THE LEGAL INVESTMENTS OF CERTAIN CLASSES OF FINANCIAL INSTITUTIONS

Dissertation

Presented in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy in the Graduate School of the Ohio State University

By

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The Ohio State University
1952

Approved by

[Signature]

Adviser
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INTRODUCTION

A. Purpose and Scope. The purpose of this study is to inquire into the nature of legal investments. An attempt will be made to observe what the aims may be for establishing legal controls over the investment activities of the institutions and agencies which are regulated. The inquiry will include a comparison of the regulating statutes, a survey of one legal list to ascertain investment performance, and an analysis of trends in regulation.

Four of the primary institutional investing classes which are affected will be examined. These four are savings banks, trust companies, life insurance companies, and savings and loan associations. As a class, the savings banks will be revealed to be the pace-setting class and in most cases the example group. The analysis of the statutes will be completed in
detail for the four classes, but policies, trends, and the implications of the efficacy of legal investments will be examined primarily within the operating experience of the savings banks.

B. The meaning of the term, legal investments, and the financial institutions affected. For many years the selling agencies of marketable securities have used the primary quality stamped by the investing public upon legal investment securities as a strong selling point for such securities. Investors have attached extra strength to the "legals", and security issuers frequently have been zealous of obtaining or maintaining, as the case might be, this coveted legality status. Such a status carried not alone the embellishments of superior quality, but in addition presented opportunities to reduce the costs of funded debt. Interest, therefore, has been of the first magnitude in the characteristics of the legal investments, even though there has been relatively little evaluation of the merit which the status commonly commanded.

Legal investments are investments which are either declared or established as legal for some purpose by an agency of government. More precisely, therefore, legal investments are investments authorized by law. One court had occasion to define legal investments as those authorized by law, irrespective of whether inclusion of a
particular class of securities was prudent exercise of legislative discretion.¹

In some states regulation has been under the jurisdiction of the banking department or a related body commissioned with regulatory power. This department prepares annually or less frequently a list of securities or investments that are prescribed as of approved quality for the commitment of funds by those defined by the statutes as subject to such regulation. Such a list constitutes a so-called "legal list". Regulation in other states is under the common law. Investment discretion is lodged with the regulated groups. These groups are charged with the responsibility of employing such good faith in the investment of funds in their jurisdiction as could be expected of a prudent investor in such a position. We can expand our definition, therefore, as given above. From the statutes and from that part of the common law pertaining to the authorized commitment of funds, the term, legal investment, is construed to be an investment ascertained by the regulating authorities to be in conformity with such standards of quality that it is selected for inclusion in a list approved for such commitments, or, is an investment of such quality that it could be included in the port-

folio of a prudent investor responsible for the investment of resources subject to legal investment regulations.

Subject to the legal or authorized investment statutes are an array of people, agencies, and institutions. They may be classified as mobilizers of savings. Included are trustees and trust companies, administrators, executors, guardians, and fiduciaries generally. The financial institutions affected are savings banks, commercial banks, savings and loan associations, credit unions, life insurance companies, and others. Within a miscellaneous group are business corporations chartered by the state, cemetery associations, charitable and eleemosynary institutions, and educational institutions, as they may be affected in each case by legal instruments or by legal regulation. Certain governmental units, agencies, and political subdivisions are also required to place the funds gathered for or by them in an authorized deposit or investment form.

For the purposes of fulfilling the objectives of this study, as will be given below, it is thought that the treatment should embrace the most fundamental of the institutions classified as affected. The institutions observed to be the most fundamental of the large group are savings banks, trust companies, life insurance
companies, and savings and loan associations. Commercial banks are not included because they are regulated by a separate and specific body of statutes and the lending and service procedures of their banking functions are more important than the auxiliary function of receiving savings deposits.

**Objectives.** It is intended that this study reveal what legal investments are by comparing the most important statutes regulating the primary institutional classes. Other objectives arise for treatment. What is the kind of regulation that is specified through the

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1For the purpose of this study the primary classes of institutions are defined as follows: A mutual savings bank is an organization formed to receive deposits and lend money for the sole benefit of its depositors, having no capital stock, obligated to repay the amount deposited upon demand or a reasonable period of time, conducting no other banking business, and operating upon a non-profit basis. A trust company is an organization formed for the purpose of taking, accepting, and executing such trusts that may be lawfully committed to it, of receiving deposits of money and other personal property and issuing its obligations therefor, and of loaning money on real or personal securities. A life insurance company is an organization formed to issue contracts of life insurance, either with or without capital stock and on whatever plan. A savings and loan association is an organization created to accumulate a fund primarily by means of special or regular payments by its members, in many cases to a form of share account, from which fund property loans are made to the members. Most savings and loan associations are mutual organizations, but some have withdrawable stock. In this study both kinds are treated. The associations are known variously as building and loan associations, homestead associations, cooperative banks, and building savings and loan associations.
statutes? How does this regulation compare from state to state within any one group or class of financial institutions and, also, how does it compare from major class to major class? What appear to be the purposes underlying the statutory controls? Are these purposes the same at the present time as they were with early regulation? Are the standards set up for authorized investments conflicting? Is any significance to be attached to the fact that some states make the savings bank legal list serve the base upon which other regulation for other classes of financial institutions is established? Is it for the best good of those concerned for restrictive laws and lists to be substituted for experienced administrative judgment? Is it probable that lists can be established which will be broad enough both to assure high quality and at the same time screen out weakness? Do problems arise in making the legal lists broad enough for the vast amount of money to be invested? What are the investment records of some securities in a legal list when followed over an extended period of time? How are the statutes administered by the states? Who are the administrators? What appears to be the character of administrative policy?

C. The purposes underlying the statutory controls.

The purposes underlying the statutory controls governing
authorized investments have been to protect and to fulfill the trust-reposed responsibility accompanying the holding of such funds. While it is true that the purposes have a different character currently than that which motivated some of the early statutory controls, cause can be observed readily for the early regulation, as with the case of life insurance companies.

"The unhealthy influence exerted by the rapid growth of insurance shortly after the close of the Civil War resulted in the establishment of a large number of unsafe companies, which, after more or less extended struggles for existence, suffered the collapse that might have been expected from their reckless methods. The occurrence of such frequent failures on the part of insurance companies had the double result of entailing very considerable loss upon numerous innocent policyholders, and, also of exciting a deep public distrust in the integrity of the management of all insurance companies. From this condition the step to government inspection and supervision was a short one."\(^1\)

All of the states recognize the protective function as a statutory necessity to assure a full performance of the expressed or implied treatment of funds placed in stewardship. While such money or property is entrusted to another than the owner, its investment form must be as authorized by the state having the powers of regulation.

With all of the assets covered by legal investment regulations, the prime consideration is safety. In many cases the funds are the small accumulations of low income

groups. In accord with this prime consideration, it is clearly the duty of the stewards of such assets to invest these resources as safely as possible and yet earn a reasonable return.¹

The standards and restrictions vary among the forty-eight states, but the purpose is the same—that of preventing the investment of money entrusted to the important institutional depositories to be invested in anything but the very highest grade securities.² Besides the stipulation of legal investment standards to assure greater safety of principal, the purposes of statutory control are to release institutions from liability if they abide by the law, as well as, in cases, to favor the businesses of the particular state by creating statutes favoring local real estate mortgages or bonds, municipal bonds, and corporate bonds.³

It will be developed subsequently that the savings banks have been pace-setting in the regulation of the investment activities of the primary institutions mobilizing the savings of the American public. Historically, the savings banks were the first institutions


broadly established to receive the savings or surplus resources of the people of small means. The state legislatures, at first within the charters granted particular savings banks and later in general laws, enveloped the investment of the monies received by the savings banks with legal protection. While other of the primary institutions grew to greater proportions the protective regulation of their investment activities was influenced by the conservative provisions for savings banks investments.

An underlying problem in legal investment standards has been to provide authorized standards which were broad enough to permit judicious investment of the vast amount of funds which were held. The primary problem of the major institutions is to conserve the deposits and resources within their jurisdiction. The conservation goal has made for the institutions, in turn, a problem of obtaining any substantial return upon the commitments. For, "safety, one need scarcely be reminded, is not characteristic of any new or rapidly expanding enterprise. On the contrary, safety is the characteristic of the relatively least productive securities, of the so-called 'legal investments', or liens on fixed property

whose value is already established and proved, and of
the government bonds. In investments and enterprises
such as these capital is content with a return of from
one to four per cent; and the more capital falls back on
this kind of return, the slower must be the expansion
of the economy."¹

A second underlying problem with legal investment
standards has been inflexibility. The inflexibility
problem, however, has not been confined to the present
era. The New York State supervisor of savings banks in
1858 voiced a complaint in his report to the legislature.
The character of the complaint is similar to the view-
points expressed nearly a century later. The supervisor
commented as follows.

"That $6,772,175, including interest on undrawn de-
posits, should seek investment in this class of institu-
tions (savings banks) during the past year, and that the
payments to depositors should have reached the amount of
$21,789,493, while their deposits during the same period
were $26,514,144, is a result well calculated to attract
the attention of the philanthropist as well as the legis-
lator, as he contemplates the apparent increase from year
to year.

"Already complaints reach this department of the in-
convenience and difficulty of investing this great fund;
and applications are made to the Legislature to admit the
introduction of other securities than those allowed by
the respective charters under which the various trustees
are acting."²

¹Fortune, (May, 1938), p. 58.
²White and Lawres, op. cit., p. 386.
ment standards have been accentuated by the very great growth of the volume of funds deposited with the classes of institutions of this study. In the period following the Civil War there has been a very substantial growth in the volume of business and the number of institutions which were adapted to serve as mobilizers of capital. The primary recipients in addition to savings banks remaining localized for the most part in the industrial East have been life insurance companies, trust companies, and savings and loan associations. In the fifty years from 1880 to 1930 the volume of savings held by these institutions doubled during each decade. Since 1880 the total savings has increased from 3% to 19% of the national wealth. More recently, over the past thirty years, the combined resources of life and property insurance companies, mutual savings banks, and savings and loan associations, together with the investments of the commercial banking system, were reported to have increased from $30 billion to $225 billion. About one-half of the total gross personal liquid savings is now placed with commercial


2Ibid., p. 4.

banks, savings banks, savings and loan associations, and life insurance companies; one-fourth flows to the United States Treasury through government insurance and pension funds; and about one-fourth is invested directly.¹ The volume of total savings would be expected to grow in absolute dollars because of the growth in population and income of the nation. However, this volume of savings has grown more rapidly than the level of incomes. On December 31 of the years 1943 through 1950, the gross savings by individuals in billions of dollars have been, respectively, 47.1, 49.8, 47.3, 33.6, 34.0, 35.6, 35.3, and 45.6.² Of the $45.6 billion gross savings at the end of 1950 only approximately 15% was not in the form of nonfarm dwellings and durable goods.

