

# Some things about Banking you should understand

This is Number Two of a series of special articles published by The National City Bank of New York, coincident with the opening of its up-town branches. Number Three will shortly appear in this paper.

IT IS SAID that a follower of Confucius once asked the great teacher if there were any single word which covered, in its significance, all of the obligations of social life, and that the reply was, "Is not 'Reciprocity' such a word?"

It is such a word in economic relations. In our statement, published in these columns a few days ago, we sought to show that the relations between a bank and its regular patrons are in very high degree intimate and reciprocal. The deposits of a commercial bank are supplied mainly by its regular customers and in the aggregate form a fund of working capital, brought together with the understanding that each contributor may draw any part or all of his own deposit absolutely at will, and, that he may have the privilege of borrowing from the fund from time to time to meet his further needs. A consolidation of working funds is accomplished to the common advantage. Seasonal fluctuations in almost all lines are such that unless a business has more capital than it can use all of the time it will have surplus funds in some seasons and need to borrow in others.

Other things being equal, the governing principle in the distribution of loans is that the depositor can borrow in proportion to his contribution to loanable funds, but of course the certainty of prompt repayment is a primary consideration.

## Management of the Mutual Fund

THE BANKER manages these common funds. He determines their distribution. There is no challenging his decisions, for he is the owner of the funds while they are in his possession. He receives the deposits in the form of a great variety of items of credit, payable in all parts of the world. He gathers these funds together and assumes the risks of keeping them and employing them, and undertakes to keep them so readily available that he can meet the shifting demands of the numerous contributors both for cash and loans.

There is talk of co-operative banking, in the sense of ownership of a bank by its patrons, and as the stock of commercial banks is widely distributed (there are stockholders of The National City Bank of New York in every state of the Union) co-operation in this sense exists to a large extent, but regardless of this, banking is highly co-operative, with the utmost incentive for the Banker to satisfy his patrons, and perfect freedom of action for the latter.

While the banker has a free hand in the employment of the funds, he must handle them with such regard for the interests of his patrons as to satisfy them, or his business will not be successful. The patron is free to withdraw his funds and place them elsewhere at any time. Banks are numerous, and the organization of a new one is a simple process under state or national law. There is nothing of the nature of monopoly about the banking business. It controls no natural resource or opportunity; its earnings are from current business, its customers are alternately creditors and debtors, and must be satisfied in both relationships or they can easily form new connections.

A GOOD BANKER will study the interests of his patrons, for his business will grow with theirs. The profits of a bank are made upon its deposits, rather than upon its capital; for the latter is relatively small—its main purpose being to serve as a margin of protection to the depositors. The idea that bankers, as a class, have interests diverse from or in conflict with the interests of their patrons or the general public is wholly erroneous, and arises from a view of only one side of their relations with the public. It comes from thinking of them only as money-lenders, overlooking the fact that the funds they have to lend are placed in their hands

by the public, and that the supply and demand for these funds are both increased by general prosperity.

When the relations of a Bank to its patrons as set forth herein are fully understood it will be seen that many of the criticisms directed at bankers are made without consideration for the facts. They assume a freedom in the use of the funds which the banker does not have, and usually they disregard the fundamental conditions under which the business must be conducted.

## The Banker's Chief Obligation

THE BANKER'S first obligation is to safeguard the funds in his custody, and keep himself in position to meet all demands for their return. Every other claim upon him is subordinate to this. The banking business would disappear if this requirement were not strictly observed. It is not enough that a loan shall be "good" in the sense that there is ample security to guarantee its payment sometime; it must be collectible when due, if the banker is to be secure in his own position. He must be able to arrange the maturities of his bills so that his outstanding funds will be always returning to him in a steady flow, and that he may continually re-dispose of them to meet the changing needs of his customers. The funds which one patron borrows in the spring may represent the surplus which another patron has at that time, and by fall the latter will not only want all of his own funds but claim the privilege of being a borrower in his turn.

As a bank derives its lending power from the community in which it is located, serving only as manager of the funds given into its custody, it is evident that any change in business conditions that affects the amount of liquid wealth in the community will quickly affect the lending power of the bank.

