall be deposited every week, to be paid to collectors who call and present coupons for the stated amount. If not paid to the collector or the bank within eight days, the bank reserves the right to close the account. I have no suggestion to offer, but let us hope that some day we Americans may hit upon a working plan. I have, however, wondered why savings bank officials do not watch their accounts more closely and from time to time approach delinquent depositors either by representative or by letter, impressing upon them the advantage of systematic saving.

Put briefly, there are two ways of accumulating money, to save it or to make it. Few are money makers, that is few of us possess that speculative ability necessary to acquire a fortune—if we did, most of us would lose a fortune—yet every man can save money if he will but cut his coat according to his cloth. Strange as it may seem, if you once establish the habit it is as easy to save as it is to spend. How few appreciate this truth. How many will say that it is easy to spend but hard to economize, and how many will claim that it is all very well for a man with an independent income to speak of saving, but that their incomes will not permit it.

We are told by our foreign friends that as a nation we are thriftless. It's asserted on good authority that we are the most extravagant people on the face of the globe. Now, so far, we have got along pretty well with all our waste, due to our enormous natural resources. But as the country becomes older and its resources diminish, economy will be essential, and the time will come when we must adopt the principles of thrift or else we shall find ourselves dropping behind. This is the experience of history. One of the most thrifty nations in the world is France. After the disastrous German War of 1870, she found herself owing five thousand million francs, that is $1,000,000,000, yet the stockings of the French peasantry paid that huge indemnity in less than three years. To-day the whole world is extravagant—nation, state, municipality, corporation, individual is getting too fast and too far into debt. It is high time that we called a halt.

Let us look into some of our personal extravagances, for it is through the extravagance of the individual that a nation becomes wasteful. Let's see how a man can save, and this without robbing himself of a single comfort that is good for him. Take for instance the purchase of newspapers. How many of you purchase more than two papers a day? For the sake of argument, let's assume that some of you buy as many as four. By cutting out two, you can save, roughly speaking, $7 a year. How many pay a nickel a day for having your shoes shined? Five cents a day for 360 days amounts to $18 a year. How much do you spend on being shaved? Assuming that a shave costs 15 cents, if one is shaved every other day—and many of you need it oftener—it will amount to about $27 a year. How often do you travel in a street car when you might easily walk, and improve your health by so doing? Assuming that 5 cents is wasted daily on carfare, we find that it would amount to $18 a year. How many smoke more than ten cigarettes a day? One ought to be satisfied with ten. If you smoke twenty, you can by giving up the extra ten, save roughly speaking, 10 cents a day, another $36 a year. How much can you save by cutting off unreasonable indulgence in moving-picture shows? Shall we pay $15 a year, for perhaps you do not appreciate that 25 cents a week amounts to exactly $13 a year. Do you happen to know that $500,000 is spent daily upon picture shows in this country? How much will we ask the women to save from the purchase of foolish knick-knacks? Is it not fair to assume that on the average these purchases amount to at least 10 cents a day? This aggregates $36 a year. From personal experience 10 cents a day is letting them down easy. Then there is the bargain counter, which tempts us to buy what we do not want. Perhaps you will recall the story of Toodles, who purchased a coffin for himself at a bargain sale for the day when he should require it.

I have mentioned only a few of our numerous extravagances, but let us take our pencils and figure out what these amount to for the family unit. About $150. This, of course, is a rough estimate, and without doubt we have placed too large a total against some individuals, but I think we can safely assume that such individuals have been extravagant in other directions if not in the particular ways I have described. Suppose we assume that a family can save $150 a year, do you know what could be done with that $150? Do you realize that $150, if a man started young enough, would carry a life insurance of $5,000? Do you appreciate that $150 put in the savings bank yearly at three and one-half per cent. at the end of ten years would amount to $1,823.22?

Now, how about the money we should spend, for cheapness is thrift's worst enemy. Thrift in truth is that quality which makes one woman in five hundred choose cashmere when she could buy silk for the same price, knowing that silk sold at the same figure could not have the same wearing quality.

The proper kind of thrift is seen in Paris where the wage is small and the cost of food high; yet the people live better—in so far as the food is well prepared—look better and seem happier than the same class here. Since they cannot afford waste, they must get the best results for the money expended, and having faced for years conditions that we as a people must meet in the future, have learned that thought and intelligence are needed even in the small things of life. In New York City it is the want of thrift that makes the problem of how to live on a small income seem almost hopeless.

You can rent an apartment in Paris for fifteen or sixteen dollars a month. You can have one here for the same price. In Paris the fact that your neighbors are a thrifty, careful people, making the best of what they have, renders living under the same conditions quite a different thing from life in a cheap apartment house in New York.

I have a firm belief that what we now regard as a great misfortune, namely, "the high cost of living," will do more to teach real, practical thrift in this country than thousands of books or sermons.

