wonder at Sesostris hangin' on to his property so. It's as nice a farm as I ever see, and that fourth corner was a pretty piece of land, and it would 'a' kinder rounded it out, so to speak."

"Were all his children there?"

"The most of 'em was; they're a good-lookin' set, too. I haint seen some of 'em since they was little shavers. Well, I must be gettin' along home. I hadn't ought to have stopped so long talkin', but you seemed so kinder interested the other day that I thought you'd like to know. Good-day to ye."

As the old wagon lumbered off, I disengaged myself from the gate on which I had been leaning, and turned toward the house, when I heard a loud "Say, Miss Lincoln!"

I turned and saw the old farmer pulling up his horse. He screwed himself around on his seat, and said, in a loudly confidential tone:

"There's one thing I just thought of,—when they were fillin' up the grave I looked round and see Sam Stover lookin' as solemn as could be, and I stepped 'round to where he stood, and we kinder walked along a ways, and sez he,

"'Wilson,' sez he, 'do you take any stock in these new idees about heaven?' sez he.

"'Haow?' sez I. 'What views do you mean?'

"'Well,' sez he, 'you know where my daughter 'Nervy hez been working in the mills—it's a large place. She was making us a visit a few weeks ago, and she knows them that say that heaven is just like this world—some consid'able better, may be; but you jist keep a-workin' jist as you did here. She talked a sight about it to her mother and me, and I do' know as I believe it, but it's kinder unsettled me, and now, if it *is* so, heaven aint a-goin' to be no place for me, not if Sesostris is goin' to be there. For if it *is* so, and he finds it out, he'll spend all his spare time a-settin' by the gate watchin' for me, and when I come he'll tackle me before it gets shut to after me!'"—and giving me a sharp nod, and going off into a series of chuckles, Mr. Wilson gave a slap to his old horse with the ends of his reins.

BROKEN BANKS AND LAX DIRECTORS.

Of the two thousand one hundred and thirty national banks now in existence in the United States, it is safe to assume that at this moment one or two of them, perhaps several of them, are in an insolvent condition. A dozen or more of the fifteen thousand directors who are supposed to direct the affairs of these banks, and a hundred or more of the stockholders who own and receive dividends upon the stock, are at this moment duped,—"sold," as the slang is,—and their stock is worse than worthless, and their esteemed teller or cashier is a thief and a liar.* Where is this rotten institution (if we assume there is but one) located? Perhaps in some bright and thrifty New England or New York village; perhaps in a smart, enterprising Western town, or, may be, in one of the great commercial centers or large manufacturing cities. If it is a country bank, its board of directors comprises say thirteen of the most wealthy and respectable citizens of the community,—doctors, farmers, merchants, lawyers, etc.,—men absorbed in their own affairs, quite ignorant of the details of banking, and trusting everything to the cashier. A committee of three of the directors is perhaps appointed by the board to make an examination of the bank twice a year, before declaring the semi-annual dividend. This examination is conscientious, but not searching. The grocer does not insist upon going to the bottom of affairs, as he does when he thrusts his butter-trier through a firkin of butter that is offered him; the doctor does little more than examine his patient's pulse, and the lawyer entirely forgets the cross-examination. This board seldom dip into the bank-books, but feebly fumble about them, or open and shut them in a convincing manner. They are mildly or openly snubbed by the cashier. They carefully count his cash, and after two or three trials find it all there, or rather they find the amount which he says should be there; but they have never been known really to *prove* the cash by referring to the books and ascertaining what amount *should* be there. Probably they go over the bills discounted, and put down the amounts and foot them up, and find them correct; perhaps they glance at expense accounts, but they do not carefully scrutinize the other accounts in the

* On the day these lines were written, the cash of a teller in one of the Hudson River banks was discovered to be $52,000 short.

general ledger, nor take off the balances from the dealer's ledger, nor analyze the sources of their earnings, to see if the bank has really earned the amount claimed. They take the most important things on trust; they do not want to seem to doubt their cashier. If he says they have half a million deposited with their New York correspondent, they take his word for it and ask no proof. Then they do not know what proof to ask for, and this fact also makes it awkward. A sufficient test would be to ask to be shown where or when the New York bank had credited them with interest on this deposit.