The growth appears to have been fostered in part by the promotional efforts of the major classes of financial institutions. It also reflected the fact that a growing population and, in turn, an increasing proportion of this population were engaged in specialized employment. One study revealed the probability that people have become


less and less inclined to take risks. Therefore, these major classes of financial institutions were naturally turned to as the best agencies for investment. For some of the states to supervise the investment activities of these institutions under relatively inflexible statutory restrictions was but a normal part of the progressive growth of this picture. Institutions rather than individuals now are the important investors. Life insurance companies, pension-trust funds, and savings and loan associations are reported by the Federal Reserve Board to dominate the investment market. Reference to Table 1 gives the information that for three of the four primary classes of financial institutions of this study deposits increased from $12 billion to $88 billion during the period 1920 to 1950.

The sources of long-term funds are the current savings of individuals, the earnings retained by businesses, and government operating surpluses. From time to time these sources are supplemented by the inflow of investment funds from abroad, the tapping of idle cash holdings, and by bank credit expansion. Many economists


3Schmidt and Stockwell, op. cit., p. 7.
Table 1

ESTIMATED SAVINGS OF INDIVIDUALS IN SELECTED MEDIA, 1920 to 1950
(In millions of dollars)

<table>
<thead>
<tr>
<th>Dec. 31</th>
<th>Total</th>
<th>Savings and Loan Ass'ns.</th>
<th>Life Ins. Companies</th>
<th>Mutual Savings Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>12,035</td>
<td>1,741</td>
<td>5,488</td>
<td>4,806</td>
</tr>
<tr>
<td>1925</td>
<td>19,752</td>
<td>3,811</td>
<td>8,592</td>
<td>7,349</td>
</tr>
<tr>
<td>1929</td>
<td>27,835</td>
<td>6,237</td>
<td>12,801</td>
<td>8,797</td>
</tr>
<tr>
<td>1930</td>
<td>29,370</td>
<td>6,296</td>
<td>13,690</td>
<td>9,384</td>
</tr>
<tr>
<td>1933</td>
<td>28,869</td>
<td>4,750</td>
<td>14,613</td>
<td>9,506</td>
</tr>
<tr>
<td>1935</td>
<td>31,286</td>
<td>4,254</td>
<td>17,203</td>
<td>9,829</td>
</tr>
<tr>
<td>1939</td>
<td>37,565</td>
<td>4,060</td>
<td>23,024</td>
<td>10,481</td>
</tr>
<tr>
<td>1940</td>
<td>39,553</td>
<td>4,272</td>
<td>24,663</td>
<td>10,618</td>
</tr>
<tr>
<td>1941</td>
<td>41,734</td>
<td>4,652</td>
<td>26,592</td>
<td>10,490</td>
</tr>
<tr>
<td>1942</td>
<td>44,265</td>
<td>4,910</td>
<td>28,734</td>
<td>10,621</td>
</tr>
<tr>
<td>1944</td>
<td>53,549</td>
<td>6,305</td>
<td>34,212</td>
<td>15,332</td>
</tr>
<tr>
<td>1945</td>
<td>60,206</td>
<td>7,365</td>
<td>37,509</td>
<td>15,332</td>
</tr>
<tr>
<td>1946</td>
<td>66,074</td>
<td>8,548</td>
<td>40,713</td>
<td>16,813</td>
</tr>
<tr>
<td>1947</td>
<td>71,307</td>
<td>9,753</td>
<td>43,820</td>
<td>17,744</td>
</tr>
<tr>
<td>1948</td>
<td>76,488</td>
<td>10,964</td>
<td>47,139</td>
<td>18,385</td>
</tr>
<tr>
<td>1949</td>
<td>81,791</td>
<td>12,471</td>
<td>50,231</td>
<td>19,269</td>
</tr>
<tr>
<td>1950</td>
<td>88,048</td>
<td>14,038</td>
<td>54,000</td>
<td>20,010</td>
</tr>
</tbody>
</table>

Source: Statistical Abstract of the United States, 1951, U. S. Department of Commerce, Seventy-second edition, p. 400, (adapted). From the same source, we find that the grand total of all estimated savings, including $35,070 million of time deposits in commercial banks and trust companies, $3,035 million in postal savings, and $50,000 million in U. S. savings bonds, on December 31, 1950, was $176,153 million.

1Estimated private investments in savings and loan associations, including deposits and investment securities. Excludes shares pledged against mortgage loans.

2Estimated accumulations in U. S. life insurance companies include reserves plus dividends left to accumulate, minus premium notes and policy loans.

3Deposits. Prior to 1938, data based on savings in mutual savings banks as reported by comptroller of currency. All figures include a small percentage of Christmas savings and other special accounts in addition to regular deposits.
support the principle that there must be maintained within the economy a careful balance between the flows of replenished capital supply through savings on the one hand and consumption on the other. It is true that in recent years an increasing volume of capital expansion and replacement has been undertaken from the reserves which businesses have set aside for such purposes. However, it is probably correct to observe that the borrowers of capital collectively have not become independent of the need for access to the major financial institutions by offering to them acceptable securities, either directly or through the underwriters and markets. Should the financial institutions not perform well their investment function, it is possible that the capital supply can be disturbed to the point of contributing to wide disequilibrium in the economy. The institutions as primary repositories for processing savings, therefore, have a very important economic function to perform.

It can be seen from the data supplied in Table 2 that the savings institutions have been shoudering increasing volumes of the long-term debt of the nation. In the third of a century from 1916 to 1950 the amount of the long-term private debt held by the savings institutions increased from 26% to 83%. The responsibility for this growth is based in part upon the promotional activities which the institutions developed. Other
Table 2

RELATION OF THE NET LONG-TERM PRIVATE DEBT IN THE UNITED STATES TO THE ASSETS OF LIFE INSURANCE COMPANIES, MUTUAL SAVINGS BANKS, AND SAVINGS AND LOAN ASSOCIATIONS

<table>
<thead>
<tr>
<th>December 31</th>
<th>Assets (billions)</th>
<th>Net Long-Term Private Debt (billions)</th>
<th>Assets as % of debt (%)</th>
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<tr>
<td>1916</td>
<td>11.5</td>
<td>43.4</td>
<td>26</td>
</tr>
<tr>
<td>1927</td>
<td>30.6</td>
<td>81.5</td>
<td>38</td>
</tr>
<tr>
<td>1950</td>
<td>103.3</td>
<td>125.1</td>
<td>83</td>
</tr>
</tbody>
</table>


Factors responsible for the growth of institutional investors were the greater emphasis on security and pension programs and the federal income taxation system. Some interpret the effect of the system of high income taxes levied during and since World War II as a means of redistributing income, making it possible to increase the savings in low income groups and resulting in the alternative placement by the low income groups of funds with institutions rather than directly into securities or loans.¹

¹Ibid., p. 7.
There must be necessarily a high absorptive capacity within our economy for savings utilization. The demand for money, however, has remained very strong. The rise in total public and private debt during 1950, for example, was approximately $38 billion. Almost all of this amount, unlike during the war years, was confined to private debt. Net private debt increased 17% during 1950. Individuals and business used about $50 billion in new houses and in plant, equipment, and inventory additions. However, during the year there was an increase of only $8 billion in the liquid assets represented by cash, checking and savings deposits, and U. S. government securities, the balance of net debt expansion apparently being absorbed by means of various forms of debt paper and conversions. Of related interest as an indicator of absorptive strength is the fact that while gross public and private debt increased two and one-half times in the aggregate from 1929 to 1950, total interest payments were only one-fifth larger because computed average interest rates had been cut practically in half.


2Ibid., p. 20.
The development of savings banks regulation. The regulations of savings banks investments have been the most definitive and restrictive of any of the major classes of financial institutions. As indicated above, this pattern has provided the classification of "pace-setters" for the savings banks. Background can be found for the highly protective cloak that has enveloped traditionally the security of the savings bank dollar, and that has retarded some changes that might have taken place in this area of institutional investment. One of the earliest records justifying savings banking in this country showed the improved status of the poorer two-thirds of the population who could find safety in placing their meager savings in a savings bank in preference to lending the money to relatives or to petty fraudulent dealers.¹ A survey of the patrons of such early institutions revealed strongly enough the primary need for safety of their deposited pittances, and for the close regulation of the investment of such funds.²


²Ibid., p. 8. Welfling quotes from Documents Relative to Savings Banks, Intemperance and Lotteries published by the Society for the Prevention of Pauperism, New York, 1819. A typical savings bank had the following list of depositors: "1 widow of a clergyman, 89 widows, 2 nurses, 309 single women, 62 married women, 9 mantua-makers, 8 tayloresses, 1 orphan, 402 minors, 19 charitable societies, 1 church, 1 trustee for a minor, 21 merchants, 41
The first savings bank was organized in this country in 1816. By this time there had developed extensive beginnings of the factory system and some use of productive machinery in the East and in particular in the New England States. The factories were filled with laboring groups whose only security was in the form of savings which they might themselves garner together. The amounts accumulated were necessarily small. The problem, therefore, was with what type of institution their savings could be lodged, for commercial banks primarily served the merchants and wealthier classes of people. The use of life insurance on a wide-spread basis and of savings and loan institutions was a development for the future. The business of looking after other people's assets by trustees was well established, but not for the limited resources and simple problems of the laboring classes.

While charity was not provided to those in need on a well-organized basis, there were clusters of men in many communities who responded to a sense of social responsibility. These men saw virtue in fostering savings institutions as an aid in developing self-reliance in traders, 15 printers, 37 lawyers, 5 gentlemen, 5 physicians, 6 druggists, 1 comedian, 3 clergymen, 6 schoolmasters, 90 mechanics, 6 bakers, 4 tailors, 5 barbers, 8 shoemakers, 1 butcher, 18 farmers, 25 clerks, 25 sailors, 2 soldiers, 33 laborers, and 158 domestics. More than one-half the deposits were in sums under thirty dollars.
the management of laborers' incomes and the prevention of poverty. In this setting, the savings banks were founded. The first was the Provident Institution for Savings in Boston, approved by the Massachusetts legislature, in 1816.¹ The savings banks accepted deposits in amounts as little as five cents and were therefore well adapted to their purposes. If growth can be judged in part upon need, the apparent need for this kind of financial institution is established from the data in Table 3. The greatest increase in the number of mutual savings banks took place in the period up to 1875. It is surmised that the greater prevalence of life insurance and access to the securities markets following 1875 provided opportunities for the gainful employment of savings. However, we see that the amounts deposited continued to grow until the total volume by 1945 was $15,332,000,000. The number of depositors by 1945 had grown to 13,905,000.