It is something like the old negro, who in lamenting the folly of compulsory education said he "'lowed he could knock more sense in a young negro's head with a two-inch plank than all the spelling books in Virginia!"

One young man tells me that his way of saving is through keeping accounts.

"I find," said he, "that keeping books is of the greatest aid in maintaining a proper balance between one's income and expenses, and enables one every year to put a certain amount aside that would otherwise be spent."

At the beginning of each year, he told me he determined what proportion of his income should be used for rent and living expenses, what amount for his personal expenses, and what should be saved.

The great advantage of this method is that he knew just how much he would have for each particular kind of expense, and having only a certain amount would not exceed it, and at the end of the year he knew exactly how much he had spent in each department.

Another advantage of this system lies in the fact that the amount which one determines to save is put by at the beginning of each month, and is not determined by what is left over at the end.

Another way of saving is that illustrated by the experiences of the newly married couple, who were obliged to move their belongings from their parents-in-law's to their own house and did not wish to go to the expense of hiring a van. The husband agreed to move all the things, and so he took his evenings to do it. He had got about everything over when it came to moving the grandfather's clock. He procured some straps, put the clock over his shoulders, and struggled down the front steps. He managed to get a few doors away and was sitting on a stoop mopping his brow, when a fellow came along a little the worse for wear, and said, "Say, mister, why—hic—in thunder—hic—don't you carry a watch?"

In order to present to you a concrete example or picture of a thrifty man embodying all the traits which I have set forth, I wish to read you a small portion of an address delivered at a recent bankers' convention by the Reverend Robert J. Burdett.

"The word thrift," says the Reverend Doctor, "brings to one's mental vision a clean farm, not over acred, but without a weed or a mortgage on it; a farmer who has men to do his work; and a farmer's wife with servants in the house and leisure afternoons for herself in spite of all of which the man does more work than any two of his hired men and the woman does a little more than half the housework. He takes the paper and reads it without spelling the words of two syllables aloud; is a church member; a school trustee; is kind hearted and cheery spoken. Pays every obligation on the minute and to the penny, takes advantage of every holiday and Sunday, and always waits for the change. Waits till he gets it, too. But if the odd penny in a transaction is coming your way he hesitates and gazes at you with a pathetic note of inquiry in his expectant eyes. If with half an eye on that penny yourself, you mumble ever so indistinctly, 'Oh, that's all right!' he fades out of the scenario so swiftly and completely that you think you must have dreamed you saw him standing there a minute ago. Never wronged any man out of a dollar and no man ever did him out of a nickel; carries his money in an old-fashioned wallet, with more and tighter folds than a boa constrictor, with which he wraps up his wad rapidly when he has received a payment, and unwraps it with the deliberate motions of a man working by the day when he is getting out money to pay over to you. When his wife wants a dollar for shoes for herself and the five children it takes him longer to unroll that wallet than it did to unveil the Washington Monument. When he dies, which he does very reluctantly, he leaves his family well provided for.

"There is a vaudeville song which embodies a most excellent philosophy of thrift. Being a minister I had to learn it from my sons, but they say I sing it well for a preacher. The refrain line runs something like this: 'Every little bit added to what you've got makes just a little bit more.' " "That," said the doctor, "is the philosophy of worldly prudence and thrift."

"A little bit out of every envelope, enough to patch the leak in the roof, enough to provide for the rainy day, enough for an evening at the show, enough for the dreary days of sickness.

"Enough to pay every bill when it's presented. To take up the note when it's due. Enough to enable you fearlessly to meet the eye of the deacon when he comes down the church aisle with the basket.

"Just enough to send the children to school; just enough to teach the boy a good trade; enough to keep an extra loaf in the larder.

"Every little bit added to what you've got makes just a little bit more."

So endeth the doctor's sermon.

Having concluded that we can save, we had best consider the means offered for taking care of our savings.

As my subject deals with the postal savings bank, I shall merely mention two other institutions, and I do so to clinch what I have already said in regard to systematic saving.

Take, for example, the building and loan association. I referred to it briefly in my opening remarks. This association provides for regular monthly payments, say of one dollar, on each share subscribed for. These shares mature in about twelve years, and at their maturity they are worth $200 each, that is to say, by paying one dollar per month for twelve years or thereabouts, the investor will receive $200 for a total of $144 paid in.

Different loan associations have different rules, but the usual custom is that if, after paying your money in for a year or two, you fail to continue payments you are merely entitled to draw out what you have put in, that is, minus interest or profits.. Hence you will note a penalty for the lapse in methodical saving, and a strong incentive to continue to the end.

It goes without saying that one must exercise due caution in selecting such an institution.

Another device to encourage systematic thrift is the guaranteed mortgage bond, but you want to be sure that you get a good one. These bonds can be purchased on monthly installments of $10 for each $200 bond purchased. Interest at the rate of 4½ per cent. accrues on all payments as made. You obtain the interest from the very moment that you make your payment of $10. After making twenty payments of $10 each, you are handed a guaranteed 4½ per cent. bond, and thereafter the interest is paid by check twice a year.