A few years ago, in a large village situated in a rich and prosperous agricultural section of New York State, there was a flourishing, but insolvent, national bank, whose stock commanded a high premium. It was an old institution, and its reputation was without a shadow of suspicion. Its president was a State senator, well known as a good banker as well as a shrewd politician. Its cashier was one of the most trusted and popular men in the community, active and influential in the church, a leader in public enterprises, treasurer of this, that, or the other railroad or corporation, and, the fall his bank failed, was a candidate for Congress, and came near being elected. And yet, for two or three years, both he and the president had been misapplying the funds of the bank and deceiving the Government examiner and the directors—the former by false entries and forged paper, the latter by taking advantage of their ignorance and credulity. The board of directors consisted of eleven or thirteen solid, respectable, shrewd business men, and when the bank failed, it seemed to them as if the solid ground had vanished into thin air before them. In their semi-annual examinations they had mainly taken "Charley's" word that it was all right. When they called for the other stocks and bonds on hand, Charley said they were on safe deposit in New York (they were really pledged with Charley's broker in Wall street); they did not ask for the key of the safe-deposit box, or for other evidence; when they went over the discounted notes, they found a large number of "dummies." Charley said they were in place of the notes themselves, which had been sent away to other banks for collection. If they had asked to see the acknowledgments of their receipt by the other banks, or if they had telegraphed to their New York correspondent for his balance, with a view to compare it with the account in the general ledger, Charley would perhaps have turned all sorts of colors; or if they had taken off a trial balance from the individual ledger, Charley would have been embarrassed in explaining the discrepancy between it and the statement from the general ledger; for he owed depositors a good many more thousand dollars than his statement set forth. When, on one occasion, the bank-examiner came along and found very grave irregularities and delinquencies, Charley kept the directors away from him as carefully as if he had had the hydrophobia; and when, upon his report, the Comptroller of the Currency wrote to the directors, calling their attention to the state of affairs, Charley "gobbled" the letter. Another time, when Charley expected the bank-examiner, and his account in New York was short, he spouted the bonds of his customers left with him for safe keeping, and made the account good. Still another time, he borrowed the note of hand of one of the directors, a man reputed worth half a million dollars, had it discounted in New York, and with the proceeds helped himself out. If this director at their next meeting, or earlier, had told the board what he had done, the bank's downward career might have been checked. Or if the other director who had privately let the president of the bank, who was his son-in-law, have some U. S. bonds, ostensibly for some plausible purpose or other, but really to put up with his broker in Wall street,—if he also had let his act be known to the rest of the board, the bank might have been saved. But the usual result followed. One morning it was discovered that the cashier had absconded, and that there were no funds in the bank. An examination revealed that not only was the entire capital and surplus of the bank gone, but that a large assessment upon the stock would be necessary to pay the debts of the bank. The president was arrested, indicted, tried, and sent to State-prison, but the cashier is still a fugitive from justice in foreign lands.

Yes, gentlemen directors, you are probably the victims of your own credulity and ignorance. Your stock is worthless, and the stockholders who elected you are betrayed; you have not done your duty; you have let your cashier snub and hoodwink you. You have not assumed and exercised the authority that was rightfully yours. The officers are amenable to you; they are in your employ; let them understand that every act of theirs is to be open to your inspection, and subject to your approval or disapproval. It is not their bank—it is your bank; its business and funds are held in trust by you for the stockholders who elected you. Do not act as if you were interlopers when you appear in your own bank, or like passengers on a train who hesitate a long time before they dare ask the conductor a question. You are the conductor, and the train must be run as you say, and if the cashier grumbles, put him off. When disaster overtakes a national bank, it will be found, in nearly every case, that the directors have left its entire management to its officers. They have used no authority. They have stood around and timidly approved of what the officers have done. Their ignorance of bank matters has been one source of their timidity, but their failure properly to appreciate their duties and responsibilities has been equally unfortunate.

Directors are apt to expect too much of the annual visits of the bank-examiner, as if he possessed some clairvoyant insight into the condition of every bank in his district. In the first place, the insides of the bank may be entirely eaten away between his visits. Secondly, he is a stranger, and can know little, except by hearsay, of the character and habits of the bank's officers, or of the security of its loans. Half the discounted notes might be forgeries, and the titles to its real estate worthless, without his discovering it. Thirdly, the examination of national banks by the Government is not undertaken directly in the interest of the stockholders and creditors of the bank, but in the interest of the requirements of the law. These banks are organized under an act of Congress, and they sustain a certain relation to the general Government; and it is this relation alone that the Government is bound to concern itself about. And it may be said here that this relation is not that of an agent to his principal, by which the latter becomes responsible for the acts of the former, but is that of a corporation to the law under which or according to which it is established. The Currency Act is full of restrictions and prohibitions; it points out the way the banks shall go, and the main duty of the examiner is to see that this way is faithfully kept.

