

GENERAL INFORMATION ON Banking and Business Methods.

RELATIONS BETWEEN A BANK AND ITS CUSTOMERS.

IN business life there is no more complex or important relation than that which exists between the business men generally and the banks, and it should be guarded with jealous care, so that both may retain the full confidence of the other. Business development in the United States has progressed with such gigantic strides that it has long since passed the stage where it is even possible to carry on business without the agency of banks. They are to-day a necessity in the transaction of business and making exchanges. It has been said, and with a great deal of truth, that in the present day the entire and sole object and result of business is the transfer of credits on the books of the banking houses; and that about the only use to which money is put is in making small change or paying balances. Business, in the most general and comprehensive sense, is almost wholly carried on by the aid of banks with checks, drafts and exchange. And it will be seen what a very important part the element of confidence plays in business life, when it is remembered that every check or draft that changes hands, implies the confidence on the part of the party receiving and accepting it, that it will be honored at the bank when presented.

OPENING AN ACCOUNT.

THE FIRST STEP in the matter of becoming a depositor and customer of a bank is the interview with the banker, either the President, or Cashier, as the case may be. It is necessary for the banker to know for some one who is known to identify and vouch for the applicant as being honorable and straightforward, for banks are compelled to be careful in this matter as they subsequently must handle all the checks, drafts or exchanges that the prospective customer employs in his business, so that while the business of an honest man is valuable to them and is appreciated, that of a dishonest man is shunned by them as an element of risk and danger—the same to them as to every one else with whom he deals.

The identification and reference, however, being satisfactory the prospective customer is given a pass book or account book, writes his signature in a book kept for that purpose, is made known to the receiving and paying tellers, makes his first deposit and is then a full fledged customer and depositor of the bank.

DEPOSITS.

DEPOSITS are made in the following manner: A "Deposit Ticket" or "Deposit Blank" is furnished the customer, and he enters upon this a full description of all the items which he desires entered to his credit, stating whether it is gold, silver or currency and making a separate entry for each draft or check that he deposits. In entering such items as drafts and checks some banks require a separate entry for each item which will show upon what bank or at least what city or town each draft or check is drawn. After having endorsed his name on the back of all checks and drafts he hands the "Deposit Ticket," together with all the items named upon it, and his Pass Book, to the receiving teller, who examines it, checks off the various items to see that they are all there, and enters the total amount to the customer's credit in the "Pass Book" and it is also carried to his credit from the "Deposit Ticket" onto the books of the bank. The "Deposit Ticket" is an important feature of the transaction, and the customer is required to fill this out with ink. It bears his name and the date and is carefully preserved for future reference by the bank to settle any dispute or difference that may arise. As all men are liable to error the depositor, to prevent mistakes, should always see that the amount of the deposit is correctly entered in his book before leaving the bank. If a deposit is made when a customer has not his "Pass Book" a duplicate ticket should be taken, and the amount entered properly when next at the bank.

It will be seen from the above that all checks and drafts are entered to the credit of the customer at the time he deposits them, the same as cash items. The depositor, however, is held responsible for the non payment of all checks, drafts and other items deposited as cash until payment has been ascertained by the bank. The bank, however, must use due diligence in attending to them within a reasonable time. If a check or draft is held beyond a reasonable time and, meanwhile, the bank upon which it is drawn fails, the receiving bank would be compelled to lose it. What is a reasonable time, according to decisions of the courts, depends upon the circumstances and varies in different cases. In cities, where there are Clearing-Houses, checks on other city banks are expected to reach the Clearing-House on the next day succeeding the time of the deposit; but as to checks and drafts drawn upon other or distant cities, a reasonable time must be allowed for them to be presented for payment. If the banker, however, is negligent concerning it, he must stand the loss. Such cases very rarely, if ever, occur, and it may safely be stated that in the absence of any special or unusual conditions for all items such as checks, drafts, etc., the banker only receives them for collection for the account of the customer and therefore acts only as his agent and as such is charged with using only due diligence in attending to the business.

DISCOUNTS, LOANS, ETC.

THE WORD "Discount" is applied to interest when it is deducted from the amount at the time a loan is made—in other words, interest that is paid in advance. It is the general rule of banks in making "short-time" loans to customers to give credit for the amount of the loan, less the interest.

Many business men fail to obtain the full benefit that a bank can give them, through hesitancy or diffidence in asking for a loan; and in many instances will borrow of a neighboring business man and thus, frequently embarrass him, rather than go to the banker, whose business it is to help him through such times of need, when possible. This is what banks are established for largely, and they are always glad to "get their money out and keep it out" provided they can be reasonably sure of its return. If an applicant is unable to furnish reasonable security, or is irresponsible or unworthy he must necessarily be refused, but in securing money which he cannot guarantee the return of, whether it be from a banker or another business man he does an injustice to the interests of business generally. However, every business man in need of financial help, whether his needs be great or little, should go to the banker first and submit the situation, securities, etc. to him, as of all men he is by training the best judge and advisor in such matters. He may be compelled to decline to give the required aid, but this refusal should never be taken as a personal matter, as it must be remembered that he has other interests to serve and depositors, stockholders and directors to protect before following his own personal desires.