Now the postal savings bank has a distinct advantage over other institutions founded to encourage thrift, not even barring our state savings bank. This advantage lies in the fact that your Uncle Sam guarantees your deposit. In making a choice of depositories, there is no need for care of discrimination, for each post office is but a collection agency for the system. Let me describe the machinery.

The Postal Savings System is established for the purpose of providing facilities for depositing savings at interest with the security of the United States Government for repayment. The System is in charge of a Board of Trustees consisting of the Postmaster General, Secretary of the Treasury and the Attorney General. An Act of Congress prescribes that the funds received by the Postal Savings Depositories shall be deposited in banks and shall bear interest at the rate of not less than 2¼ per cent. per annum. If no such bank exists in the city, town, village or locality, or if none where such deposits are made will receive such deposits on the terms prescribed, then such funds shall be deposited in the bank most convenient to such locality. If no such bank in the city or territory is willing to receive such funds on the terms prescribed then such funds are to be deposited with the Treasurer of the United States, who is ex-officio a member of the Board of Trustees.

The Postal Savings Act authorizes the Board of Trustees to withdraw from the depository banks any time not to exceed 30 per centum of the amount of postal savings deposits for the purpose of investment in the bonds or other securities of the United States. The Board of Trustees has not availed itself of this authority as yet except to purchase at par postal savings bonds issued to depository banks from depositors desiring to dispose of them.

There is now approximately $35,000,000 on deposit in the United States Postal Savings Banks; most of this is from the savings of persons who do not generally deposit in banks. It is difficult to say what class seems to utilize postal savings banks. About 25 per centum of the depositors are foreigners. The bulk seems to be people of the middle class. There are more men than women depositors. There are now about 350,000 depositors. The average deposit is approximately $100. The amount on deposit has been increased about 8 per cent. a month.

Accounts may be opened and deposits made by any person of the age of ten years or over. After opening an account the depositor may forward subsequent deposits to the Postal Savings Bank by mail.

Deposits are evidenced by Postal Savings certificates issued in fixed denominations of $1, $2, $5, $10, $20, $50, and $100. No person can deposit more than $100 in any one calendar month nor have a total credit balance at one time of $500, exclusive of accumulated interest. Amounts less than $1 may be saved for deposit by the purchase of 10-cent postal savings cards and 10-cent postal savings stamps. Each postal savings card contains blank spaces to which savings stamps may be affixed and the postal savings card with nine 10-cent stamps thus affixed will be accepted as deposit of $1 either in opening an account or in adding to an existing account.

Interest will be allowed on all deposits at the rate of 2 per centum per annum.

A depositor will be permitted to exchange the whole or any part of his deposit into United States Registered or Coupon bonds bearing interest at the 2½ rate of ~~3½~~ per centum per annum, payable semi-annually and redeemable at the pleasure of the United States after one year from date of issue.

To better illustrate my meaning: Let us compare the postal savings with the trustee system that we find in the State of New York. I have explained that, no matter in what post office you deposit your funds, your deposit is guaranteed by the United States Government. There is no need of discrimination between the post offices or branches of the postal savings bank. In the trustee system your deposit is secured by rigid investment laws—that is, investments are restricted to certain gilt-edged securities—but inasmuch as the banks are managed by individuals, some more conservative than others, it is judicious to exercise a little care in choosing our depositories. But how is it possible for the average savings depositor to exercise this discretion? Can you picture the lady who, after her bank account was exhausted, kept on drawing checks because her check book was full of checks—can you picture this lady analyzing a savings bank report? Or the one who, having been advised that she had overdrawn her account $126, sent the bank a check on the same account for $126—analyzing a savings bank report? Can you imagine the average laborer analyzing a savings bank report? Why, there are some of them I cannot analyze myself. I am reminded of Mark Twain, whose manuscript was seized by the soldiery on the Italian border, on the ground that it was a dangerous document. He explained that it was only a lot of jokes, and he explained and explained these jokes. The more he explained the less they understood, until finally he could not understand them himself.

The question presents itself, for without suggesting a remedy it is unfair to criticize an institution which has been the flower of our banking system for over a hundred years, and which in the main has served its purpose well—what is the remedy in our State savings bank situation? It's as simple as A B C. It lies in concerted voluntary action or in legislation that will enforce lower dividends, and thus enable a larger part of the earnings to be set aside to the surplus fund, the surplus being the fund that takes the place of Uncle Sam's guarantee in the case of the postal savings bank. The surplus or guarantee fund in a mutual savings bank is the margin of safety in assets over liabilities, and is computed by appraising investments at their market value—that is, at prices at which the trustees believe these investments could be sold. The surplus belongs to its depositors, and in case of liquidation would be paid over to them, but in a going concern it is held by the management as a guarantee fund for the protection of all depositors, for a trustee has no right to pay one depositor in full unless he is certain he has the means to pay all in the same manner.