For instance, the law requires every bank to keep on hand, in lawful money of the United States, a certain per cent. of its deposits. For country banks this amount is equivalent to six per cent. of its deposits; banks in the large cities must keep on hand twelve and one-half per cent. of their deposits. The law forbids a bank making loans upon the security of its own capital stock; forbids it making a loan, upon accommodation or other than business papers, to any one man or firm greater than ten per cent. of its capital stock; forbids (by implication) loans upon real estate; requires it to add ten per cent. of its net earnings before a dividend is declared to its surplus fund, until the same amounts to twenty per cent. of its capital; requires that at least half the capital stock be paid in before it can be authorized to commence business; forbids the banks locking up greenbacks or national-bank currency by receiving them as collateral upon loans, and makes many other restrictions and requirements, all of which the Government is bound to enforce, and to which end it keeps the bank under its supervision, both by sending its agents to examine into their affairs and by requiring them to make periodical reports of their condition, under the oath of their officers and directors. "These restrictions," as Mr. Knox, the Comptroller of the Currency, says with great force in his last report, "are intended to protect these institutions by imposing upon them general rules, which experience has shown may be properly done by the Government *without its thereby becoming the guardian of the bank or of the moneys of its depositors or stockholders, or being in any way responsible for the management of its funds.*" The Government can not and does not assume in any way to take the place of the directors of the bank. While the will of the former should be the duty of the latter, it perpetually happens that directors of those national banks which are badly managed wink at open violations of the law, such as excessive loans, allowing the reserve to become low, allowing dividends to be paid without first wiping out the losses and attending to the surplus, allowing the bank to hold real estate beyond the limit fixed by law, allowing its capital to become impaired by losses, etc., and otherwise jeopardizing the legal status of their institution. Here again the bank-examiner steps in, and these abuses have to be corrected.

In the fourth place, while it is also clearly the duty of the bank-examiner to see that the funds of the bank are not embezzled or misapplied by its officers and clerks, yet in the limited time which he can afford to devote to the examination he cannot always unearth frauds of this kind, particularly in the case of collusion. They may be deeply buried in the various accounts, and carefully covered up by false entries and forged papers, and unless the examiner can take time to analyze and sift the business of the bank for the past year as shown by its books, which would be a work of weeks, he cannot be sure the bank is not being robbed by its officers. Bees carry off honey from the hive and leave the comb all intact, and cashiers have been known to exhibit as clean and straight a set of books as need be, when their accounts were little more than empty comb.

An examiner was recently asked by a cashier, whose bank he had just examined, if he would give him a certificate that the bank was all right. The examiner promptly answered:

"No! In the first place, Mr. Cashier," he said, "my duty does not require that of me. In the second place, nobody knows better than yourself that, in the eight or ten hours I have spent here, I could not go to the bottom of all your transactions for the past year. You have shown me ten thousand dollars in United States bonds called for by your statement, but how do I know that these may not be the bonds of your special depositors left with you for safe keeping, your own having been spouted? How do I know that your receiving-teller may not have suppressed or tampered with some deposit? I find that your books call for so many certificates of deposit; how do I know there may not be many more outstanding, or for larger amounts than your books and stubs show? I have known a cashier to make false entries directly upon his dealer's ledger in the shape of fictitious charges against certain large accounts that he knew would not be disturbed for some time. This was to deceive the bank-examiner, and it did; the deposits were too low, but the trial balance proved, because these charges had not also gone upon the general ledger.

"The credits to your own individual account may be made up from the proceeds of paper left with you for collection; I cannot know unless I spend much time in analyzing it. I can verify the amounts due you from other banks and due from you to them, but for aught I know you may have borrowed fifty thousand dollars of some bank or firm whose name does not appear upon your books, and applied it to your own uses, pledging the credit of your bank for its payment. I have known such a thing to be done. A cashier recently, for some reason or other, allowed certain of his customers largely to overdraw their accounts, but he kept the accounts good upon his books by stealing and turning in the bonds and securities of the savings bank of which he was treasurer. The examiner found things all right, when the capital and surplus of the banks were entirely gone."

Yet bank-examiners frequently do uncover defalcations that have been going on for years, and they are perpetually detecting and pointing out infringements of the law by officers and directors. An examiner of a large and wealthy bank, in one of our commercial cities, one morning, partly by good luck and partly by his own shrewdness, put his finger upon a defalcation that had been going on for twenty-five years, and that had eaten away $325,000 of the bank's assets. The general book-keeper, in collusion with the teller, had manipulated and falsified the books for a quarter of a century. The book-keeper had never been a day away from his post in that time. He was a most diligent and praiseworthy employé. He watched those books as if he feared the lids would open and declare his secret. He was a superintendent of a Sunday-school. He came to the bank very early in the morning and opened the mail, and stole such drafts and checks as he could use, and then falsified his books. When the examiner called his attention to certain large charges upon the cash-book that had not been posted in the general ledger, or that had an extremely ugly look, he said very coolly and patronizingly that he guessed it was all right. The president and cashier said very coolly and re-assuringly that they guessed it was all right. The book-keeper went to making out the statement, but the examiner took it from him and told him he wanted none of his statements. Then his feathers fell; he stood like a man who saw his doom before him, and presently made a clean breast of it. He was locked up, but he died from the shock before he could be brought to trial.

