

APPENDIX No. 2

letter addressed by the committee to the president of each bank will fully explain the method adopted:—

‘The examiner will furnish you for the use of your directors a detailed report on the condition of your bank at the date of his examination. He will file in the clearing house vault, under his own custody, a copy of such detailed report. He will also make a separate report to the Clearing House Committee expressing in general terms his opinion of the condition of each bank as he finds it and calling special attention to any unwarranted conditions or gross irregularities discovered. His detailed reports will not be examined by the Clearing House Committee except when it may appear necessary to do so from the general report of conditions made to it.’

And the following from a letter sent out later to the directors of each bank as the first examinations of them were completed, will show that the method was intended to benefit directors and that their co-operation in correcting anything open to criticism was desired and expected by the committee:—

‘The Clearing House Committee, desiring the co-operation of bank directors in maintaining a high standard in the condition of banks in the city, has requested the official examiner to notify the directors of each bank, individually, when he has completed and delivered his report to the president so that every director will have an opportunity of perusing it. The committee urges upon every director that he should, as a part of his directorial duty, carefully examine such reports as promptly as possible after he receives notice of their existence.’

Bank directors have been most enthusiastic in their commendation of the method. They find that it gives them an opportunity of judging of their bank’s condition as a whole, which the mere passing upon individual loans at their meetings does not afford.

Our experience has been that the banks have almost unanimously adopted every suggestion made by the committee. The method has worked with but little friction, and while I cannot discuss such details as would show its efficacy, I can say that the result has been most satisfactory to all concerned and that much good has been accomplished for the Chicago banks individually and collectively. The organization being entirely voluntary partakes somewhat of the nature of a gentleman’s agreement, under which each bank binds itself to conduct its business under proper methods. The disciplinary effectiveness of the method lies in the fact that they are all measured by the same standard, viz.: that their statements as rendered to the Clearing House Association shall be satisfactory to the committee, in view of the examiner’s reports upon them, otherwise they cannot continue to enjoy clearing house privileges. In no sense, however, does the association or its committee assume responsibility for the individual management of the banks or for the quality of all the loans current in them. This responsibility, as I have said before, rests, and must always rest, on the officers and directors of each bank. All the committee undertakes is to pass judgment, and that only approximately being based on the examiner’s report, on the reasonable integrity of each bank’s assets and the general reliability of its statements. In the fact that the members of the committee are well posted on local credits and financial affairs, lies the superior efficacy of clearing house supervision. But the committee is not omnipotent, it is only an ordinary human agency. Like the comptroller, it has no control of the initiative management of the banks under its supervision. It fully realizes the heavy responsibility laid upon it. It is no easy problem to decide when summary action should be taken in connection with a badly managed bank’s condition, which depends on the condition of its customers, while both they and it are interdependent on each other. Conditions must become very bad and expostulation be exhausted before any supervisory authority, however constituted, will assume the responsibility of action that will lead to the closing of a bank’s doors. If it were