A bank of itself does not create wealth. It is not an industry; it does not carry on production, and it

cannot of itself supply wealth to the community. It is a receptacle, a reservoir of the floating, liquid wealth of the community. Its function is to aid production and trade by making this floating wealth more available and more useful than it could be without being gathered together. It is an agency for the more efficient use and handling of the community's wealth, but not for making wealth by any magical method, such as the printing press affords, or by creating deposits through loans. It is important to keep this in mind, because when people begin to complain that the banks or the government should make it easy to obtain credit, it is time to utter a warning.

Sound banking requires that somebody shall put a dollar of wealth into a bank for every dollar that the bank loans out, and when we speak of wealth we include the paper representatives of the liquid wealth which is moving in trade.

The wheat, meats, cotton, lumber, coal, and merchandise of all kinds that are being transferred are creating and depleting bank deposits as they move. It is through them that pools of deposits, or lending power, are created. When prices rise the deposits are increased and as prices fall they are decreased. These funds are the basis of the banking business.

## The Bank as a Stabilizer

FOLLOWING a period of high prices, accompanied by a great increase of indebtedness, such as the period from which we are now emerging, such a contraction of deposits and of loans inevitably causes hardship to many. It is part of the necessary task of getting back to a normal situation. Rapidly advancing prices are followed, as a rule, by rapidly falling prices; sudden and unusual profits by equally sudden and unusual losses. The first should be recognized as certain to bring the second, and the warning heeded. Every great economic disturbance like a war has an aftermath of price fluctuations and financial troubles from which no banking system can completely protect a people, although a well organized and well managed system can mitigate the ill effects. At the present time, the facilities of the Federal Reserve System are aiding the nation in overcoming difficulties which would have been much more serious if we did not have this improved banking system to depend upon.

Nobody would expect a bank with deposits of \$1,000,000 to make as large an aggregate of loans as one with deposits of \$2,000,000, but within the past year a great many banks in this country have lost from 25 to 50 per cent of their deposits and yet many people have wondered why banks have found it necessary to restrict the granting of credit. Deposits which rise from the sale of products represent real values which may be loaned and shifted about with safety, but remember all the time that if you want the banking business to be kept on a safe basis it must confine itself to funds of this character, received from the public.

Whenever the banks begin to create deposits, or money, by manufacturing credit, they are dealing with something unsubstantial, fictitious, and charged with possibilities of great mischief.

The number of transactions handled by a great financial institution like The National City Bank of New York is surprising in its magnitude. Each month the letter filers handle and index more than 500,000 letters. The volume of foreign mail is so great that every month about 20,000 letters in languages other than English are translated by the Bank's own force of experts in all tongues. The Letter of Credit Department pays more than 14,000 travelers' checks coming from practically every country in the world every month. To handle this great mass of detail and to carry on its business all over the world, the Bank employs 2,300 people in its head office and approximately 1,800 in its branches. Foreign Branches of the Bank and of the International Banking Corporation (owned by the Bank) in seventy-five cities throughout the world do a general banking business and effectively extend the use of Dollar Credits.



## THE NATIONAL CITY BANK OF NEW YORK

(MAIN OFFICE: 55 WALL STREET)

Announces the opening of its branch in the  
National City Building, 42nd Street and  
Madison Avenue to be known as the

## 42nd STREET BRANCH OF THE NATIONAL CITY BANK

Other Branches:

BROADWAY BRANCH  
1133 Broadway, at 26th Street

BOWERY BRANCH  
330 Bowery, at Bond Street

While The National City Bank of New York, with resources unparalleled in America's banking structure, and with its organization developed to render every banking service, is largely patronized by raw material producers, manufacturers and merchants, nevertheless the majority of its depositors are individuals.

With the opening of its branches in New York in districts removed from Wall Street, it is hoped and expected that its recognized strength and wide opportunity for service will be availed of by individuals to a far greater extent than heretofore. The National City Bank is operated in the interest of the individual depositor as well as of the manufacturer and merchant.

1812: Original Paid Capital - \$800,000  
1921: Present Capital, Surplus, and  
Undivided Profits, over \$100,000,000