COLLECTIONS.

IN leaving notes or other items for collection the customer writes on the back of each of the words: "For Collection for Account of" and places his signature below it. Upon receipt of this, the proper officer or clerk of the bank, will enter the items either in the back of the customer's "pass book" or give a separate receipt as the case may be. The banker only receives payment on the items the customer is notified and the amount is entered to his credit both on his Pass book and on the books of the bank the same as any other deposit. A bank in receiving paper for collection acts only as the agent of the customer and does not assume any responsibility beyond due diligence on its part. All banks make collections either in or out of the city where they are located for their customers at very moderate rates. These items should always be left at the bank before they become due, so as

to give the bank time to give an abundant notice to the parties. If the customer desires to make a "sight" or "time draft" upon a debtor, upon application the bank will furnish him with blank drafts.

STATEMENTS AND BALANCES.

A FEW words concerning statements and balances will not be inappropriate in this connection. Every customer of a bank should always and without fail, once in each month, have his "Pass Book" balanced by the banker. This rule should always be observed to correct any error that might occur and avoid loss and complications. The amount of deposits is added up and a balance is struck by deducting the total amount of the customer's checks which the bank has either paid or "accepted" (certified) during the month. The cancelled checks are returned to the customer. If any error is discovered it should be reported immediately to the bank so that it may be investigated and rectified.

NEGOTIABLE PAPER.

PROBABLY the greatest factor in the business world of to-day is "Negotiable Paper," without which it is not probable that business development could have assumed the vast proportions that it has reached in America; and without which the business of the civilized world could not be carried on. This term includes a variety of instruments, such as promissory notes, checks, drafts and bills of exchange. The bill of exchange is one of the oldest forms of negotiable paper, and has been in use for a number of centuries. The draft and check came into use at a much later date, and the promissory note is a comparatively recent invention, and has very largely taken the place of the bill of exchange as it was used in former times. The most important attribute of promissory notes, bills of exchange, and other instruments of the same class, which distinguish them from all other contracts, is their negotiability. This consists of two entirely distinct elements or branches—first, the power of transferring the paper from one owner to another, so that the assignee shall assume a complete title, and be able to sue on it; second, the effect upon the rights of the parties produced by such a transfer when made before maturity, in the regular course of business, for a consideration to a purchaser in good faith, and without notice of any defect or defense, whereby all defenses of the maker (with few exceptions) are cut off, and the holder becomes absolutely entitled to recover.

A written order or promise may be perfectly valid as a contract; but it will not be negotiable unless certain requisites are complied with. The following requisites are indispensable: It must be written; must be signed; it must be absolute, not dependent upon any contingency; it must be to pay money in a certain amount or in an amount capable of being certain by computation; the time of payment must be certain or such as will become certain; but when no time is expressed the law implies that payment is due immediately; and lastly, the order or promise must be accompanied by words of negotiability—that is payable to a certain payee's order or to bearer.

PROMISSORY NOTES.

ACCORDING to the general "law merchant," unaffected by statute, a promissory note is the written promise of a person, called the "maker" to pay a certain sum of money at a certain time to a designated person termed the "payee" or to his order or bearer. It must have all the requisites that have been mentioned for negotiable paper, otherwise, if it falls in any of these matters it becomes a contract, as it thus loses the element of negotiability. Contracts may be perfectly valid without all of these requisites, but they do not possess the peculiar qualities which belong to promissory notes.

It is customary in all promissory notes to write the words "value received" but this is not absolutely essential, as a consideration and value is implied in every note, draft, check, bill of exchange or endorsement. It is the common law of both England and this country that no promise can be enforced unless made for a consideration or sealed, but negotiable instruments as a rule are an exception to this. Between the original parties a want of consideration can be pleaded in defense and would operate to defeat a recovery. It would have the same effect as between an endorser and his endorsee, but this only applies to immediate parties or to those who had notice of the defense or become holders of the paper after maturity. It may be stated as an almost invariable rule that no defense will operate to defeat the recovery if the paper has been negotiated and passed into the hands of an innocent purchaser, in the regular course of business, before maturity and for value. The absence of any of these elements, however, will allow a defense to be set up and will defeat recovery even in the hands of third parties if it can be shown that there was either a want of consideration, that it was obtained by duress, or fraud or circumvention, or larceny; or that the consideration was illegal. In order to cut off these defenses and give the holder the absolute right to recover, all of the conditions named must be fulfilled. If he purchases the note even one day after it becomes due it is "in subject to any defense or set off which the maker may have against the original payee.