Another delusion of directors and stockholders, brought to light by the failure of the Mechanics' National Bank of Newark, is, that in case the bank is robbed by its officers, they can fall back upon the Government for damages, as if the Government was the backer or trustee of the bank. The plea in the Newark case was that the Comptroller of the Currency had published false reports of the condition of the bank. Nothing could be more puerile. The Comptroller did not make and did not publish the reports by which the stockholders and creditors were deceived. The reports were made by the bank itself, by its cashier, and were attested as correct by three of the directors, and published in the local paper in accordance with the requirements of the law. The stockholders were deceived by their own agents. The reports which the examiners make are private to the Government, and are for its instruction and guidance, and are not made public. Who but the stockholders are responsible for incompetent directors, and who but the directors for dishonest officers? The aggrieved party in such cases is the Government itself, which is imposed upon by false statements, sworn to be true by persons whose veracity and standing it has far less opportunity of knowing than the stockholders themselves.

In fact, it is high time that the people who trust their funds in the custody of the national banks, and those who have invested their savings in their stocks, should thoroughly realize where the responsibility of their management lies, namely, with their directors. If the directors were all competent, and did their duty fearlessly, disasters like the recent failures in Newark and in Boston would never happen. That ignorance and incompetency exist among directors and dishonesty among officers must be admitted; but ignorance can be enlightened and dishonesty weeded out.

Perhaps not one in three of bank directors throughout the country, to say nothing of the great mass of stockholders, understands, or in any adequate measure appreciates, the significance of the weekly balance-sheet of their own bank. To most it is a meaningless form. I have known an old cashier who, when his bank had suffered great losses, could not tell to what extent his capital was impaired; he could not make an exhibit showing what the bank was worth. Yet this balance-sheet, or statement from the general ledger, is very simple and is extremely convenient. Let us take a sample sheet. Here is the statement of the famous Mechanics' National Bank of Newark, for October, 1880:

RESOURCES.	
Loans and discounts	$1,826,219.88
Overdrafts	....
U. S. bonds to secure circulation	500,000.00
U. S. bonds to secure deposits	....
U. S. bonds on hand	....
Other stocks, bonds, and mortgages	....
Due from approved reserve agents	1,749,587.43
Due from other banks and bankers	216,343.69
Real estate, furniture, and fixtures	30,500.00
Current expenses and taxes paid	4,958.70
Premiums paid	....
Checks and other cash items	113,023.17
Exchanges for clearing-house	....
Bills of other banks	38,111.00
Fractional currency	96.90
Specie	38,023.60
Legal-tender notes	227,513.00
U. S. certificates of deposit	....
Due from U. S. Treasurer	32,500.00
Total	$4,776,877.37

LIABILITIES.	
Capital stock paid in	$500,000.00
Surplus fund	400,000.00
Other undivided profits	65,337.58
National bank notes outstanding	441,900.00
State bank notes outstanding	....
Dividends unpaid	4,697.00
Individual deposits	3,098,953.49
United States deposits	....
Deposits of U. S. disbursing officers	....
Due to other national banks	183,256.84
Due to State banks and bankers	82,732.46
Notes and bills re-discounted	....
Bills payable	....
Total	$4,776,877.37

This statement perhaps conveys no distinct idea or meaning to most of the persons for whose benefit it is published, and yet it is a simple exhibit, on the one hand, of all moneys the bank has received, and on the other, of the disposition made of said moneys. Every person who keeps account of moneys received and spent makes to himself or to his employer essentially such a statement; what he has paid out, with the cash on hand, must equal what he has received: the account must balance. In a bank statement, the right-hand side shows where the money with which the bank does business comes from; the left-hand side shows where it goes to. Every cent is accounted for. The first item on the right shows what was paid in by the stockholders when the bank was organized; the next two items show the bank's earnings or savings on hand; the next item is the circulating notes furnished the bank by the Government; the next item is the dividends yet on hand, not called for by the stockholders; the next item is the aggregate deposits of the bank's customers; the next two items represent the moneys that have come to the bank from other banks in the shape of checks, notes, etc., for collection—in all, $4,776,877.37. This is the amount of money the bank had received, and had not paid back at the close of business on the day the report was made. This side of the account we call the "liabilities," because the bank as an institution is liable to its stockholders, to its customers, and to the Government for this amount. If it had settled up its affairs on that day, those are the amounts it would have had to pay out.

Now what has the bank done with all this money? Look on the other or left-hand side of the sheet. It has loaned out so much (first item); it has purchased so many United States bonds to deposit in Washington to secure its circulation; it has deposited with its reserve agent in New York so much (here is where the defalcation was concealed); it has sent checks and notes, etc., to other banks for collection, amounting to so much; it has purchased real estate and office furniture and fixtures amounting to so much; it has paid out as expenses since the previous July so much; its cash on hand, embracing checks, bills of other banks, fractional currency, gold and silver and greenbacks, amounts to the next five items; and lastly it has deposited with the United States Treasurer, as a standing fund for the redemption of its circulating notes, thirty-two thousand five hundred dollars. In the aggregate, the money it has loaned, invested, paid out, deposited elsewhere, with its cash on hand, exactly equals the amount it has received. This side is called "resources," because when the bank closes up, or when it fails, the money with which its debts or obligations, on the other side of the account, are to be paid must be got out of these items. When, then, is a bank's capital impaired? When its losses in bad notes, or in real estate, or by other means, added to its expense account, more than equal its surplus fund and other undivided profits. If the Newark bank, with more than $460,000 of surplus and undivided profits, had $500,000 of bad debts, its capital would have been impaired to the extent of $40,000 only. But it turned out that it had $2,500,000 of false debt, or false charges, which swept away its capital and surplus more than twice over. Strike out on the side of resources the amount due from reserve agents, and see what a hole it makes in the sum total. How can you pay off the other side with what there is left? Sink the capital and the surplus, and you still fall far short. Supposing the accounts in this statement all to be good, no bad debts, etc., what premium is the stock worth? Simply deduct expense account from the aggregate of surplus and profits, and what is left is to be added to the capital, almost doubling it, or making it worth one dollar and ninety cents on the dollar.