The first investment law designed for general application to more than one savings bank was passed in New York. This was the Savings Bank Law of 1853, which applied to the savings banks in New York and Kings Counties. Before 1853, savings banks in New York State obtained their rights to operate by direct legislative acts. The individually granted charters provided con-

¹Lintner, op. cit., p. 47.
### Table 3

**MUTUAL SAVINGS BANKS IN THE UNITED STATES, 1820 to 1945**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Banks</th>
<th>Amount of Regular Deposits (in millions of dollars)</th>
<th>Number of Regular Depositors (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1820</td>
<td>10</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>1825</td>
<td>15</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>1830</td>
<td>36</td>
<td>7</td>
<td>38</td>
</tr>
<tr>
<td>1835</td>
<td>52</td>
<td>11</td>
<td>60</td>
</tr>
<tr>
<td>1840</td>
<td>61</td>
<td>14</td>
<td>79</td>
</tr>
<tr>
<td>1845</td>
<td>70</td>
<td>25</td>
<td>145</td>
</tr>
<tr>
<td>1850</td>
<td>108</td>
<td>43</td>
<td>251</td>
</tr>
<tr>
<td>1855</td>
<td>215</td>
<td>84</td>
<td>432</td>
</tr>
<tr>
<td>1860</td>
<td>278</td>
<td>149</td>
<td>694</td>
</tr>
<tr>
<td>1865</td>
<td>317</td>
<td>243</td>
<td>981</td>
</tr>
<tr>
<td>1870</td>
<td>517</td>
<td>550</td>
<td>1,631</td>
</tr>
<tr>
<td>1875</td>
<td>674</td>
<td>850</td>
<td>2,170</td>
</tr>
<tr>
<td>1880</td>
<td>629</td>
<td>783</td>
<td>2,336</td>
</tr>
<tr>
<td>1885</td>
<td>646</td>
<td>1,015</td>
<td>3,071</td>
</tr>
<tr>
<td>1890</td>
<td>637</td>
<td>1,336</td>
<td>3,765</td>
</tr>
<tr>
<td>1895</td>
<td>664</td>
<td>1,596</td>
<td>4,394</td>
</tr>
<tr>
<td>1900</td>
<td>652</td>
<td>2,134</td>
<td>5,370</td>
</tr>
<tr>
<td>1905</td>
<td>668</td>
<td>2,737</td>
<td>6,464</td>
</tr>
<tr>
<td>1910</td>
<td>638</td>
<td>3,361</td>
<td>7,482</td>
</tr>
<tr>
<td>1915</td>
<td>630</td>
<td>3,951</td>
<td>8,306</td>
</tr>
<tr>
<td>1920</td>
<td>620</td>
<td>4,806</td>
<td>9,455</td>
</tr>
<tr>
<td>1925</td>
<td>611</td>
<td>7,349</td>
<td>10,616</td>
</tr>
<tr>
<td>1930</td>
<td>606</td>
<td>9,384</td>
<td>11,895</td>
</tr>
<tr>
<td>1935</td>
<td>571</td>
<td>9,829</td>
<td>13,213</td>
</tr>
<tr>
<td>1940</td>
<td>551</td>
<td>10,618</td>
<td>13,494</td>
</tr>
<tr>
<td>1945</td>
<td>534</td>
<td>15,332</td>
<td>13,905</td>
</tr>
</tbody>
</table>


1. The amount of deposits currently is $21.3 billion according to a letter dated April 21, 1952, from the National Association of Mutual Savings Banks.
siderable variation in the authority to invest assets. For example, one charter granted in 1848 provided that any investment would be legal for that bank if approved unanimously by the trustees.¹

The general law of 1853 legalized the investment in the securities of any state or any municipality in New York, provided that the securities were purchased at par or at a premium.²

The law of 1853 was followed by the General Law of 1875. This act covered the savings banks of the entire state of New York. Securities uniformly legal for investment included stocks issued or guaranteed by the United States; stocks in any state that had not for ten years previous to the investment defaulted in payment of principal or interest; bonds of any municipality in New York; bonds and mortgages on unencumbered real estate up to 50% of value, or 40% if unproductive real estate, and not more than 60% of the deposits could be so invested. The Law of 1853 was the first general law of its type in that state and probably in any of the states.³ The Law of 1875 specified that attention be given to avoid investments in which a default record had been present

¹Welfling, op. cit., p. 12.
²Ibid., p. 13.
during any of the previous ten years.

More latitude was supplied in the New York statutes controlling savings bank investments in 1898. In that year, after concerted pressures on the part of railroad companies and investment banking houses, the statutes were broadened to permit investment in railroad bonds. This section of the law was improved in 1904 to establish ratios of income to fixed charges. No further changes came until 1928. In that year the high-grade public utility bonds of gas, electric, and telephone companies were added to the legal list. This development came after a decade of hesitation and long after other savings banks states had approved similar types of investments. In addition, the statutes on railroad investments were widened to permit investment in collateral trust, terminal, and equipment trust certificates or bonds.¹ At this point it should be stated parenthetically that during the 1920's the savings banks developed a sharp competition with the commercial banks for the time deposit business of the commercial banks. This took the form of increased interest and dividend payments. The primary effect upon investments, however, was a movement to increase mortgage loans and relax bond qualities.

During the depression of the 1930's, the New York

¹Ibid., p. 27, 59.
legislature established the Institutional Securities Corporation as an agency for marketing foreclosed mortgages and as a means to improve cash position. In the intervening years to the present, Federal Housing Administration and Veterans Administration lending provisions have been added. Also, the investment of funds in housing corporations has been approved. Provision for investing in specific corporate issues upon the recommendation of twenty savings banks to the Superintendent of Banking and his approval was granted. The latest development was the legislation of April, 1952, granting permission to invest in common stocks under certain limited conditions which will be discussed in Chapter IV.

The brief historical presentation of statutory changes controlling the investments of New York savings banks discussed above has been given because the New York statutes are perhaps the most conservative of any state, and, secondly, to survey a typical savings bank history of regulation with an eye to the pace-setting character of the savings banks. These banks have operated upon the primary policies of safety and liquidity. The policies have been founded upon the facts that the

source of deposits is the savings of "little fellows" and that for mutual savings banks there is no stockholders' equity as a cushion. Liquidity, though not required, has been practiced.

It is probably fair to observe that the savings banking systems of the nineteenth century have not been given their due significance. Although they began as philanthropic institutions early in the century, and notwithstanding that they were numerous in only eight or nine states, nevertheless their resources were larger than those of commercial banks up to 1900. Their pre-World War I record of safety was more favorable than that of the commercial banks, as was the case again during the depression of the 1930's.

Since World War II, the mutual savings banks have been reported to be receiving yearly about 7% of the liquid savings of the American people. We can observe from the data in Table 4 that these assets have been invested 35.7% in mortgage loans, 48.5% in U. S. Government bonds, 8.7% in corporate bonds, and the remainder in cash and miscellaneous investments.

While the mutual savings banks of the nation have

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1 Welfling, op. cit., p. 35.

Table 4

PRINCIPAL FORMS OF ASSETS HELD BY MUTUAL SAVINGS BANKS
December 31, 1950
(dollar amounts in millions)

<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate financing:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>$8,017.7</td>
<td>35.7</td>
</tr>
<tr>
<td>Other real estate (acquired under foreclosure, etc.)</td>
<td>7.6</td>
<td>.01</td>
</tr>
<tr>
<td>Other Loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal and collateral loans</td>
<td>91.4</td>
<td>.4</td>
</tr>
<tr>
<td>Loans to municipalities and corps.</td>
<td>29.5</td>
<td>.1</td>
</tr>
<tr>
<td>Securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U. S. Government, direct and guaranteed</td>
<td>10,888.0</td>
<td>48.5</td>
</tr>
<tr>
<td>Canadian and foreign</td>
<td>77.1</td>
<td>.3</td>
</tr>
<tr>
<td>State and municipal</td>
<td>92.1</td>
<td>.4</td>
</tr>
<tr>
<td>Corporate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railroad, including terminals and guaranteed</td>
<td>864.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Public utilities, including electric, gas, water, telephone, and street railway</td>
<td>865.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Industrial</td>
<td>118.6</td>
<td>.5</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>129.1</td>
<td>.6</td>
</tr>
<tr>
<td>Stocks:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>162.9</td>
<td>.7</td>
</tr>
<tr>
<td>Other</td>
<td>15.7</td>
<td>.1</td>
</tr>
<tr>
<td>Acquired to settle debt under agreement</td>
<td>4.9</td>
<td>.01</td>
</tr>
<tr>
<td>Facilitating:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash on hand and in banks</td>
<td>797.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Banking house, including furniture and fixtures</td>
<td>110.5</td>
<td>.5</td>
</tr>
<tr>
<td>Investment in deposit insurance</td>
<td>47.8</td>
<td>.2</td>
</tr>
<tr>
<td>Other, including advances for taxes and insurance, interest accruals</td>
<td>104.9</td>
<td>.5</td>
</tr>
<tr>
<td></td>
<td>$22,424.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

\(^1\)Less than \(\frac{1}{2}\) of 1 per cent.

Source: Steiner, op. cit., p. 105.
been an important agency in the processing of savings, their relative importance has been minimized by their failure to spread westward from the New England and Eastern states. This was true even though typically operating expenses were kept within small proportions because of the leadership given to the banks by community-minded men and though earnings had become an incentive to savings in addition to convenience and safety. On January 1, 1947, there were 531 mutual savings banks operating, with only fifteen of these located in the Middle and Far West. These banks at that time carried deposits of $16.8 billion¹ and on December 31, 1950, deposits of $20 billion.²

Except in periods of depression, however, the savings banks portion of the savings allocations of the nation has declined regularly. The thrift principle has been engendered as well by the other financial institutions under programs moving ahead with better competitive promotional efforts and the more attractive offering of alternative services. Some believe that the savings banks are reaping the harvest of impeding the free flow of capital.³ Between 1870 and 1910 there was

¹Lintner, op. cit., p. 42.
an almost continuous agitation to stem the outward flow of capital from New England. The impediments to capital flow took on the following forms. Certain fields of investment were approved only if the borrower was located within the state of the lending bank. Loans to borrowers within the state and with substantially poorer credit positions than potential borrowers outside the state were given legal approval. In addition, efforts were made to tax the investments made by the savings banks outside of the state. These problems will be given further treatment in Chapter IV treating the administration of the financial institutions.

The institutional and investment importance of trust companies, life insurance companies, and savings and loan associations. The pace-setting character of the savings banks likely has had more influence than was warranted upon the regulation of the related classes of financial institutions, as observe the regulation of trusts in New York:

"Unlike savings banks, trust companies were organized for private profit. They were managed by paid executives and many of them retained the services of investment experts. These facts, however, apparently never appealed to the legislature as justifying an expansion of the discretionary power of trustees. On the contrary, this class of fiduciaries has been confined to the list which was designed and maintained primarily to serve the needs of institutions for savings. Whenever investment standards have been changed, the views of savings banks, as expressed through their association, have been accorded great weight by the legislatures. On the other
hand, trustees, because of their reluctance to trespass in a field where the rights of savings banks have become firmly established, have exerted little or no influence in the development of the list. In recent years the Trust Companies Association has expressed dissatisfaction with the present system and has considered the advisability of applying to the legislature for a separate list. Provision for such a list would no doubt encourage the great corporate trustees in New York to take a more active interest in the many public problems involved in maintaining modern investment standards.\(^1\)

Whether this viewpoint can be fully supported by all of those in a position to give a valued opinion can only be conjectured. However, it does appear fundamental to state that the tendency of the legislatures has been to establish the regulation for savings banks as a base from which to project and adapt the regulation of the other major financial institutions.