Demand of payment for a note must be made at the place where it is payable at the time of maturity; if not paid notice must immediately be given to the endorsers, otherwise, in a majority of the States, all endorsements that are not qualified will be released. If a note is not dated it will not defeat it, but will be considered as dated when it was made; but a written date is *prima facie* evidence of the time of making. When a note falls due on Sunday, or a legal holiday, it becomes payable on the next business day as is written in the body and also in figures at the corner the written words control it. It destroys the negotiability of a note to write in the body of it any conditions or contingencies. A valuable consideration is not always money. It may be either any gain or advantage to the promisor, or injury sustained by the promisee at the promisor's request. A previous debt, or a fluctuating balance, or a debt due from a third person, might be a valuable consideration. So is a moral consideration, if founded upon a previous legal consideration; as, where one promises to pay a debt that is barred by limitation or by infancy. But a merely moral consideration as one founded upon natural love and affection is no legal consideration. No consideration is sufficient in law if it is illegal in its nature, or if distinctly opposed to public policy. If a note is payable at a bank it is only necessary to have the note at the bank at the stipulated time to constitute a sufficient demand; and if there are no funds there to meet it, this is sufficient refusal.

DAYS OF GRACE.—In a great many States three "Days of Grace," as they are termed, are allowed on negotiable instruments beyond the date set for payment. This is not the universal rule, however, as the tendency of late years has been to throw away with this custom, and a number of States have already passed laws abolishing the "Days of Grace." Where the rule is in effect, however, and it is not specifically waived in the instrument the payor is entitled to the three days as fully as though it were so stipulated, and the holder cannot enforce collection until the expiration of three days after the date set for payment.

BILLS OF EXCHANGE.

THE "bill of exchange" is an open letter or order whereby one person requests another to pay a third party (or order or bearer) a certain fixed sum of money. They are of two kinds, the Inland and Foreign bills, the names of which imply the difference between them. The three parties to the bill are called the Drawer, Drawee and Payee. The bill must be presented to the Drawee and if he agrees to obey the order he "accepts" the bill by writing the word "accepted" across its face and signs his name below it—and thus becomes the "Acceptor." The instrument is usually made negotiable and the payee can transfer it to others by endorsement, which method of transfer may go on indefinitely.

The following is a common form of an inland bill of exchange:

BILL OF EXCHANGE.

6000 CHICAGO, ILL., June 1, 1894.
Sixty days after sight pay to John Sims, or order, Six Hundred Dollars, and charge same to my account.
To HENRY HOLT & Co. JOHN SIMS.
Boston, Mass.

CHECKS.

A CHECK on a bank is one form of an "Inland Bill of Exchange," but there is some slight difference in the liability of the parties to it. A check requires no acceptance, as a bank is bound to pay the checks of its depositors while still in possession of their funds, and the drawer of a check having funds on deposit has an action for damage for refusal to honor his check, under such circumstances, on the ground of an implied obligation to pay checks according to the usual course of business. Checks are usually drawn payable immediately, but they may be made payable at a future day, and in this case their resemblance to a bill of exchange is very close. As stated, a check requires no acceptance, so far as payment or liability of the drawer is concerned, but it creates no obligation against a bank in favor of the holder until acceptance. When accepted by the bank the word "Accepted" is stamped on its face with the signature of the banker. It is then said to be certified and thereafter the bank is liable to the holder. As soon as the check is "certified" the amount is charged against the account of the "drawer" the same as if paid, and it is considered paid so far as the "drawer" is concerned.

The drawer of a check is not a surety in the same sense as is the drawer of a bill of exchange, but is the principal debtor like the maker of a note. He cannot complain of any delay in the presentation, for it is an absolute appropriation to the holder of so much money, in the hands of the bank, and there it may lie at the holder's pleasure. The delay, however, is at the holder's risk, and if the bank should fail after he could have got his money the loss is his. If, before he presents the check, the bank pays out all the money of the drawer, then he may look to the drawer for payment. If the holder of a check transfers it to another he has the right to expect that it will be presented for payment within a reasonable time. He has the right to expect that it will either be presented the next day or started to the point on which it is drawn. If it is held beyond a reasonable time and a loss is occasioned thereby, the party responsible for the delay must bear the loss. If a bank pays a forged check it is so far its own loss that it cannot charge the money to the depositor whose name was forged. But it is entitled to recover the money from the party who presented it. If it pay a check of which the amount has been falsely and fraudulently increased, it can charge the drawer only with the original amount, provided the drawer himself has not caused or facilitated the forgery by carelessly writing it or leaving it in such hands as to make the forgery or alteration easy. In some of the States the Supreme Court has decided in cases where checks were "raised" that the drawer must bear the loss as they had failed to take reasonable precaution to prevent it. Perforating and cutting machines are on the market which make it almost impossible to raise or alter the amounts so as to avoid detection, and the tendency of the decisions is to regard the use of these as only a reasonable precaution on the part of check drawers to save their bank from trouble and loss. Some, however, adopt the plan of writing the amount in red ink across their signature.