A certain bank had on deposit in Washington, as security for its circulating notes, a one-thousand-dollar United States bond in excess of the amount required by law. The directors concluded to take up the bond and sell it, and they instructed their officers to place the proceeds to the credit of profit and loss account, in order that it might be divided up at the next dividend. This, of course, the cashier and president refused to do, and it came near leading to a rupture between them and the directors. Some of the stockholders even hinted darkly that the president and cashier could divide, if they had not already done so, the proceeds of that bond, because they refused to credit it to undivided profits. They did not or could not see that it was just as impossible for that money to go to those accounts, or to any account on that side of the sheet, as for two and two to make five. It would have been a falsification of the books of the bank, and would have rendered the officers liable to imprisonment if they had done it. It was not money earned or money made. The bank had paid a thousand dollars for the bond, and in selling it, it had got its money back again; of course, therefore, bond account had to be credited with it, else the books would never balance, and the proceeds went into cash, or into the amount due from one of its correspondents. When the bank was organized, it purchased with the money received from its stockholders $101,000 United States bonds, and it opened a bond account on its general ledger. It treats this account as if it was an account with a person or an institution, and says: "Mr. Bond Account, you have got $101,000 of my bonds, and I charge you with them; when the bonds are sold and I get my money back again, then I will credit you with the money I receive, and we will square the account if we can. If the bonds bring more than their face value, then the premium I will credit to Profit and Loss, another person with whom I have dealings, and whom I owe all the money I earn or make. If they bring less than their par value, then I shall have to draw upon Profit and Loss, or upon Mr. Surplus, to make up the shortage. If there is not enough funds in either of these accounts to make the account with you good, then I shall be compelled to use the money due the stockholders to make up the deficiency." Just so with its other stocks and bonds on hand, and with its real estate. The bank opens an account on its general ledger under each of these heads. When it purchases bonds or stocks with its idle funds, it charges this account with the amount purchased; when it sells them again, it credits the account with enough of the proceeds to offset and wipe out the charge, and the surplus, if any, it carries to profit and loss. When a bank sells its real estate, if the proceeds be less than cost, it must draw upon the moneys it has saved up, to make good the deficiency.

And this is all there is in double-entry book-keeping, a term usually so bewildering to the uninitiated. Every transaction in a bank implies two entries upon its books, a charge to some account and a credit to some other, or *vice versâ*. When A—— deposits money, we credit him with it, and virtually charge cash with the amount. We say, "Mr. Cash, you have got this money and I charge you with it. All the money I receive I charge to you, and credit the sources from which it comes; all the moneys I pay out I credit to you, for it comes from you, and I charge the persons or things that receive it." Hence, the books of a bank or of any mercantile house kept by double entry, if properly kept, will balance any day, any minute. Strike in anywhere, arrest the business, and the books should balance. That is, the debit side with the cash on hand (the cash is a debit item) should equal the credit side. I once found a book-keeper working late at night over his books, in which there was a difference of one cent between the two sides; he was hunting down that refractory cent.

The main difference between single and

double entry book-keeping is this: in the former we keep accounts with persons only, and the ledger shows the debits and credits to individuals alone; in the latter we keep accounts with things as well, and the general ledger contains a summary of the entire business. Books kept by single entry can only be balanced, or the condition of the business ascertained, by taking an "account of stock"; but in double entry, if a profit and loss account has been opened at the start, the balances as shown by the ledger are a complete exhibit of the condition of the business at that time. I touch upon these details, because a great many directors of national banks are merchants or traders who keep their books by single entry, and are quite helpless before a set of books kept by the more scientific system of double entry.

The quarterly statement, which is the exhibit of the general ledger of a bank, showing the debits and credits of its various accounts, should be sharply scanned by the stockholders and customers of the bank making it. If there is any defalcation or embezzlement it is hidden in one or the other of these items on this sheet, usually on the debit side, or side of resources; some of the resources are sham—mere empty comb in the hive. But it may occur on the other side also. The bank may owe depositors or other banks more than it sets forth. If the aggregate of the balances from the individual ledger, deducting the overdrafts, exceeds the amount called for by the statement, say by ten thousand dollars, then, unless there is a clerical error on the other side to offset it, that amount of money is not accounted for; it has dropped out, or dropped into the teller's or cashier's pocket.