Permeating the picture, also, is the suspicion that the pace-setters and, in turn, the other major financial institutions have been paying something for legality as distinguished from investment quality.\(^2\) The laws of the different states contain many conflicting standards based upon such historical influence as that quoted above rather than upon well-defined policies designed to meet existing needs. The nature of these conflicts will be surveyed in the next chapter of this study.

Another historical influence that has undergone

\(^1\)White and Lawres, op. cit., p. 388.

\(^2\)Bell and Fraine, op. cit., p. 53.
change has been the nature of trust investments. In the early common law of England it was the rule that trust funds could be invested in government securities only, except in those cases in which the trust instrument authorized to the contrary. This was not fundamentally changed until the passage of the English Trustees Act of 1925, out of which developed an unusually broad legal list in which fiduciaries may invest. Likewise in the United States trust investing has undergone a liberalizing tendency. This has been described as the broadening of discretionary powers in trust investments and the making of statutory changes and amendments to include a wider list of authorized investments. The pressing nature of this problem has been alleviated in part by the very great increase in federal debt instruments during and subsequent to World War II. This development has not been helpful, however, in those trust cases requiring a larger income than the nominal governmental rates.

The problems of investment have been accentuated by the growth in trust assets. The volume of these assets for individuals only in the custody of trust departments of national banks was $4.47 billion on

1White and Lawres, op. cit., p. 398, 387.
2Riddle, op. cit., p. 284.
December 31, 1930, and $21.58 billion on December 31, 1949.\(^1\) In addition, there were growths in corporate trusts of great proportions. The individual trustee, long so famous in Boston, has by now largely been replaced by the corporate trustees.\(^2\)

The American public in the past century has built up a great confidence in the insurance companies. The accompanying growth has not all been due to the efforts of the companies, for the insurance writers had to rectify the errors revealed by the Armstrong investigation of 1905. This New York investigation disclosed the abuses that some insurance company officers were perpetrating, such as, working with underwriting syndicates for personal gain and control of businesses in which the company held stocks. Following the investigation the New York legislature changed the statutes to confine insurance company investments to public debt obligations, adequately secured corporate bonds, mortgage loans of 50%, and the making of loans to policyholders.\(^3\) The tendency to swing to too severe restriction in investment specifications was retarded in part. "The framers

\(^1\)Statistical Abstract, op. cit., p. 400.


\(^3\)Bell and Fraine, op. cit., p. 47.
of the (Armstrong) Report thus recognized that a situation, which probably exists today, might come about if the restrictions were too narrow—namely, the companies might be forced to pay for legality, as distinguished from investment quality."¹

It can be noted that New York has remained the insurance pacemaker. New York has provisions for the substantial compliance of its regulations by foreign insurers. The domestic and foreign insurers operating in that state account for 84.6% of the assets of all U. S. legal reserve life insurance companies. The New York laws have been the strictest and have had the most important influence on marking out areas for investment.²

The savings placed with life insurance companies in the form of insurance protection and real savings in the form of cash surrender values, annuities, and so forth, have increased more rapidly than the total of savings deposits in the other savings institutions. The unpledged share accounts of savings and loan associations and the total savings deposits of mutual savings and commercial banks were reported to have increased fifty-seven times from 1880 to 1945 in comparison with an increase of almost one hundred times in life insurance policyholders¹

¹Ibid., p. 75.
²Ibid., p. 46.
The setting up in contract form of benefits under the pressures of well-organized promotional techniques was very primary in the reasons for the great volume. In addition there was the element of thrift in a package along with the emotional appeal of planning for family security. Many forms of insurance policies and annuities were made available with the result that some carried as much or more of the element of savings than of life insurance protection. These are but several of the reasons for the extraordinary growth of life insurance to a volume of $54 billion in savings by December 31, 1950.

Another of the major depositories in the United States for savings have been the savings and loan associations. As of December 31, 1950, there were 5,947 associations in operation. Of these, 4,421 were state chartered and 1,526 were federally chartered. The state chartered associations carried assets of $8.4 billion and the assets of the federally chartered associations were only $20 million larger. The greatest increase in dollar deposits in recent years has been in California, but the leadership by a substantial margin remained with Ohio. In the latter state the total assets at the end of 1950 were reported

\[1\text{Lintner, op. cit., p. } 69.\]
to be $2,150 million. The investments of this class of institutions have been confined primarily to mortgage loans. The investment provisions will be surveyed in detail in Chapter II.

The development of the investment "rules". For a long time there has been debate upon the strength and the weaknesses of the authorized procedure established in the State of New York and known as the "legal list rule" as opposed to the procedure set up in Massachusetts and known as the Massachusetts rule, or, more commonly, as the "prudent man rule". The origin of the latter rule stemmed from the famous case of Harvard College versus Amory as first laid down in 1830 by the Massachusetts' Supreme Court. The "legal list rule" was tested and classically expressed in the findings in the case of King versus Talbot by the New York Supreme Court in 1869. Both cases were centered upon the problem of determining the investment responsibilities of trustees.

The "legal list rule" is regarded by some as safer because the list is specific. There is less likelihood for carelessness and the making of costly errors in judgment. While experience and sound judgment are assumed on the part of the officers acting for financial institu-

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tions, the caliber of management can vary with the human factor even when the candidates for the security portfolio can be selected from a prescribed list. Perhaps much support for this system had its origin in the nineteenth century when great volumes of stocks and bonds were issued to finance the expansion to the West and rising industry. Both the economic development and the securities were relatively untried. In more recent decades the adherents of the "legal list rule" have pointed to the rapid declines of stocks in depression periods. In fact, the opinion in King versus Talbot was followed so fundamentally by the states of Alabama, Colorado, Montana, and Wyoming that these states have specified in their constitutions that the legislatures shall not legislate approval for trustees to purchase stocks.¹

Those advocating the greater strength of the "prudent man rule" lift up the famous statement in the case of Harvard College versus Amory, "Do what you will, the capital is at hazard". They indicate that there is no evidence which proves greater safety under the "legal list rule" and, on the other hand, any decrease in safety through the placing of responsibility upon institutional administrators by the relaxation of the restrictions of this rule. There is not seen as inherently safe any

¹Shattuck, op. cit., p. 310.
class of security, as for example, bonds rather than stocks. Legislative prescription or fiat is looked upon as delusion. Moreover, they view it possible to gamble in gold itself, or money exchanges, or prime government credit. Indeed, the writer recalls vividly, while serving during World War II as treasurer of a not-for-profit corporation and at the time of purchasing a large volume of government bonds that he was warned by his custodial bank to refrain from speculating in new government issues. Some were branded as unscrupulous because they purchased large holdings on the issuing date and then gained by the sale of these holdings following their typical appreciation of fractional thirty-seconds within a few weeks.

It is probable that undue retention of securities which have not maintained adequate strength has been the source of more difficulties than improper purchases. In addition changes in economic conditions will have a bearing in some instances upon which "rule" may then be favored. During depressions stocks may carry lower quotations, with the contrary condition likely prevailing during boom conditions. Opinion supporting or not the approved purchase of stocks tends to drift with the pressures of these changed economic conditions. The economic results of creating more equity money by means of institutional purchase of common stocks can be significant. There would be an additional increment of
buying power to bolster the stock market. On the other hand, there may be a channelling of money under this program into a comparatively small number of already popular stocks. This, in turn, would lead to a spilling over of buying power into other market issues. Some consider it doubtful whether this program would provide any measurable solution to the problem of making available equity capital for new or small businesses.¹ An attempt into greater insight into these problems will be made in Chapter IV.

It is claimed for the "prudent man rule" that it carries the possible advantage of elasticity to changing conditions. It was under these and other circumstances that the Harvard College versus Amory case was the source of the key ruling principle. "In the making of investments it is not sufficient that the trustee should exercise such care and skill as a man of ordinary prudence would exercise in dealing with his own property, since men of prudence may well take risks in making investments which trustees are not justified in taking. A trustee must use the caution in making investments which is used by prudent men who have primarily in view the preservation of their property, of men who are safeguard-

ing the property of others."¹

Due to the fact that there appears to be two different kinds of prudent men in the above-named famous case, the subsequent trial cases testing whether trustees fulfilled their responsibility during the intervening period of more than a century have brought on the tendency to place heavy emphasis upon the safety of capital. To remain as nearly free as possible from reproach or surcharge, trustees have sought investments of only the very highest quality and in turn, in most cases, received the lowest yield. On the other hand, some are doubtful whether the fear of surcharge has been an important cause of action in many trust decisions. If a proposed action has the probability of bringing a surcharge, it will be avoided. Objections and claims usually arise years later out of actions which at the time no one had reason to question.²

The burden of proper interpretation has likewise been heavy upon trial justices. This has been the source, therefore, for the setting up of a model statute

¹In Re Estate of Cook (1934) 20 Del. Ch. 123, 171 A. 730.

in recent years and its increasing adoption by many states. The statute serves to ease the severity of early interpretations found in Harvard College versus Amory. The significant language of the statute follows.

"In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing property for the benefit of another, a fiduciary shall exercise the judgment and care under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. Within the limitations of the foregoing standard, a fiduciary is authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment, specifically including but not by way of limitation, debentures and other corporate obligations, and stocks, preferred or common, which men of prudence, discretion and intelligence acquire for their own account."  

Additional reasons are at hand for the wider adoption of the model statute by many states and, more broadly, the wider adoption of the "prudent man rule" in other financial institutions than trustees and trust companies. By the late 1930's and following the previous depression there had been a failure of some security issues and a relative dearth of new offerings, both serving to deplete legal lists in part. A condition of thin supplies set conditions for an artificial demand which advanced prices and diminished returns. The lower returns

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1Shattuck, op. cit., p. 307 ff.

2California Civil Code, As Amended, 1943, Sec. 2261.
did not bear necessarily a relationship to correspondingly increased safety. With the passing of time into the next decade the trend of interest rates was downward, much in contrast with the level of the 1920's and increasingly due to the importance for the government to control its debt service costs during the war period. Issues of the 1920's but outstanding could easily get out of balance in terms of the times-interest-earned ratio, one of the fundamental measuring rods of investment safety. To use a probably extreme case, a corporation with 3% bonded debt as compared with 6% bonded debt twenty years earlier and with relatively the same operating income could show up 100% better.¹

In particular, during a swing of years in which an important change in the general interest rate level is being experienced, otherwise weaker securities in terms of the times-interest-earned ratio may become eligible for the legal lists, or, if already eligible, may appear to bear an extremely favorable ratio. In support of the wider adoption of the model statute, also, was the changing emphasis from the underlying security to the credit standing of the issuing corporation.