Now, in bringing out the strong point of the postal savings bank, I have been forced to show up a flaw in our savings bank laws that can be easily eliminated by legislation—namely, the need of a provision for a compulsory guarantee fund or surplus. I welcome this opportunity to bring the matter to your attention. It is high time that the savings depositor was acquainted with the facts. It is high time that he more clearly understood the savings bank. We cannot secure proper legislation to curb the payment of excessive dividends unless depositors co-operate and lend a helping hand. Some of my co-trustees may take exception to my frankness, but I am one of those who believe in candor with the public. This is not to say that I do not firmly believe in correcting mistakes from the inside—when it can be done—the best reform comes from within. But I do not care to wait until public opinion, the legislature or the governor, forces me to admit the flaws in my profession.

In confessing the flaws in my profession, for I'm a banker and a savings bank trustee, I by no means wish to imply that they do not exist elsewhere. There are just as many flaws in politics as there are in banking, just as many in labor as there are in politics. Conditions change and we must meet them, or else progress is but a dream.

I should like for a moment to warn you of the risk in withdrawing a savings deposit for investment even though it be in the government bond. There is a marked distinction between an investment and a savings deposit. Of this you may be unaware. An investment is liable to depreciation, particularly what is called a long-term bond, the principal of which is not payable for a number of years. A well-secured savings deposit is not. In England many postal savings depositors were encouraged by the Government to withdraw their funds from the postal savings bank to invest in the British Consol. During the last few years there has been an enormous shrinkage in the market value of these Consols, and the loss has many times more than offset the interest received on the investment. It seems to me that the savings depositor should thoughtfully consider this possible loss. There is no reason why the Government should not offer the exchange, but depositors should be forewarned of the risk involved.

Now, my friends, I have been giving advice upon a subject upon which I could well take it, and I don't want to sail under false colors, but the thought underlying this whole discourse can be summed up in that little refrain: "Every little bit added to what you've got makes just a little bit more." There is no wage-earner so poor who cannot save an occasional dollar. The thing to be remembered is the elasticity of the dollar. Anybody can live on two dollars a day, but to make two dollars do the work of four is thrift. It is not so much what you can live on, as how well you can live on what you've got.

EIGHTH LECTURE, APRIL 23, 1913.

THE LOAN SHARK EVIL AND CO-OPERATION AS AN AID

By A. H. Ham

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The sailors of the United States Navy are fond of the sport of shark fishing. On one occasion the men of the battleship Wisconsin while lying-to off the Midway Islands captured a man-eating shark. They hoisted it on board, riddled its head with Colt's navy bullets, disemboweled it, and after removing sundry portions of its anatomy for use as bait consigned the remains to the deep. To their surprise the remains swam placidly away and with a parting flip of the tail that seemed to say "Nothing but a scratch" disappeared.

With respect to predatory habits and the tenacity with which it clings to life, the man-eating shark has a counterpart in the variety existing in human form, known as the loan shark. The term is applied to individuals and companies engaged in the business of making small loans secured by personal property, assignment of wages or endorsed notes at extortionate rates of interest. It has been impossible to determine accurately the extent to which these financial pirates operate in this country, but investigations in many cities warrant the assumption that every industrial city in the United States of more than 25,000 population in which no competitive agency has been established, is infested with loan sharks in the proportion of one to 5,000 or 10,000 people, and at least 20 per cent. of the voting population is discounting two days' labor for the immediate price of one.

In New York City investigations by the Commissioner of Accounts, the District Attorney and others have shown that about 200 loan sharks find here a fruitful field of activity and that their charges range from 60 to 400 per cent. per annum. Their victims number several hundred thousand and include city, state and federal employees, clerks employed by public service corporations and industrial establishments, teachers, small business men and professional men. It has been asserted many times that over one-third of the employees of the city are almost constantly in the debt of these agencies and are forced to pay over 10 per cent. per month interest on such amounts as they can borrow from one payday to the next.

A business of this character and extent, carried on among employees, has naturally become a source of great annoyance and worry to employers. Many of them, casting about for a solution, have attempted to discourage the habit of assigning wages among their employees by threatening with immediate discharge upon discovery any employee so involved. This rather common attitude among employers is illustrated by the following excerpt from a letter which I recently received from the president of a large manufacturing concern in this city: "We now have a rule that whenever an employee's salary is attached by one of these firms and such notice to served upon us, the employee is subject to discharge. This, we think, is a good rule, as it prevents our employees from going to these agents, whether to purchase goods or to get a loan on their wages." The effect of such action on the part of the employer is shown in the following typical case:

A young man holding a responsible position endorsed the note of a friend who had been compelled to borrow $50 from a salary loan shark. Under the loan shark system the endorser as well as the borrower is required to give an assignment of his wages. Subsequently the borrower, before he had paid his loan, lost his position and left the city. The loan company called upon the endorser to make good the loan. He was unable to do this, but knowing that his employer would discharge him if it became known that he had dealings with the loan company, and as the loan shark was already threatening to notify the employer, he went to a second loan company to borrow the amount claimed by the first. This began a chain of transactions that lasted for about eighteen months. During that time he paid the money-lenders $250 in excess of the amount received from them and was then indebted to the extent of $300. The loan shark one day informed him that unless the total amount due was paid on the following day a file would be placed against his wages. Knowing that such a development would cause his discharge, he determined to raise the money by what seemed to be the easiest course under the circumstances and appropriated $200 of his employer's funds at that time under his care. This was sufficient to meet immediate demands, but the loan shark still claimed a balance of $100 and after a time again became insistent in his demands for payment. Unable to get more money from the man, the loan company filed on his wages and he was discharged. When his theft had been discovered it was found that he had disappeared, and it is believed by his wife and his employer that he has committed suicide.

The greatest evil in the salary loan shark's business lies in his power over men upon whose wages he has loaned money and who dare not let their employers know of their assignment through fear of loss of employment. The salary loan business has been termed "the loaning of money without security," but in reality the salary loan shark has at his command a very effective agency for collection—the borrower's fear of discharge.

If only people who actually needed money went to the loan sharks the distress which now exists would be greatly lessened. One of the tragedies of the system is that it makes getting money that is not needed comparatively easy. Men are encouraged by alluring advertisements to purchase things not greatly needed, to buy expensive presents for friends and relatives at the Easter and Christmas seasons and look to the loan agent for the money with which to pay. Thus they sell their earning power, actually sell themselves into slavery for months and even years to gratify a momentary desire or to keep up a useless and extravagant custom.

That the purpose of the loan is not meritorious does not interest the loan shark, in fact provided the borrower has a good position he rather prefers making a loan for some reprehensible purpose, for he knows that it will be easy to collect his charges by threatening to notify the wife or employer.

Why is it that the backbone of the small loan business is made up of city employees and employees of large corporations whose pay is regular and above the average and whose positions are fairly secure? It is because the very ease with which such men can borrow offers an almost irresistible temptation to spend foolishly and live beyond their means. Once caught in the trap, men continue to borrow to pay interest on the first loan until sooner or later they are lured into depths of embarrassment and worry that impair their efficiency as employees and subject them to temptations to embezzlement and forgery and other crimes.

The manager of a loan office in this city once stated that within a period of three years twenty-two of his borrowers committed suicide.

It is not always the extravagant and weak-willed man who patronizes the loan shark—many loans are made as a result of needs that are real and pressing.

A few weeks ago a young man was arrested in

Chicago and brought before Municipal Judge Goodnow for trial on the charge of having attempted to pass a worthless check. His story as told to the court revealed the fact that he had once been a trusted employee of a large mercantile firm, that though his family was large he had been frugal in his habits and had had no great difficulty in supporting himself and his family until one of his children became ill. Money was needed for medicine and doctor's bills, and as no other avenue of assistance seemed open to him he picked out an attractive loan shark advertisement in the paper and borrowed $25, assigning his wages and mortgaging his furniture as security. In the course of a year or two he paid back on the $25 loan more than $80 without satisfying the loan shark's demands. As he was unable to pay more, his wages were filed upon and he lost his position. Then the loan shark threatened to seize his furniture. He became despondent and tried to end his life, but his wife and children prevented this. Without a cent in his pockets he entered a saloon and attempted to pass a worthless check. The policeman who arrested him said to the court: "It was the most pitiful sight I have ever seen. His wife was clothed in tatters and she was wearing his cast-off shoes. The house was deadly cold. We tried to find food in the house for the children, who were crying piteously, but there was not even a crust of bread. The oldest child was a boy of four, then came a girl of two and a baby of nine months. All were rolled in an old blanket to keep them warm." "Instead of punishment," said the court, "this man needs help. I will endeavor to bring this loan shark before me and mete out to him such punishment as the law permits." The judge, prosecuting attorney and court attendants then gave the victim some money and he left the court room with tears streaming down his cheeks and the bills clutched tightly in his hands. The Associated Charities was notified of the condition of the family.

Some conception of the enormous amount of suffering inflicted through the operations of the money-lenders throughout the country may be had when the circumstance is considered that fortunes totalling many millions of dollars have been amassed from the profits of the business. It is not only the transfer of this money from the channels of legitimate trade, the curtailment of bodily comforts and recreation; but also the graver aspects of impaired morals, decreased efficiency, family desertion and crime directly traceable to the loan shark business that render it worthy of public attention and concerted effort toward its elimination.