When an examiner visits a bank he either takes off this balance-sheet from the general ledger, or asks the book-keeper to do it for him, in which case he goes over the accounts and verifies it. The directors should do the same thing, and, as they have much more time, should sift the accounts more thoroughly. One day an examiner of a New England bank struck a defalcation in the item on the side of resources called amounts "due from State banks and bankers." The amount called for under this head was seventy thousand dollars. The president of the bank, who was a man of the highest standing in the community and was supposed to possess an ample fortune, assured the examiner that this amount consisted of various railroad stocks placed in the hands of a well-known New York broker for sale, and that he had received notice that the bank could draw for seventy thousand dollars at any time. When the Comptroller of the Currency received the examiner's report of the result of his examination, he wrote to the examiner in New York to verify this item. Word was flashed back over the wires: "No foundation whatever for the statement—no funds or stocks with the broker named." The president of the bank had perjured himself and robbed his stockholders. The result was his bank was placed in the hands of a receiver, and himself in the hands of the law.

When the directors examine their bank, they go sharply for the cash on hand. This is well enough as far as it goes, but they should go still more sharply for the cash not on hand, but reported due from this source and that. The cash of a defaulting bank-officer is the last to suffer. This is stealing too near home, and would at once lead to embarrassment.

In examining a bank, the question to be asked about the right-hand side of the sheet, the side called "liabilities," is this: are the amounts too low? The question to be asked about the left-hand side is, are the amounts too high? That is, has the bank properly credited all the moneys it has received to the accounts on the right, and has it made no false charges to the accounts on the left? When these two questions are satisfactorily answered, your bank is examined, and is correct. Let us say, then, the examining committee is ready to begin. They enter the bank with this balance-sheet in hand. The daily business of the bank is going on about them and all seems confusion; here are books and books, day-books and journals, bill-books and ledgers, paying cash, receiving cash, general cash, discount register, general ledger, individual ledger, etc. Let them not be confused by these, but go straight for the general ledger; here is the summary of the whole business—here is the pool in which all these various streams empty; if the general ledger is right, all is right. The sheet you hold in hand is made up from the balances upon its pages. Begin with the side of "Liabilities." The first item is "Capital Stock"; is it too low? Of course you know what your capital is, and there is no room for fraud here. Next is "Surplus"; open to this account on the ledger and see what the credits are—that is, the items that make up the amount. The law requires you to add, before paying each dividend, one-tenth of your net earnings to surplus, till the same shall amount to twenty per cent. of your capital. See if this has been done. Then see what the charges are against the account, and if they are legitimate, and such as were authorized by the directors. Then look at interest account; see if the interest on your bonds, and from other sources, has been properly credited. There can be no charges here unless you pay interest to depositors, or upon a loan. Then turn to discount account. You can easily tell if the amount here is what it ought to be, by computing the interest on the average amount of your bills discounted, since the payment of the last dividend. Then look to profit and loss account, or to other undivided profits, if you have such, and see what the credits and charges are, and if they are legitimate. Against profit and loss are always charged, every six months, expenses, taxes, losses, and dividends. Any other charges should attract your attention. The credits to this account come every six months, from interest, discount, exchange, rent, and any other sources of income you may have. But these various accounts representing the bank's profits are seldom or never tampered with by defaulting officers, though I have known a cashier to run fictitious notes through his discount register, in order to swell his discounts received and be ready for the next dividend. Of course he had to make false charges on the other side or in the debit accounts of the ledger, to balance his books, and this he did by putting "dummies" in his bills discounted.

Next comes the circulation received upon your bonds deposited in Washington, which should be ninety per cent. of the same, if your capital does not exceed five hundred thousand dollars.

Then comes "dividends unpaid," and it is easy to tell if this amount be too low.

Now you come to an account where fraud is more frequently concealed than in any other of the credit balances, namely, "individual deposits." Sometimes defaulting cashiers or book-keepers, as they steal or misapply the bank's funds, will slowly lower these figures by false additions, or by other means. The amount due every depositor may show correctly upon the dealer's ledger where the accounts are kept, and yet the aggregate, as it appears upon the general ledger, be far too small. In a case to which I have alluded, of an embezzlement that had been going on for twenty-five years, $200,000 of the deficiency was carried in this account. Therefore, let the examining committee now turn to the individual ledger and cause the book-keeper to take off every man's balance upon a sheet: the total footings of these amounts, less the overdrafts, should equal the amount called for by the account on the general ledger and by the balance-sheet in hand. But to be absolutely certain this account is correct, every depositor's book must be called in, written up, and his vouchers returned to him; then, and not till then, can you be sure that the deposits have not been tampered with.