If many persons, not partners, join in a deposit they must join in a check. If a payee's name is misspelled or wrong in a check, the usual plan is to endorse it first exactly as it appears and then sign the name correctly. There is no settled rule as to how checks should be drawn. In nearly all the cities it is an almost invariable rule to make them payable "to order" so as to require the endorsement of the payee; but in smaller towns many check drawers make them payable "to bearer," in which case they require no endorsement, and if lost or stolen may cause loss—as whoever presents such a check at the bank is entitled to payment.

DRAFTS.

A DRAFT is a form of an "inland bill of exchange." The two forms of bills of exchange usually called "drafts" are the bank draft (or exchange) and the "sight or time draft." The bank draft is, to all intents and purposes, the same as a check, but the term is usually applied to "checks" drawn by one bank upon funds which it may have in some other bank, termed its "correspondent." A draft is but very seldom made payable to bearer, it being almost an invariable rule to make them payable to a certain payee or order. They are negotiable and can be transferred indefinitely by endorsement. If a draft is lost or stolen, by applying to the bank that issued it, the payment can be stopped, and after the expiration of thirty days a duplicate will be issued.

The "Sight Draft" or "Time Draft," in which case it reads to pay after a certain number of days, is a very common method of making collections to-day by creditors, and it serves the double purpose of being an order to pay to a bank or third party, and is also a receipt to the debtor. It is simple in its wording, the following being a general form:

\$1000 CHICAGO, JUNE 1, 1894.
At sight (or so many days after sight as the case may be) pay to the order of _____ Bank One Thousand Dollars and charge to my account.
To GEO. SIMS, NEW YORK, N. Y. JOHN SIMS.

ENDORSEMENTS.

THE signature of any payee or holder on the back of any check, draft, note, bill of exchange or other negotiable instrument is termed his "endorsement." It simply means the placing of the name of the holder, or payee, on the back of the instrument, thus indicating that, for a consideration, he has relinquished his title to it, and in the absence of any condition or qualification expressed in the endorsement, it implies that the endorser will see that the instrument is paid in case it is not taken up by the maker or payor. Where the instrument is made payable to "bearer," as to "John Sims or bearer," no endorsement is necessary to pass the title—it passes with delivery and any holder may collect or sue upon it the same as if he were the payee named therein. In a case of this kind if any holder endorses the instrument, the law is construed strictly against him, and, as it was not necessary for him to endorse to pass title, the law presumes in the absence of a positive qualification that his endorsement was made for the purpose of indicating that he would pay it if the payor failed to do so. Where several payees are named in the instrument it must bear the endorsement of all of them to pass the title and make one transfer of it. In this case, however, their liability as endorsers is joint, not several. But where two or more holders endorse one after the other in making a transfer from one to the other their liability is several, not joint.

Every check, draft, bill of exchange, note or other negotiable instrument which is made payable to a certain "payee or order" must bear the endorsement of the party named, to pass the title, and even in cases where they are made payable to "bearer" it is generally customary for the party to whom a transfer is made to require the person from whom he secures it to place his endorsement thereon.

There are several kinds of endorsement which should be mentioned in this connection. The first is the "blank endorsement," or "endorsement in blank," in making which the payee simply places his signature on the back of the instrument, without condition or qualification of any kind. This passes the title to the instrument, and, from that time on, it becomes payable to bearer, and the title passes with delivery, until some subsequent holder sees fit to limit it by making it payable to some other payee, or places some other qualification or condition in the endorsement. When a negotiable instrument bearing a "blank endorsement," has once been put into circulation, any subsequent holder of it has the right to limit or restrict it by writing the conditions over his own endorsement, or, by writing over the endorsement of the original payee, words making it payable to himself or some other party "to order." This point has been decided by the supreme courts of several of the States.

The endorsement may be restricted or qualified in a number of ways. One, which is called a "full endorsement," is very common in the business world. It is simply the act of the payee named making it payable to some other certain payee or order. To do this, the endorser writes on the back of the instrument, the directions, as: "Pay to John Sims, or order," and places his signature below it. This does not limit his liability as an endorser, but the title to the instrument must thereafter pass through John Sims, and it must bear his endorsement before it will be paid or honored.