In a large number of states the loan shark has been formally abolished by law; grand juries have time and again returned indictments against him, accompanying their presentments with statements of extortion and oppression almost unbelievable in this enlightened age; prosecuting officials have announced their intention of eliminating him from the community and prominent newspapers have wound up crusades of publicity by announcing his extinction, but still this blot on our civilization remains. It is true that the activities of many of the loan sharks in New York City have been temporarily curbed by recent attempts to enforce the law and by the educational campaign that has sought to acquaint borrowers with their rights, but it is almost certain that the results will be of only temporary value unless the needs of deserving borrowers are met in some other way.

The loan shark system is like a ravaging disease —as well attempt to abolish cancer by law as to remove this malignant growth on the body politic by similar means. Our problem is to find the cause and remove it. When this is done the disease will disappear. It is important also that during the search for the cause and the remedy and the time required for the remedy to take effect, an attempt must be made to relieve the suffering of the patient by treating the outward symptoms of the disease and thereby render his condition more bearable. With the object of relieving a portion of the distress caused by the exactions of the loan shark there have come into existence in many cities within the last few years organizations that are known as remedial loan societies. These are business organizations financed by men who are willing to advance money to deserving borrowers at a reasonable rate of interest sufficient to pay the cost of operation and return a small interest upon the investment. They are accomplishing a vast amount of good and are more effective in curbing the exactions of the loan sharks than any number of laws based upon suppression. But at best these organizations are palliatives. They are crutches to assist the weak. By their very impersonal nature they cannot with any degree of effectiveness attempt to remove the cause of the trouble.

This brings us to the point of discussing the cause or causes that are responsible for the rapid growth of the loan shark evil in this country. I do not think that we can say that it is entirely due to the increased cost of living. It is rather a contributing cause of the latter, for from the moment that a man borrows from a loan shark the cost of his living is greatly increased by the high interest rates he is forced to pay. I believe there are two main reasons for the large patronage that the loan sharks enjoy, (1) the desire to spend money for unnecessary purposes which is often an artificial demand created and stimulated by the enormous development of advertising in recent years and fostered by the loan sharks themselves, and (2) sudden calls for money necessitated by unexpected emergencies such as illness or death in the family. The underlying cause of the first is unthrift and of the second it is also lack of thrift in many instances, for thrift enables a man to provide in advance for such emergencies. There is no doubt that in many incomes there is not sufficient margin above necessary expenditures to permit of laying aside a sufficient amount to take care of such crises. Such cases, however, do not constitute a large proportion of the loan sharks' victims, for we must remember that the man whose income is sufficient only to provide for the bare necessities of life has no credit at the loan office. In order to qualify as a borrower he must furnish not only security but evidences of ability to repay the loan in installments out of income. To the man who is really poor or out of work the loan shark's door is closed.

Does it not seem strange that the loan shark office is virtually an American institution, that it is practically unknown outside of this country? Can it be that in other countries sudden calls for money in time of illness or other emergency do not occur? I do not think so.

I believe it to be a fact that the average American while realizing the desirability of accumulating a fund to provide for the proverbial rainy day and insure ease during old age is prone to expect that fund to be made possible by increased earnings in the future rather than by savings in the present. When earnings are increased there is an almost irresistible tendency to allow expenditures to increase in even greater proportion. It is in the main to this tendency to live up to and beyond income in the present and to put off till to-morrow making provision for the future that I ascribe the growth of the loan shark evil.

To be able to increase our income through greater enterprise and greater efficiency in our chosen work is important, but it is equally important to learn to conserve our income through thrift. Real thrift is not mere saving or hoarding for the sake of saving, but rather the postponement of spending in order that there may be a surplus for use in time of future and greater need. To foresee to-morrow's needs and deny one's self to-day in order that to-morrow's needs may be provided for requires foresight and self-denial.

It is not upon the amount of income that thrift depends, as is well evidenced by the wastefulness of all classes of Americans, particularly in our larger cities. The very atmosphere of New York City induces high living or at least higher living than those with small incomes can afford. In the matter of thrift we can learn much from Germany and other European countries. That the tendency to live up to and beyond income has not become so pronounced abroad is due in part to the training and example which Europeans receive early in life, but principally to the fact that they are surrounded on all sides by agencies that encourage thrift, particularly to those of moderate incomes, and it is to the lesson that we may learn from those countries that I will devote the time remaining.

Those of you who have attended the preceding lectures in this course have heard the virtues of thrift discussed and have been told of the parts played by the various fiscal agencies existing in this country in aiding people to become thrifty, and yet in spite of the enormous growth of these agencies we must realize that the appeal to the thrift instinct has not yet been heard by thousands of our people.