Next comes the amounts due to the various other banks with which your bank does business. You can write to these banks and see what you owe them, or require your bank to settle with them at once. The same with the balances due the United States or its disbursing officers. If your bank has borrowed money, it should appear under "Bills Payable," and if the cashier has borrowed money and made no entry of it upon your books, but used it to stop up some hole he has already made in your assets, you can find it out by a careful analysis of the entries upon the general cash-book—a task which requires the services of an expert.

Now let us turn to the debit side, or side of resources, and see if any of these amounts are too high. First count the cash, and see if it agrees with the amount called for by the statement in hand and by cash account on the general ledger. If no cash account is kept on the general ledger, then cause one to be opened at once. I have known a teller's cash to be short fifty thousand dollars week after week, and the cashier, directors, book-keeper, and all, to be ignorant of the fact. The teller should make up his cash at night, and call the amount to the general book-keeper, who should tell him whether or not it is correct.

Having verified the cash, take the notes and bills discounted, and see if the footings agree with the amount called for by the statement.

Then comes the United States bonds to secure circulation, and which are on deposit with the Treasurer in Washington. There can be no fraud here.

Other stocks and bonds on hand are easily counted, and the amounts verified.

Then comes the amounts due from other banks, and it is in these items that the moth of peculation generally takes up his abode. If there is a false charge it is here, and generally in the account with your bank's redemption agent. With the other banks you settle every two or four weeks, and a false charge would be uncovered, but with your redemption agent you are supposed to keep a perpetual balance. Ask for the last statement of account current from that bank, and see how the balance at the end of the previous month agrees with your books on the same day. It should, as a rule, be more, because there are sure to be some drafts still out. If your bank has made or charged any remittance to that bank which has not yet been received and credited, find out what that remittance was, and why it is not credited. I know of a teller who took forty thousand dollars out of his cash on the seventeenth day of the month, and the general book-keeper made a false charge of that amount to the bank's New

York correspondent. When the statement for that month from the New York bank came, early the next month, the chief book-keeper compared it with the account upon their own books. He, of course, added to his amount the drafts not yet paid in New York, and deducted the remittances not yet received and credited there. Among these remittances was this false charge of forty thousand dollars, two weeks overdue, and yet he made no inquiry, and apparently thought it all right. He was a correct and most conscientious clerk, but the routine of the office for fifteen years had worn such a rut in his mind that no ordinary shock could throw him out of it. When the examiner came along, perhaps on the last of the month in which the false charge was made, his examination failed to reveal the fraud. The reason why it did not is curious, and worth explaining. He, of course, did not seek to verify all the charges in this account, but relied upon proving the balance by other means. He asked for the account current of the previous month, knowing that a comparison of this with the bank's would discover all fraud, except what might have occurred within the past few weeks. On examination, he discovered a discrepancy of say fifty thousand dollars; that is, there was not as much money in New York, at the end of the previous month, by fifty thousand dollars, as the books called for. This proved to be a loan. The bank he was examining was required to keep on deposit in New York a certain amount of money; it had concluded, for the sake of a higher rate of interest than it was then receiving, to loan out a part of this fund on call, and had done so through its redemption agent, but for reasons had made no entries upon its books; and for aught the books showed the money was still on deposit with its redemption agent, though on the books of that bank the loan was properly charged. When the examiner made his visit, the loan was called and credited in New York, but the officers failed to tell him of the fact. Hence, when by correspondence the balance in New York was asked for, the loan was supposed to be still out, and the false charge of forty thousand dollars was not revealed. The teller went on stealing until he had taken twelve thousand dollars more before the discovery was made. If the amount due from other banks is exceptionally large in proportion to the bank's capital and its deposits, and is carried along from month to month, directors should be looking about for a good investment for their idle funds.

To further illustrate this point, let us take another bank statement. Again it is a Newark bank, at present in the hands of a receiver. Here is its showing September 1, 1879, a short time before it failed:

RESOURCES.

Notes and bills discounted		$ 189,049.41
Overdrafts		....
U. S. bonds to secure circulation		300,000.00
U. S. bonds to secure deposits		....
U. S. bonds on hand		....
Other stocks, bonds, and mortgages		....
Due from approved reserve agents, viz.:		
Third National, New York	$12,882.73	
Central, New York	40,613.95	
Commonwealth, Boston	20,697.41	
		74,194.09
Due from other national banks		156,606.84
Due from State banks and bankers		10,721.56
Banking-house		152,572.26
Other real estate		....
Furniture and fixtures		....
Current expenses	$1,290.77	
Taxes paid	3,081.21	
		4,371.98
Premiums paid		....
Exchange		15.81
Checks and other cash items		41,587.27
Exchanges for clearing-house, including gold checks.		....
Bills of other national banks		3,706.00
Bills of State banks		....
Fractional currency (including nickels)		107.97
Specie, viz.:		
Silver coin	$3,581.00	
Gold coin	813.25	
Gold Treasury notes	....	
		4,394.25
Legal-tender notes		18,053.00
U. S. certificates of deposit for legal-tenders		....
5 per cent. redemption fund with Treasurer of United States		13,500.00
Other funds with Treasurer of United States		4,923.95
Cash short		42.01
Total		$973,846.40

LIABILITIES.