A significant attack was made upon the principle of

the use of legal lists in 1935. An analysis was made of 3,230 high grade bonds available for the investment of trust funds. Between 1927 and 1933 the railroad bonds showed up badly. In terms of yield, the eligible railroad bonds in 1927 comprised 81% of all railroad bonds, but only 8% in 1933 at the heart of the depression. Taking all classes of bonds, somewhat more than one-half of the outstanding bonds were classed as high-grade in 1927, but only 11% were so classed in 1933. By the test of times-earned, conclusions were drawn in the study to show that from 1890 to 1930, for example, the times-earned coverage was always far in excess of this standard for all Class I railroads. During this forty year period, apparently, no indication could be obtained of the unfortunate circumstances impending and soon to be experienced thereafter in the railroad securities market.

Another attack which carried a related effect was made upon bond ratings as prepared by the professional rating agencies. The purport of the study was to

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2 In this study, "times-earned" refers to the ratio of earnings to fixed charges. The complete phrase commonly used is "times-interest-earned".

question the use of bond ratings in the cases of purchasing national banks as an alternative for good investment judgment. The secretive and mechanical nature under which the rating agencies derived and announced the ratings of approximately 9,000 rated issues was placed under fire. In turn, the directive of the comptroller of the currency that national banks make dependent use of the ratings was considered arbitrary. Of interest, for example, was the giving of a rating of "A" as eligible for purchase the International Match Corporation 5's of 1947, which was so rated in the 1931 Moody's Industrial Manual and published just in advance of the bankruptcy of that company.¹ The problems of depending upon bond ratings and upon legal lists are somewhat similar. Both systems operate primarily upon historical record and both systems tend to divest from management the fundamentals of adapting choice to local needs.

The very great volume of resources deposited with the four classes of primary institutions of this study represent forms of savings efforts on the part of many or perhaps most of the families of the country. It is very important, therefore, that these deposits be committed under proper programs of investment. The various state legislatures have defined and prescribed approved invest-

¹Ibid., p. 89.
ments or approved investment procedures. In Chapter II an analysis will be made of the investment controls for the four primary classes of financial institutions.
Chapter II

THE NATURE OF THE REGULATING STATUTES

In the Introduction to this study, a general review was made of a portion of the capital mobilization activities operating in the United States and, in particular, of the history and importance of the major classes of financial institutions which process these savings. We observed that the four major classes were savings banks, trust companies, life insurance companies, and savings and loan associations. The purpose of this chapter is to inspect in detail the statutes which control the commitment into investments of these savings after they are received by the financial institution.

For each major class of financial institutions a selection has been made of the most important states. This selection has been based both upon the number of institutions of a class in a state and upon the high standards and clearly definitive quality of the statutes. It has been necessary to attach more importance to the former of these criteria. From eight to eleven states
will be analyzed and compared for each of the four major classes. The plan is to analyze first a general statutory summary for the states in any one class. This will be followed by an analysis of the statutes in detail for each selected state in that class.

The sources for statutory detail have been Moody's Manuals published in 1951. The data for savings banks, trust companies, and life insurance companies was taken from Moody's Governments and Municipals Manual. The data for savings and loan associations was taken from office file data assembled by the United States Savings and Loan League, 221 North LaSalle Street, Chicago, Illinois. In 1947 the League collected through the member associations in the various states data regarding the investment powers of associations in those states. The data are assembled under the title, Powers Granted to Savings and Loan Associations to Invest Surplus Funds. In 1951, Horace Russell, attorney for the League, assembled data from the states regarding the conditions for loans on real estate under the title, Approved Real Estate Loans. Both sources refer to state-chartered as opposed to federally-chartered associations. The source of the statutory data on the federal savings and loan associations is the publication of the Home Loan Bank Board entitled, Rules and Regulations for the Federal Savings and Loan System. For each state selected in
each class the data were obtained in that section of the *Manual* given under the name of that particular state. The data were then classified into a working chart and the chart analyses are given in the Appendix. The working charts for savings banks are given in Appendix-A, for trust companies in Appendix-B, for life insurance companies in Appendix-C, and for savings and loan associations in Appendix-D.

**Savings Banks**

The selected states in the savings banks class are New York, Massachusetts, Connecticut, Maryland, Delaware, Pennsylvania, New Jersey, and Rhode Island. In the cases of Maryland and Delaware, the "prudent man rule" prevails. It is assumed for this analysis that a prudent man would invest the assets deposited in a savings bank in parts or all of the kinds of securities which are specified as authorized for the savings banks in any of the selected states. When the term "all" is used hereafter it is to be inclusive of the eight selected states of the savings banks class.

All of the states permit investment in the securities of the United States Government without limitation as well as those of governmental agencies for which the credit of the United States Government are pledged. The
same authorization holds true for the issues of the state
government of the state in which the bank is located,
other than provisions for a no-default record in some
cases. All of the states permit the purchase of the
securities of other states and of the political sub-
divisions of the resident state and other states, with
the provision that detailed requirements be met concern-
ing such items as default record, size of population,
limitations on taxing powers, and relation of debt to
property valuation. Frequently these political subdivi-
sions are identified as cities, counties, towns, villages,
school districts, poor districts, fire districts, and
others. In the cases of New York and Massachusetts regu-
lations are provided for investing in the securities of
the political subdivisions of adjoining states. While
these securities must be of a caliber to equal the estab-
lished standards, the conditions are less severe than for
states and political subdivisions located farther away.
Apparently with contiguity there is assumed to be greater
familiarity at the time of purchase and during the period
the securities are held.

Some confidence is had for the issues of Canada.
The statutes of the states of New York, Connecticut, and
Rhode Island, under the standards to be noted later in
this section, provide for the authorized purchase of the
issues of the Dominion of Canada, of the provinces, and
of the cities.

All of the states except Pennsylvania and New Jersey permit the savings banks of their states to purchase the bonds issued or guaranteed by the International Bank for Reconstruction, sometimes known as the World Bank.

There is considerable participation in the issues of the independent governmental agencies.¹ All of the states except Connecticut permit the purchase of the bonds of the Federal Land Banks. However, in the case of the issues of the Federal Intermediate Credit Banks, the states of Connecticut, Pennsylvania and Rhode Island restrict the savings banks of their states from placing these issues in their portfolios. Only New York and Massachusetts authorize the purchase of the issues of the Federal Home Loan Bank. The statutes of New York and Pennsylvania specify that the savings banks of their states may purchase a sufficient amount of the stock of the Federal Reserve Bank of their district to qualify them as members of the System. Federal Housing Administration insured bonds, mortgages, and notes are legal in New York. Under certain selective conditions, the

¹Refers to the federal agencies authorized to issue obligations guaranteed by or on the credit of the United States Government, such as, the Commodity Credit Corporation, Federal Deposit Insurance Corporation, Federal Farm Mortgage Corporation, Federal Housing Administration, Home Owners Loan Corporation, Postal Savings System, Reconstruction Finance Corporation, Tennessee Valley Authority, and Public Housing Administration.
obligations or stocks of housing authorities are legal in New York and Connecticut.

Under well-defined conditions, all of the states permit the purchase of railroad and utility bonds. Railroad bonds supported by first mortgages are approved in all of the states. This is likewise true for equipment trust obligations, except in Pennsylvania. Collateral trust bonds can be purchased in all the states except Pennsylvania and Rhode Island and guaranteed bonds in all states except Pennsylvania and Connecticut.

In turning to utility issues, we observe that in some states telephone company securities are included with electric and gas company securities and in other cases these bonds are separately classified. The mortgage bonds of defined caliber are eligible in all of the states. The debentures of electric and gas companies can not be included in savings banks portfolios in the states of Massachusetts, Pennsylvania, and Rhode Island. This is not the case, however, for the debentures and notes of telephone companies. All of the states permit the purchase of mortgage bonds and debentures and notes as well. It may be that the national and connected nature of the telephone service system coupled with a generally superior credit record and growth outlook have been fundamental at this point.

The states vary considerably in their authorizations
for the investments of a general and miscellaneous group. New York permits the making of certain loans on ninety-
day promissory notes. In addition, the bonds of the Sav-
ings and Loan Bank of the State of New York can be pur-
chased. Certain operational paper, such as bankers ac-
ceptances, are eligible in both New York and Massachu-
setts. Certain bills of exchange are eligible in New
York. Real estate loans can be made in all states ex-
cept Connecticut and New Jersey. The stock of trust com-
panies and the stock and debentures of corporations of
the particular state in which the savings bank is located
are permissible for purchase in all states except Connec-
ticut, New Jersey, and Rhode Island. General corporate
interest-bearing bonds and notes are eligible in all
states except Massachusetts and Pennsylvania. The stocks
of national banks and trust companies are authorized in
all states except New York, New Jersey, and Rhode Island.
Special loans to very responsible borrowers can be made
in Massachusetts.

In a general review, a study of the statutes of the
eight states provides the impression that New York has
the best-written laws. The laws of Massachusetts and
Pennsylvania are, perhaps, the most conservatively writ-
ten. In the case of Rhode Island we are impressed that
the statutes are unnecessarily complicated. The states
of Maryland, Delaware, and Pennsylvania do not provide a
<table>
<thead>
<tr>
<th>Investment (securities issued by)</th>
<th>MD</th>
<th>NY</th>
<th>MASS</th>
<th>CONN</th>
<th>DEL</th>
<th>PA</th>
<th>NJ</th>
<th>RI</th>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>x</td>
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<td>Political subdivisions, adjoin. st's.</td>
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<td>Political subdivisions, any state</td>
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<td>Canada, Dominion, provinces, cities</td>
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<td>Railroads, equipment trust cert's.</td>
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<td>Railroads, first mortgage bonds</td>
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<td>x</td>
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<td>Railroads, collateral trust bonds</td>
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<td>x</td>
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<td>Railroads, guaranteed bonds</td>
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<td>Electric and gas, first mtge. bonds</td>
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<td>x</td>
<td>x</td>
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<tr>
<td>Federal Intermediate Credit Banks</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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Table 5 (continued)

GENERAL SUMMARY OF THE STATUTES AUTHORIZING
THE INVESTMENT OF SAVINGS BANK ASSETS

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<thead>
<tr>
<th>Investment (securities issued by)</th>
<th>MD</th>
<th>NY</th>
<th>MASS</th>
<th>CONN</th>
<th>DEL</th>
<th>PA</th>
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<th>RI</th>
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<td>Federal Home Loan Banks</td>
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<tr>
<td>Federal Reserve Bank</td>
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<td>FHA insured issues</td>
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<td>Housing authorities</td>
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<tr>
<td>World Bank</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Other corporate issues</td>
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<td></td>
</tr>
<tr>
<td>Trust company and bank stocks</td>
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<td>x</td>
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<td>Loans on personal security</td>
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</table>

Qualifying conditions are given in Appendix-A.
legal list. In the cases of the first two, no list is provided because of the adoption of the "prudent man rule". Pennsylvania gives statutes but no legal list of authorized investments.