Why is it? It is because real thrift depends not only upon having a safe depository for surplus funds, but also upon adequate credit facilities. In order to be thrifty a man of small income requires something more than agencies to receive his deposits and return them to him when needed intact with interest; he requires an agency that will extend credit to him to enable him to effect economies in purchasing, to embark in productive enterprises, to make him more efficient in his labor and to protect him from the usurer. It is not solely the difference in the amount of money or property owned by each that gives the well-to-do man his advantage over the man of few possessions—it is also the presence or absence of credit. Credit is as necessary to small-salaried people as to the rich. It has been said that the poor man "has no credit because he is destitute and he continues destitute because he has no credit."

As a simple illustration of the value of banking credit in effecting economies of purchasing, it has been calculated that the amount of money spent by a workingman in supporting himself for a day and a half would keep him two days if he were to buy for cash instead of on credit, and for three days if he were to buy in large instead of in small quantities. The regular banking institutions cannot loan to the wage-earner because he cannot furnish the required security, the building and loan association cannot loan to any man an amount exceeding the paid-in value of his shares or those of his endorsers unless secured by bond or mortgage.

The price of credit, you see, is security, and the man who now patronizes the loan shark is unable to furnish the sort of security that the banks could accept or could be expected to accept, and yet he has in many cases the best sort of security—*his character*. What is lacking in our financial system and what we are beginning keenly to feel the need of, both as regards the small farmer and the man of small income in cities, is an agency that will not only encourage saving, but will extend loans for productive purposes or for purposes that will effect a saving for the borrower or will afford relief in certain emergencies, at reasonable rates and under reasonable conditions secured solely by personal credit. That such people in other countries have been enabled to provide in advance for accident, illness and unemployment, and have been taught the efficient use of income, have been provided with credit to enable them to effect economies in purchasing and to embark in productive enterprises and have been afforded financial relief in time of sudden emergencies has been due to nothing more nor less than co-operation.

Co-operation in general is the working together of a number of individuals for the accomplishment of a common purpose. As applied to banking, co-operation means an association of individuals formed for the purpose of stimulating thrift by (1) providing its members with a modest and permanent investment for funds in the form of installment shares, (2) by affording savings bank facilities by the receiving of deposits, and (3) by making loans to members for purposes that promise to benefit them, at low interest rates and secured only by the borrowing members' reputation among their fellows.

To stimulate thrift by encouraging systematic saving for imminent and distant needs and by ascertaining and making available the credit to which each member is entitled is the function of the co-operative bank or the credit union, as it is becoming popularly known. There is nothing about this that is mysterious or complicated. The system is not only simple in theory but even more simple in practice.

A group of people associated by reason of residence, occupation, or by whatever reason, form a co-operating credit society, each subscribing for one or more shares of, say, $5 payable in installments, thus instituting the initial capital. Unlike the shares of a joint stock company the capital of a credit union thus provided is not permanent, but may be decreased or increased as new members join or old ones withdraw. On these shares interest is paid out of profits. Deposits are also invited from members, and interest thereon is paid at the same or a slightly higher rate than is paid by ordinary savings institutions. Shares represent savings for distant expenditures, deposits are savings for more imminent needs. From the capital thus accumulated loans are made to members for meritorious purposes. Funds accumulated and not called for in loans are deposited in banks or invested in sound securities.

The membership is decided upon by a board of directors, who may admit no one unless he is known to be honest. Loans are made to members by the credit committee which must be satisfied that the loan is to be used for a legitimate purpose and the applicant is deserving of credit. It is not intended that credit shall be given for the purpose of enabling men to anticipate their earnings or to encourage them in running into debt. Relief may be extended in certain emergency cases, but the spendthrift and the idler are not to be received as members, much less as borrowers.

Over the acts of the Directors and the Credit Committee a strict watch is kept by a further committee—the Committee of Supervision, which reports any irregularities to the general membership and may if occasion arises suspend any officer or committee until action is taken by the full association.

In details credit unions vary somewhat in the different countries in which they are now in operation according to local needs and circumstances, but in general they agree in the possession of characteristics which adapt them to the uses of people of small incomes and entitle them to be regarded as truly co-operative. Among them are the following:

(1) They are purely local, restricting their operations to small communities or small sub-divisions of larger communities, a particular industry or organization in which it is possible to ascertain the character of each applicant.

(2) Stock control by any member or group of members is prevented by limiting each member to one vote regardless of the number of shares he may hold. It is an association of persons not of capital.

(3) Shares are payable in weekly or monthly installments. Their par value is fixed to suit the circumstances of the majority of those who are likely to become members.

(4) The services of the Directors and members of committees are gratuitous. In larger associations some compensation is given to a manager or treasurer in proportion to the actual amount of labor that falls upon him.

(5) A Reserve Fund is accumulated by setting aside a portion of the profits each year to protect the capital against losses and to serve as a permanent and non-withdrawal capital.

This which I have briefly and very inadequately described to you is not a new and chimerical type of institution. It has had a remarkably successful history of over sixty years. Not only on the continent of Europe has the idea of co-operative credit taken a firm root, but in Japan and even in India and Egypt the movement is spreading by leaps and bounds. In all over 60,000 of these associations are now in operation, and the number is rapidly increasing. Their combined operations during the past year amounted to not far from seven billions of dollars.

