

CANADIAN BANKING PRACTICE.

By H. M. P. Eckardt.

XVIII.

When Credit is Good.

But if his credit is good, and his financial position satisfactory, the owner can easily make arrangements with the bank whereby it takes the notes from him as collateral and lends him a certain percentage of their total.

Though a considerable proportion of the collateral notes taken by the banks are inferior in quality to the regular discounted bills, it does not follow that any particular collateral note or notes is inferior as such to discounted paper. It may happen that a customer holds a note bearing the most excellent names, and that he wishes to borrow only a part of the amount for which it is drawn. The simplest way is for him to lodge the note as collateral to his own note for such a sum as he wishes to use.

Definition of Collateral Notes.

The younger bank officers are sometimes puzzled as to the exact status of the collateral notes. It is easy to understand that the collections are the property of the people for whose account they are held, and that the discounts belong to the bank. But the collaterals have some of the properties of both the others.

Perhaps the best way to explain their status is to liken them to a farm or other property on which a mortgage has been placed. A property that has been mortgaged is in the hands of the party who advances money on it. He has title to the whole property, and can retain it till his advance is repaid. The mortgagor, or one who mortgages, has the equity in the property, which means he owns all of it over and above the portion required to satisfy the mortgage. The same with collateral notes pledged as security for a bank loan.

Must Give These Notes Attention.

The bank has title to all the notes pledged. The pledgor owns the equity in them. Needless to say, the banks whose practice is the best give to the collateral notes they hold the same degree of attention as that given to discounted bills. The head offices do their best to combat the disposition sometimes shown at a few of the branches, where the officers regard the collaterals as being of lesser importance. The point insisted upon is that the bank has advanced money on these notes, as much as could be advanced upon them, that it is the duty of the officers to handle them just as attentively and carefully as the discounts, and to do their best to collect them and to keep them in good shape.

Where laxity is most likely to occur is in the treatment of past due collaterals. These are sometimes allowed to accumulate till a considerable part of the security held against a current loan is past due. One of the dangers is that a promissor, whose note is past due, may have settled it direct with the bank's customer, and he have neglected to turn in the payment to the bank. Though the bank holds the maker of the note liable to it so long as it holds the note, it might experience considerable difficulty in forcing him to pay the amount a second time.

Some Room for Ingenuity.

At branches where there are a great many collaterals it takes a good deal of watchfulness and care to keep the records and accounts clearly and properly, and there is room for the exercise of ingenuity in the book-keeping. At the small branches the collateral notes are usually assigned to the discount clerk. Before he can take them they must, of course, be passed or accepted by the manager.

They may come accompanied by the note for discount which represents the loan made against them, or

they may come as a deposit of additional security against a loan or loans already made.

When the bank takes collaterals it must exercise care, as it does in taking bills for discount, to see that they are properly drawn, filled, signed and endorsed. There is the same necessity for establishing the authenticity of the signatures. And there are one or two things required that are not required in the case of the others. When a bill is discounted the bank buys the bill; the cheque it takes for the proceeds provides it with all the receipt it needs, as that enables it to prove that it holds the bill for value given by it. With collaterals the case is different.

Drawing Up the Hypothecation.

They are lodged as security for bills discounted or to be discounted. In order that it be invested with a secure title to them it requires that they be hypothecated, or assigned, to it. Each bank has its solicitors draw up a form of hypothecation or assignment that will, when signed by the rightful party, transfer to the bank the title to the notes and the property in any liens they may carry. This form of hypothecation is printed at the head of a sheet whereon are blank lines and spaces for entering the particulars of the bills lodged.

Every bill lodged must be described in a manner to permit its being identified—the name of the promissor or promissors, the due date, and the amount being essential in each case. The lists of notes are called collateral lists.

All that has to be done at the moment the notes are lodged is to have them properly hypothecated to the bank. It may be necessary also to calculate at once the proceeds of a bill discounted against them, but when the collaterals are duly hypothecated they can, if necessary, be placed in a clip and put through at leisure later in the day.

Quite often collateral notes are drawn with interest; that may have to be calculated and added to the face of the notes. They must be carefully read over and due dated. When certain that the notes are correctly entered on the collateral lists, the clerk may proceed to enter them in the collateral ledger or register.

Notes of the Collateral Ledger.

The purpose of this book is to show the record and balance of the collateral notes held on account of each customer having advances on that kind of security. It may include also the record and balance of other kinds of security held against discounted paper. The customers' accounts are arranged in their alphabetical order as far as possible, and indexed. The notes are entered in the same order as they appear on the lists.

They may be numbered in the same manner as the collections and discounts; i.e., the numbers in each account running consecutively forward as one list follows another; or, the lists may be numbered as they come in, irrespective of the accounts to which they belong, and the notes on each list numbered consecutively, beginning at "one."

To Know at First Glance.

If the latter system is followed the numbering, for example, on the seventy-fourth list received would run: 74/1, 74/2, etc. It is desired usually to have the collaterals so numbered as to proclaim their nature as collaterals at the first glance.

The Retail Merchants Association of Western Canada is doing good work. The following is a list of the officers:—President, W. G. McLaren, Souris, Man.; first vice-president, P. D. Baine, Boissevain, Man.; second vice-president, W. C. Paynter, Tantallon, Sask.; secretary, W. A. Coulson, 53 Scott Block, Winnipeg; treasurer, J. F. Hunter, Boissevain, Man.; executive committee, G. W. Stockton, Carlyle; R. F. Moore, Lauder; H. A. Manwaring, Birtle; T. T. Pearson, Carman; F. W. Clingan, Virden; E. J. Coade, Carievale; and the following from the Winnipeg sections: E. B. Nixon, grocer; C. L. Charrest, butcher; J. N. Lindsay, piano dealer; C. W. Campbell, druggist.