New York. We turn now to a detailed analysis of the legal investments of the various states, omitting treatment of the prudent-man states of Maryland and Delaware. We first take up the legal investments for New York savings banks. Purchases can be made in the issues of the United States Government and issues for which the direct pledge of the United States Government is given. The security issues of the State of New York are also fully eligible, as well as those of the cities, counties, towns, various districts and other tax-levying political subdivisions of this state. The issues of any other state can be purchased if there has been no default in the payment of principal and interest obligations during the previous ten years. In order to be eligible, the issues of the political subdivisions of the states adjoining New York must have the following record: no default of principal and interest payments longer than 120 days for the previous twenty-five years; the unit must have a population of 10,000 or more; debt must be limited to 12% of real property valuations unless the valuations total 200 millions and the population is 150,000; non-negotiable warrants cannot be purchased. Similar but more rigid
eligibility requirements have been established for the issues of the political subdivisions of other states. In other states the population must be 30,000 or more. The issues must be legal for the savings banks of the home state and there must be unlimited power to levy taxes on real property.

The issues of the Dominion of Canada and of the provinces and the cities are authorized to a total limit of 10% of the portfolio. By way of limitation, the records must be free of default beyond ninety-day periods for ten years for the provinces and debt limited to 25% of valuation. For the cities, the population must be 150,000 or more and for twenty-five years no default longer than 120 days.

A savings bank's portfolio is limited to a commitment of 25% of all groups of railroad bonds taken together. Equipment trust certificates can be purchased if the following conditions of quality are met. The railroad must have 500 miles of track, operating revenue of $10 million, a times-earned of one and one-half for five of the last six years and including the year just previous to the year of purchase, no defaults for six years, maturities within fifteen years, and paid dividends on outstanding stock in an amount equal or in excess of one-fourth the fixed charges. Collateral trust bonds are legal if the collateral itself is legal. Guaranteed bonds
are legal if the earnings of the issuer have been twice the fixed charges in five of the last six years and if the net operating revenue during this period has been at least $10 million.

An electric or gas company is required to hold all the franchises in the area served in order to be eligible. The company must be at least eight years old and carry a no-default record, including any predecessor company. The gross operating revenue must be $2 million, including consolidated or merged properties. For the previous five years the times-earned must be two and one-half or more. Capital stock outstanding is to equal two-thirds or more of the mortgage debt. For mortgage bonds there is required to be a first or refunding mortgage on no more than two-thirds of the value of the property covered by all bonded debt and prior liens are to be retired before the maturity of any refunding bonds. In addition to all of the above provisions except mortgage provisions, the requirements for the purchase of debentures are increased. For five years there must have been a times-earned of three. If the issue matures later than fifteen years, it must be supported by sinking fund provisions. As with the case with railroad bonds, the holding limit of electric and gas company bonds is 25% of the portfolio.

The State of New York does not classify telephone company bonds and debentures as utilities with the electric
and gas company issues, but the eligibility provisions are similar. A telephone company is required to hold all of the franchises in the area which it serves. The company is to be at least eight years old, carry a no-default record in present or previous company form, and possess a record of two and one-half times-earned for five years. Gross operating revenue must be at least $5 million, including the incomes from consolidated or merged properties. As much as 25% of the investments of a savings bank can be in the qualified issues of telephone companies.

In a fulfillment of an effort to broaden the legal list in New York a general and miscellaneous group have been included in the list. A savings bank can make ninety-day loans on promissory notes to qualified borrowers. The issues of Federal Land Banks and Federal Intermediate Credit Banks are approved. A savings bank can buy bankers' acceptances and bills of exchange. Certain real estate loans of proper caliber can be made. The bonds and qualifying stock of Federal Home Loan Banks and the qualifying stock for banking connections with Federal Reserve Banks are permitted. In addition, Federal Housing Administration-insured bonds, mortgages, and notes can be purchased. The issues of the International Bank for Reconstruction are eligible. The obligations and stocks of housing authorities in New York can be purchased, with the provision that buying such stocks can be done only if
all the stocks are to be owned by twenty or more New York savings banks. If approved by the state banking board and if all of an issue are to be owned by twenty or more savings banks, purchase can be made of the debentures and stocks of trust companies and corporations generally located in this state. The participating certificates of trust companies or corporations are eligible if the certificates represent conveyed instruments of a savings bank of this state. The interest-bearing bonds and notes of any corporation can be bought if the obligations mature within five years and do not exceed 5% of the borrower's total liabilities or 2% of the investing bank's assets.

Massachusetts. The next analysis is of the statutes of Massachusetts. Purchases can be made in the issues of the United States Government and issues for which the direct pledge of the United States Government is given. The security issues of the State of Massachusetts are also fully eligible, as well as those of the cities, counties, towns, various districts and other tax-levying political subdivisions of this state. The issues of any other state can be purchased if there has been no default in the payment of principal and interest obligations longer than one hundred twenty days for the previous twenty years. In order to be eligible, the issues of
the political subdivisions of adjoining states are required to have the following record: no default longer than one hundred twenty days for the previous ten years; a net debt not in excess of 4% of the real property valuation, or, 3% for a water district with a population of 5,000 or more, or 6% for a city with a population up to 100,000, or 8% for a city with a population larger than 100,000; and with no limitation on the tax levying power. In all other states beyond adjoining states we find that eligible issues are limited to those issued by cities. The issues of the cities must bear a record of no default in payment of principal and interest obligations during the previous ten years. Cities with a population range of 30,000 to 110,000 can have a debt not in excess of 6% of total assessed valuations and with maturities of the issues to be purchased of not over fifteen years. For cities over 100,000 the net debt is limited to within 8% of valuations. In both cases the power of levying taxes on real property is not to be limited. There are no specifications authorizing the purchase of Canadian issues.

Up to 20% of the deposits in the savings banks of Massachusetts can be invested in railroad obligations in the aggregate and only 1½% in any one security. In all cases the issuing railroad must have received the previous year 4% of the gross revenue of all Class I railroads. Moreover, for three years there must have been a
record of one and one-quarter times-earned and equal to the average of all Class I railroads. Under these provisions, first mortgage bonds, collateral trust bonds, guaranteed bonds, and equipment trust certificates are eligible. Additional provisions for the certificates specify that interest shall have a record of three times-earned for the interest due on equipment trust obligations and a net operating income equal to 8% of gross revenues. The total equipment trust issues are not to exceed 90% of the purchase price and must be amortized within a fifteen year period.

It is permissible for the savings banks of Massachusetts to place as much as 20% of the bank's deposits in the bonds of electric and gas companies, but only 2% in the bonds of any one issue of a corporation. The purchase of any class of the bonds of electric, gas, and water companies located in Massachusetts if the gross earnings of the issuer have been at least $100,000 and also the net earnings for three years have been 4%, is authorized. The electric and gas company bonds of companies located in other states are eligible if the maturity does not exceed forty years, if for five years there has been a no-default record and a times-earned of one and three-quarters, and if the gross income for five years has been $1 million. In the event the company operates a street railway or transportation carrier, no
more than 20% of the gross income shall be from that source. The capital stock and surplus must equal 60% of total funded debt and bonded debt is not to exceed 75% of the depreciated value of the fixed property.

As much as 15% of the savings bank's assets can be invested in the bonds of telephone companies, with a limitation of only 2% in the issues of any one company. The bonds must mature within forty years. The record is to be free of defaults. During five of the last six years the gross income shall have been at least $5 millions and a times-earned of twice. It is required that capital stock and surplus equal two-thirds of the funded debt and that the bonded debt be not in excess of 65% of the depreciated value of the fixed assets. Debentures can be included in the portfolio, but the requirements, in addition to the above, call for a times-earned of three and a gross income of $20 million. Also, the total debt is limited to 55% of total assets and any mortgage bonds outstanding are to be not greater in amount than the total of any debentures or collateral trust bonds. In the event additional bonds are subsequently issued, the debentures are to be equally covered by any lien support of the new bonds. In the case of issuance of any bonds other than mortgage bonds and debentures, it is required that there be a record of no defaults, that the times-earned be four for five of the past six years,
and that in the year prior to purchase there be available for dividends $100 million.

The general and miscellaneous group of investments is not as broad in the case of Massachusetts as with New York. The issues of the Federal Land Bank can be purchased, as well as those of the Federal Intermediate Credit Banks, the Federal Home Loan Bank, and the International Bank for Reconstruction. First mortgage loans on real property in this state are eligible. Loans can be made to selected prime borrowers, including persons, corporations, public service company notes, loans secured by collateral, and certain renovation loans. Up to 10% of a bank's deposits can be committed through the purchase of the shares of the Savings Bank Investment Fund. The stocks of trust companies and national banks of this state can be purchased if the issuing company has no preferred stock outstanding, has paid dividends of 4% for five years, and if the surplus is equal to 50% of the capital stock. If the trust companies and national banks are not located in Massachusetts, the issuer must be a member of the Federal Reserve System, must have no preferred stock outstanding, must have a surplus, capital stock, and undivided profits of $40 million and 6% of deposit liability, and for ten years must have paid 4% dividends.
Connecticut. We turn now to an analysis of the statutes of Connecticut. Purchases can be made in the issues of the United States Government and the issues for which the direct pledge of the United States Government is given. The security issues of the State of Connecticut are also fully eligible. The issues of other states can be purchased up to 20% of a bank's assets on condition that there has not been a default longer than ninety days during the previous five years. The issues of the political subdivisions of this state are permitted to be held up to 25% of the assets and 5% of assets in the issues of any one taxing unit, with the provision 15% can be placed in the issues of companies rendering water service in cities of 15,000 or over and a record of twice times-earned during four of the last five years. Up to 20% of assets can be used to purchase the issues of the political subdivisions of other states. The record must be clear of defaults of no longer than ninety days for five years, the population is to be at least 50,000 and the debt limited to 9% of valuations. As much as 7½% of the assets can be invested in the issues of the Dominion, the provinces, or the cities of Canada if there is a no-default record for the last five years showing any delays longer than ninety days.

Considerable care is seen as inherent in the regulations concerning the purchase of railroad bonds. The
statutes declare that up to 20% of a savings bank's assets can be invested in the equipment trust certificates, mortgage bonds, and collateral trust bonds chosen by a special state commission. We see here used an investment board as referred to in the Introduction.