There is no doubt that a large part of the enormous capital which these "perfected savings banks" have accumulated consists of sums which would otherwise never have been saved but would have disappeared in unproductive, wasteful and even injurious consumption, and the amounts saved to borrowers by relieving them of the necessity of patronizing the usurer cannot even be estimated.

This movement to encourage thrift and to "democratize" credit by making savings available for the benefit of the classes which accumulated them reached Canada just thirteen years ago. The first credit union was formed in the town of Levis by Mr. Alphonse Desjardins, who had long been a student of the subject. It proved a success, and through his efforts and under his careful guidance one hundred and five associations have since been organized.

Is it not strange that during this march of progress in the decentralization of credit the United States should have remained a passive spectator? It was not until four years ago that the first step was made in this country. In 1909 the State of Massachusetts under the advice of Mr. Desjardins and Mr. Pierre Jay, the Bank Commissioner, enacted a law authorizing the establishment of credit unions. Since that time about thirty unions have been formed in that state. No other state has as yet followed Massachusetts' lead, though without the aid of legislation some eighteen unions have come into existence among the Jewish farmers in Connecticut, New York and New Jersey as a result of the efforts of the Jewish Agricultural and Industrial Aid Society. A bill authorizing the organization of credit unions in this state under the supervision of the Banking Department is now before the legislature. It has passed the Senate, and will undoubtedly pass the Assembly and be signed by the Governor within the next few days.* I confidently believe that its enactment will mark the beginning of a new era in the development of our financial system, and will herald the passing of the loan shark who plies his horrid but highly lucrative trade in all of our cities and larger towns.

It has been said that on account of the mobility of population this country offers an unfavorable field for the formation of credit unions. The experience of the societies now in operation here disproves this. It would seem that the desired elements will be found in agricultural districts, in small towns, wards of small cities, religious, labor, trade or fraternal organizations or a particular business establishment or industry.

I have no doubt that while admitting the desirability of the increased and improved credit facilities which credit unions offer, you are inclined to wonder whether they offer sufficient security to attract and safeguard savings deposits. Among the European associations the losses have been infinitesimal. Such a thing as a run on a co-operative bank has never been experienced, in fact during times of financial panic people have actually withdrawn their funds from the regular banks and brought them to the co-operative banks for safe-keeping. The Canadian associations have had a similar experience. The largest credit union there has had no difficulty in attracting deposits and has loaned over $1,000,000 without the loss of a penny.

The fact is that as the unions admit only the honest to membership and make loans only to such of their members as have a legitimate need for the money, safeguarding the loan further by requiring the pledge of such funds as the member may have paid in upon shares or have on deposit together with the endorsement of a fellow member, an abundance of security is supplied. This security which is sufficient to attract deposits is also sufficient to enable a credit union to borrow when necessary on favorable terms from outside sources of capital. Co-operation, therefore, brings credit facilities within the reach of those who individually could not obtain them.

I cannot at this time attempt to give you more than a fragmentary idea of the wonders that have been wrought by co-operative credit. Not only has accumulated capital been made available to the classes who assisted in its accumulation, but new capital has been created by presenting new opportunities and incentives for saving, and this without interfering with the growth of ordinary banking institutions—instead the field of the banks has been greatly increased by giving large numbers of people the means of becoming regular customers of the banks. The loan shark has been eliminated, members have been taught business methods, self-government and self-reliance and have been made better citizens thereby.

Mr. Desjardins says: "Anyone who studies the existing financial fabric on this continent, seeing, as he cannot fail to do, the almost helpless situation in which the farmers and workingmen are left so far as banking credit is concerned, will inevitably come to the conclusion that there is a missing link of a very great importance, and that missing link is the co-operative bank.

"Such an organization would complete the financial mechanism by meeting, in a systematic way, the wants of the masses of the population, who find themselves to-day with no organized means for satisfying their economic needs, if we except the item of home building. It would inculcate and stimulate the habit of making small savings, it would educate —teach how capital can be formed gradually by mere cents, how it must be managed, safeguarded, multiplied by useful and provident employment; it would kill usury, as shown by the practical experience of half a century; it would democratize finance, organize credit, and transform moral qualities into valuable assets; it would instill habits of foresight, of providence, and of punctuality in promptly paying a debt when due; it would teach honesty; and bring to the man of industrious habits a higher reward than mere wages—the confidence of his fellow-citizens; it would promote the spirit of local enterprise, and facilitate improvements of all kinds; finally, it would obviate the disasters attending panics, since everyone would participate in the management of affairs, through officers representing the free choice of himself and his fellow members."

No one can deny the need for improved credit machinery in this country, and if, as would seem likely, credit unions can supply that deficiency, every encouragement should be given to their formation.

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*Became a law, May 19, 1913.

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