Capital stock paid in		$300,000.00
Surplus fund		62,584.25
Discount	$1,717.63	
Exchange	....	
Interest	244.74	
Premiums	....	
Profit and loss	4,533.84	
		6,496.21
Circulation received		....
On hand and returned		270,000.00
State bank circulation outstanding		....
Dividends unpaid		524.00
Individual deposits, viz.:		
Subject to check		291,968.46
Demand certificates		....
Time certificates		....
Certified checks		....
Cashier's checks		....
United States deposits		....
Deposits of U. S. disbursing officers		....
Due to national banks		19,507.52
Due to State banks and bankers		2,289.15
Notes and bills rediscounted		....
Bills payable		....
Suspense account		20,476.81
Cash over		....
Total		$973,846.40

Now, what are the unfavorable features in this report? In the first place, the bank is not earning much money. Its loans are less than its capital, or less than its deposits, which is one bad feature. The aggregate loans of all the banks in the country at any time is nearly double the aggregate capital, and far exceeds the total deposits.

The second unfavorable and even suspicious feature is the amount "due from other national banks." The bank is not doing a large business. The amount due to banks is not large. It keeps three accounts with banks in the reserve cities, New York and Boston, and through them would naturally do most of its collecting, and yet it reports due from other banks, State and national, $167,000, nearly eight times as much as is due to banks. The banks of the country in the aggregate always show a much larger sum due *to* banks than *from* banks, because of the number of drafts and checks still outstanding. I do not know why this bank failed, but I venture to say that a large part of this sum due to other banks was found to be fictitious, and the charges were made to cover up stealings or losses.

Then the real estate item is very large; half the capital of the bank is locked up in an unproductive bank building. "Checks and other cash items" looks suspiciously large for the bank's business. There are probably several "Quaker guns" doing duty here.

In going over the discounted notes, directors should look particularly after notes due abroad and sent off for collection. Ask the cashier to show you copies of the letters in which they were sent. If he replies that no copies were kept, then at once make a rule that every business letter that goes out of your bank shall be copied, and the copy kept on file.

The two feet that the business of a bank goes upon are debit and credit; first the one, then the other, and the two are equal: one is just as long and as broad as the other; the total debits must equal the total credits, and *vice versâ*. When a cashier makes a credit on one side of his books, unless he has the cash on hand to show for it, he must make a charge on the other, or his books will not balance. One lie necessitates another lie, and so on. An examiner, in analyzing the accounts of a broken bank, once came upon this item: The cashier had charged to his New York correspondent as a remittance a draft of thirty thousand dollars; the examiner looked on the other side of the books to see where the draft came from—to see if any customer had deposited it and been credited, or if it had come from any other bank. Nothing of the sort could be found. But there must be a credit to meet the charge, else the cash on the close of business that day would be thirty thousand dollars over. But the cash was not over. The charge was offset by the credit of three drafts to the New York bank, of ten thousand dollars each. This made the books balance, but where the thirty thousand dollars came from was still a mystery. By inquiry at the New York bank, it was learned that the draft was drawn by a neighboring bank, and was payable to the order of the cashier of the broken bank; by continuing the inquiry at the neighboring bank, it was learned that the amount was a loan to the defaulting cashier. The drafts he had drawn against it were payable to fictitious names, and were used by himself in stock speculations. He had made a turn to pay the loan by means equally crooked, but which I will not go into here. Now this transaction is such a one as would be almost certain to be overlooked by a bank-examiner, unless he laid regular siege to the bank's accounts; and where is the director that would have unraveled it? The transaction, to have been straight upon the books, should have stood thus: The neighboring bank should have been credited with the loan upon the one hand and the New York bank to whom the amount was sent charged with it on the other; then the drafts drawn against it should have been duly credited, and charged to the persons who had them, or to cash. The cashier's account was not good for such an amount, and he appears to have been afraid to credit his account with so large a sum, in the first instance.

I have thus aired some of the ins and outs of banking, and some of the ways of bank officers that are dark and crooked, and pointed out a part of the duty of directors. The national banking system is perhaps as nearly perfect as any system that was ever devised, and the administration of the law is in thorough and efficient hands, and the total losses, upon an average holding of nearly eight hundred millions of deposits, in nineteen years have been but six and one-half millions, or less than one-twentieth of one per cent. annually. Yet as long as stockholders are indifferent and bank directors lax and ignorant, unacquainted with the character, habits, associates, engagements, etc., of the men they employ behind their counters, and to whom they trust the custody of their funds and accounts, and so long as they are unacquainted with the details of the business they have sworn to protect, and of the law they are pledged to uphold, so long will disasters like the recent ones overtake them, and the golden apple of bank shares and expected dividends turn to ashes on the lips of the possessor.