The investment limit for electric and gas company issues is 25% of the bank's assets. However, the supplying of water service is classified in this state also as a utility and water service company bonds to the extent of 15% of assets can be purchased if the city in which the company is located has a population of 15,000 or more and if there has been a times-earned of twice during four of the last five years. The eligibility requirements for electric and gas company bonds are as follows. The bond issue must be $1 million or more, the gross revenue the previous year at least $7½ million, the funded debt is not to be in excess of the capital stock and surplus, and the times-earned twice during each of four of the last five years. Debentures can be a part of the portfolio up to 60% of holdings of electric and gas issues. However, the times-earned is required to be twice during four of the last five years and there can be no prior mortgage debt.

Telephone company issues can be purchased up to a limit of 15% of the savings bank's assets. The gross revenue is required to be $2.5 million, or $25 million
if the property is leased. Funded debt cannot be in excess of capital stock and surplus. There must have been a times-earned record of twice during four of the last five years. In the event a debenture is purchased the issuing company can have outstanding either no prior mortgage bonds or in any event a limitation of mortgage bonds to 2% of the book value of the outstanding debentures.

The general and miscellaneous issues are very limited. The issues of the World Bank are eligible. The obligations or stock of housing authorities can be purchased to the extent of 5% of the bank's assets if the issue is guaranteed by the United States Government or one of its agencies. Certain bank stocks are permitted to be held if the banks are located in Connecticut, Boston, Philadelphia, and New York, and if for five years the bank has paid dividends of 4%. Banks in other localities are eligible if the issuer has a capital, surplus, and undivided profits of $10 million. An approach is made to the operation of the "prudent man" principle in the stipulation that up to 75% of a savings bank's surplus and undivided profits can be invested in bonds which the bank considers prudent investments.

Maryland and Delaware. The states of Maryland and Delaware permit the savings banks of their states to
operate under the "prudent man principle". The statutes of Maryland state that the investments of a savings bank are to be on good security at the discretion of the bank's directors. The statutes of Delaware are more definitive. It is specified that up to 25% of the capital, surplus, and undivided profits of a savings bank can be committed to the securities of any one corporation or political entity except those of the United States, of Delaware, or of the political subdivisions of Delaware.

Pennsylvania. The State of Pennsylvania permits the broad commitment of savings banks' assets in the general securities of the various governmental units, except that Canadian issues are ineligible. Purchases can be made in the issues of the United States Government and the issues for which the direct pledge of the United States Government is given. The issues of the State of Pennsylvania and any of the political subdivisions of Pennsylvania as well as those of any other state or the political subdivisions of any other state can be purchased if the record of the issuer is free from default for periods no longer than ninety days during the previous ten years.

In the case of railroad bonds, the only provision is the stipulation that the record of the issuer shall be free from defaults of principal and interest payments on any of its obligations during the previous five years.
Certain of the mortgage bonds of electric and gas companies can be purchased. The company is required to hold all franchises in the territory in which it operates. The record must show no defaults in principal and interest payments for eight years. Outstanding stocks must equal two-thirds or more of the mortgage debt. For five years the times-earned must have been two. Also, for five years the amount available for dividends must have been sufficient for a payment of 4% per year. The bond issue must be one of $1 million or more and not greater than 60% of the value of the securing property. Telephone company issues carry the same provisions as those specified for electric and gas companies with the exception that any issue must be in an amount of $5 million or more supported by a mortgage.

Several general and miscellaneous investment possibilities are made available in the statutes. The issues of the Federal Land Banks and qualifying stock in a Federal Reserve Bank can be purchased. The obligations but not the stocks of corporations which are domestic to Pennsylvania are eligible. However, the stocks of national banks and trust companies can be purchased. Certain loans of proper caliber can be made on real estate.

New Jersey. We turn next to the statutes governing the investments of savings banks in New Jersey. Purchases
can be made in the issues of the United States Government and the issues for which the direct pledge of the United States Government is given. The security issues of the State of New Jersey are also eligible as well as the political subdivisions of the state if the latter have a record of no default longer than six months for five years. The securities of any state or the political subdivisions of any state are eligible if there has been no default longer than ninety days for ten years and also in the case of the political subdivisions if the total debt is not greater than 10% of property valuations. Canadian issues are not authorized.

As much as 25% of a savings bank's investments can be in railroad securities. The records of a railroad, to be eligible, are required to show that the company for five years has operated a road of 500 miles, or, as an alternative, has a gross revenue of $10 million. In addition, for three years the times-earned must have equalled that of the average of all Class I railroads, but as a minimum be one and one-quarter times. Equipment trust certificates can be purchased from issues limited to 80% of the purchase price of the equipment. In the case of first or other mortgage bonds, the mortgage must be on at least three-fourths of the mileage subject to the lien. Any refunding mortgage, at its issuance, must take up all prior liens. Added to these requirements in the event of
the purchase of guaranteed bonds is the stipulation that there be a covenant to pay 4% on the capital stock of any leased-lines company during the period of the lease.

The statutes of New Jersey permit the savings banks of that state to invest as much as 40% of assets in the bonds of electric and gas companies. As to specific requirements, it is stated that the gross revenue must have been $2.5 million for five years. The times-earned record must have been two and one-half for three years. Only two-thirds of the assets supporting a mortgage are to be obligated for the mortgage. If an issue is by a company rendering water service, it is required that 95% of the revenues originate from water service. It is also specified that the issuer's income for five years be one-half million dollars and the times-earned for three years be one and three-quarters. Debentures are allowed in the portfolio if the company's gross income for five years has been $20 million or more and if it has a times-earned record of four for three years. New Jersey broadly classifies telephone companies in with utilities and therefore includes the issues of telephone companies in the limitation of 40% of assets for utility holdings. The requirements for telephone company debentures are the same as those for electric and gas company debentures given above.
Except for the issues of Federal Land Banks and Federal Intermediate Credit Banks, the general and miscellaneous group provides only that certain securities of industrial companies are authorized for purchase. Such an issue must mature within thirty years and the gross income for five years have been $10 million and net income $1 million. Total liabilities must not be in excess of 40% of the total assets and the current ratio on the last statement be two and one-half. The times-earned must have been four during each of the past five years. The portfolio limit for such industrial issues is 25%.

Rhode Island. A review of the statutes of Rhode Island lends the impression that the legislatures of that state have felt an unusual responsibility to prescribe in great detail the eligible securities for the savings banks of that state. Purchases can be made in the issues of the United States Government and the issues for which the United States gives a pledge. The issues of the State of Rhode Island and of any state are eligible for purchase if there has been no default in the payment of principal and interest obligations for ten years, except for delays of ninety days. The bonds of any city or town in New England or New York can be purchased if the conditions are met that the record for ten years show no defaults, that total debt is limited to 7% of property
valuations; if the issuer is an incorporated district, the population must be 5,000 or more, the total debt limited to 5% of property valuations, and the debt set up for retirement by sinking fund provisions. For cities in any of the other states, it is required that the population be 30,000, that there must have been no defaults for ten years, and that the debt be limited to 7% of property valuations. If the issuer is a county, the population must be 100,000 and total debt limited to 3% of valuations. All of these provisions hold the same for Canada and its political subdivisions, with the provision that the total of such issues held be limited to 2% of a bank's deposits.

The statutes provide for the acquiring of equipment trust certificates, mortgage bonds, and guaranteed bonds in the railroad classification. Equipment trust certificates can be purchased under the usual provisions that the debt on the certificates be limited to 80% of the cost of the equipment, that there be a serial retirement, and that the issuer not have a record of defaults for ten years. The mortgage bonds can be purchased under numerous provisions, the most important of which appears to be that there must have been a times-earned of two for three years. Notes and receiver's certificates are eligible, but not income bonds. Debentures can be
purchased if there has been a times-earned of two for three years, increased to ten years if the property is leased, in both cases plus a record of having earned 4% on the capital stock. Special additions are given specifying that notes, warrants, and obligations of five-year maturity can be purchased if the railroad has paid dividends of 4% or more on all stock during the five years previous to purchase. As much as 2% of deposits can be placed in certain railroad stocks. Canadian railroad bonds meeting all of the requirements recited above are authorized.

In the case of electric and gas company bonds, the following is given in the statutes. An issuer is to have a record of times-earned of two and be a company of this state. If the issuer is a street railway company or if it is located in other states, the gross income for three years must have been $400,000, or, if combined with a gas or electric company, $600,000. The issues on street railway equipment are eligible if the issues meet the requirements specified for railroad equipment trust certificates given above. Certificates of indebtedness are authorized. The bonds of a holding company which owns 90% of the stock and bonds of a Rhode Island electric company or street railway are eligible if the issuer paid 4% on its capital stock the previous year. The bonds of companies providing water service can be purchased if the
company has an exclusive franchise and, if located outside of Rhode Island, the city served has a population of at least 50,000. The notes and obligations of electric and gas companies are authorized if the issuers paid 4% on outstanding stock during the past five years or if the bonds are supported by collateral equal in value to 120% of the amount of the mortgage. It is permissible to buy the bonds of any Canadian utility company which meets all the provisions of the Rhode Island statutes.

The requirements for the eligibility of telephone company bonds and issues call for a times-earned of two and a gross income of $1 million for three years; for debentures the income must have been $2 million. In addition there can be purchased certificates of indebtedness; guaranteed and leased company bonds which otherwise qualify; collateral trust bonds, if the bonds are limited to 75% of the value of the collateral, if for three years the gross earnings have been $5 million, and if for five years the issuer paid 6% on all stock outstanding. Notes and obligations maturing within ten years are eligible if the times-earned for three years has been two and for the same period the gross earnings have been $1 million. In addition the record must show payment of 6% on outstanding stock for five years.

In the general and miscellaneous group, we find that the issues of Federal Land Banks and the World Bank are
eligible. Certain real estate loans are authorized. Corporate interest-bearing bonds and notes can be invested in if the issuer has met all interest obligations for ten years and if the debt of the issuer does not exceed 50% of the assets or 50% of capitalization. In addition, the assets of the issuer must be one and one-half times the amount of the issuing obligation, the current ratio in the past year must have been two to one, the obligation must mature within twenty-five years under sinking fund provisions, and the times-earned record must have been two for eight of the last ten years.

Trust Companies

The selected states in the trust companies class are New York, Massachusetts, Maryland, Pennsylvania, Illinois, Ohio, Michigan, Missouri, and California. Six of the states permit the investment of trust company funds under the "prudent man rule", or a form of that rule. As in the application of this rule with the savings banks class, it is assumed for this analysis that a prudent man would invest the assets deposited in a trust company in parts or all of the kinds of securities which are specified as authorized for the trust companies in any of the selected states. When the term "all" is used in this section, it is to be inclusive of the eight selected states of the trust companies class.
All of the states permit investment in the securities of the United States Government without limitation as well as those of governmental agencies for which the credit of the United States Government is pledged. The same authorization holds true for the issues of the state government of the state in which the trust company is located. All of the states permit the purchase of the securities of other states and of the political subdivisions of the resident state and other states, with the provisions and conditions which will be recited in treating the states below in detail. Except for Pennsylvania and California all of the states permit the purchase of the securities of the Dominion, the provinces, and the cities of Canada.

All of the states permit the purchase of railroad obligations. Purchases can be made of equipment trust certificates, mortgage bonds, and, except in California, in collateral trust bonds and guaranteed bonds. California is also more restrictive in authorizing electric and gas company bonds, for all of the states permit the purchase of mortgage and debenture bonds with the exception that debentures are not eligible in California. The obligations of telephone companies are legal under certain conditions in all of the states.

In the cases of Federal agencies, we find that all of the states permit the purchase of the issues of the Federal Land Banks and the Federal Intermediate Credit
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### Table 6 (continued)

**GENERAL SUMMARY OF THE STATUTES AUTHORIZING THE INVESTMENT OF THE ASSETS OF TRUST COMPANIES**

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<th>Investment (securities issued by)</th>
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Source: Compiled from Moody's Governments and Municipal Manual, 1951. Qualifying conditions are given in Appendix-B.
Banks. Except for Ohio and New York, the states make eligible the acquiring of the issues of the Federal Home Loan Banks. Pennsylvania, Ohio, and California do not give permission as the other states do to purchase the issues of state housing authorities. On the other hand, except for California, and in addition New York, the states permit buying national housing authority issues. Ohio and Missouri do not authorize as the other states do the making of certain real estate loans. The states of Pennsylvania, Missouri, and California permit the purchase of special housing authority issues. Missouri and Ohio make eligible the issues of the Home Owners Loan Corporation. Shares in savings and loan associations are eligible in New York. All of the states except Pennsylvania and California permit the purchase of the issues of the International Bank for Reconstruction.

All of the states permit the purchase of a considerable list of sundry corporate securities and evidences of indebtedness. These will be reviewed in the detail given for the states.

New York. In the analysis of the statutes authorizing the investment of the assets of trust companies we turn first to the State of New York. A differentiation is made of the kinds of trusts involved. A trust company maintaining a legal common trust fund is obliged to invest
the fund in the manner specified hereafter as legal for trust companies in New York. However, if the trust company is maintaining a discretionary common trust fund, it has freedom to exercise discretion in the content of the commitments. In perhaps a substantial number of cases from time to time this will mean that much trust company business in New York will be under the "prudent man principle". Even in the treatment of the legal common trust funds, it is specified that the trust company shall invest in the designated classes of securities as would a prudent man seeking reasonable income and preservation of capital. However, the content of the authorized investments is thereafter specified and we shall review the authorizations.

In the eligibility group for New York trust companies are found the issues of the United States Government and those for which the pledge of the government is given. Issues of this state and the various political subdivisions of this state are authorized. The issues of other states and political subdivisions of other states are approved, with the provision that the population of any issuing group must be 10,000 or more, the power to levy taxes must not be limited, and non-negotiable warrants are excluded. The issues of the various governmental units in Canada, the Dominion, the provinces, and the cities, are approved if the following conditions are met.
The record must be free from defaults of no longer than ninety days for the previous ten years, or, in the case of a city, of no longer than one hundred twenty days for the previous twenty-five years. In addition there must be no limitation on the power to levy taxes.

As much as 25% of a trust company's portfolio can be invested in all groups of railroad bonds taken together. Equipment trust certificates can be purchased if the following conditions of quality are met. The railroad must have 500 miles of track, operating revenue of $10 million, a times-earned of one and one-half for five years, no defaults for six years, maturities within fifteen years, and paid dividends on outstanding stock in an amount equal or in excess of one-fourth the fixed charges. Collateral trust bonds are legal if the collateral itself is legal. Guaranteed bonds are legal if the earnings have been two times the fixed charges in five of the last six years and if the net operating revenue during this period has been at least $10 million.

An electric or gas company is required to hold all the franchises in the area served in order to be eligible. The company must be at least eight years old and carry a no-default record, including any predecessor company. The gross operating revenue must be $2 million, including consolidated or merged properties. For the previous five years the times-earned must be two and one-half or more.
Capital stock outstanding is to equal two-thirds or more of the mortgage debt. For mortgage bonds there is required to be a first or refunding mortgage on no more than two-thirds of the value of the property covered by all bonded debt and prior liens are to be retired before the maturity of any refunding bonds. In addition to all of the above provisions except mortgage provisions, the requirements for the purchase of debentures are increased. For five years there must have been a times-earned of three. If the issue matures later than fifteen years, it must be supported by sinking fund provisions. As with the case of railroad bonds, the holding limit of electric and gas company bonds is 25% of the portfolio.

The prescribed conditions for the purchase of telephone company bonds are similar to those of electric and gas company issues. A telephone company is required to hold all of the franchises in the area which it serves. The company is to be at least eight years old, carry a no-default record in present or previous company form, and possess a record of two and one-half times-earned for five years. Gross operating revenue must be at least $5 million, including the incomes from consolidated or merged properties. As much as 25% of the investments of a trust company can be placed in the qualified issues of telephone companies.
In the general and miscellaneous group, we find that approval is given for purchasing the issues of the Federal Land Banks and the Federal Intermediate Credit Banks. The issues of the International Bank for Reconstruction are eligible. Certain loans can be made on real estate. Up to $10,000 can be employed in the purchase of shares of federal savings and loan associations located in this state with a capital of $100,000, or a state savings and loan association in this state with the same amount of capital. However, a considerable broadening is supplied to the trust company investing possibilities in the provision permitting up to 35% of the portfolio being placed in unclassified securities. The conditions of this provision are that the securities are to be registered currently with the Securities and Exchange Commission; except for bank and insurance company stocks, no stocks can be purchased unless the stock is registered and traded on a national exchange.

Massachusetts and Maryland. The states of Massachusetts and Maryland permit the trust companies in their states to invest deposited trust funds under the "prudent man rule". In the case of Massachusetts the statutes state that a trustee operating under this rule shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence manage their own
affairs, considering the probable income as well as the probable safety of the capital.

Pennsylvania. In the State of Pennsylvania the statutes provide that trust companies are permitted to invest in the same classes of securities as is permitted under the savings banks statutes. Specifically this means the following. Purchases can be made in the issues of the United States Government and the issues directly pledged by the Government. The issues of the State of Pennsylvania and any of the political subdivisions of Pennsylvania as well as those of any other state or the political subdivisions of any other state are eligible if the record of the issuer is free from default for periods no longer than ninety days during the previous ten years. Canadian issues, however, are not authorized for purchase.

Railroad bonds can be added to the portfolio if the record of the issuer is free from defaults of principal and interest payments on any of its obligations during the previous five years.

In the case of the mortgage bonds of electric and gas companies, the issuers are required to hold all the franchises in the territories in which they operate. The record is to be free from defaults for eight years. Outstanding stocks must be equal in book value to two-thirds
or more of the mortgage debt. The times-earned record must have been two for five years and the amount available for dividends sufficient for a payment of 4%. The issue must have been one of $1 million or more, but not greater than 60% of the value of the property given as security. Telephone company issues carry the same provisions as those specified for electric and gas companies with the exception that any issue must be in an amount of $5 million or more and supported by a mortgage.

The issues of the Federal Land Banks and the qualifying stock in a Federal Reserve Bank are permissible for portfolio addition. The obligations but not the stocks of corporations in any kind of business and which are domestic to Pennsylvania are authorized. The stocks of national banks and of trust companies can be purchased. Certain real estate loans of proper caliber can be made.

**Illinois.** The State of Illinois operates under the "prudent man rule" and in particular under the model statutes, a portion of which were given above in the case of Massachusetts.

**Ohio.** In the State of Ohio the statutes provide the following for the investments of trust companies. Purchases can be made in the issues of the United States Government, those for which a direct pledge of the United
States Government is given, the issues of this state, and the issues of the political subdivisions of this state. In addition, without provisions, the issues of any state as well as of the Phillipines, Hawaii, Puerto Rico, and the District of Columbia are eligible. The issues of the political subdivisions of other states can be purchased if the record is free from default for ten years for no longer than ninety days; also, the population of counties is to be 10,000 and 1,000 for cities. Canadian issues are authorized if the record is free from default for twenty years for no longer than ninety days, if the population of the issuing unit is 10,000 or more, and if the net debt does not exceed 7% of valuation. In addition, the obligations of foreign governments generally are eligible if the record is free from defaults for twenty years; if the population of the issuing unit is 100,000 or more, the net debt is not to exceed 7% of the property valuation and there must have been no default longer than ninety days for twenty-five years.

A very close control is provided in the cases of the proposed purchases of the bonds of railroads, electric and gas companies, and of telephone companies, for the purchasing trust company is required to obtain the specific approval of the Superintendent of Banks.

In the general and miscellaneous group we find that
the issues of the following are classed as eligible: the Federal Land Banks, the Federal Intermediate Credit Banks, the International Bank for Reconstruction, the National Housing Authority, and the Home Owners Loan Corporation. In addition bonds and notes secured by mortgages insured by a federal housing agency are authorized. Up to $5,000 can be placed in the shares of any one savings and loan association. A general qualification is given for all classifications of trust funds in the requirement that the times earned must be two for three years for any issue, at least 75% of an obligation is to be retired by the maturity date, and the debt of an issuer is limited to 50% of the value of the property covered.

**Michigan.** The State of Michigan regulates the investment activities of the trust companies of that state under the "prudent man rule". It is of interest to observe that the statutes relieve the question of stock additions to holdings by declaring that common and preferred stocks are not to be regarded as specifically excluded.

**Missouri.** As is the case in all of the states, the State of Missouri permits the trust companies of that
state to invest trust funds, not otherwise controlled under specific trust conditions, in the issues of the United States Government, the issues for which the credit pledge of the United States Government is given, and the issues of any of the states and the political subdivisions of any of the states. However, in the last-named group, it is specified that the population must be at least 50,000 and the record free from default for ten years for no longer than one hundred twenty days. The obligations of the Dominion, the provinces, and the cities of Canada are listed as approved for purchase.

Other than stating that no more than 25% of the capital and surplus of a trust company can be committed in the obligations of railroad, public service company, and foreign country obligations, general permission is given in the statutes for the purchase of such obligations.

In the general and miscellaneous group, we find that the issues of the Federal Land Banks, the Federal Intermediate Credit Banks, the International Bank for Reconstruction, the Home Owners' Loan Corporation, state and federal housing agencies, and other insured housing agencies can be purchased. As much as 25% of a trust company's capital stock and surplus can be invested in the obligations of individuals, partnerships and corporations, with the provision that at least 40% of these
investments must be in commercial paper supported by collateral equal in value to 115% or more of the obligation. However, the limitation can be raised to 35% if the collateral is warehouse receipts for agricultural goods. Loans secured by the stock of another bank or trust company but limited to 50% of the stock of such other company can be made. As much as one-third of the capital stock and surplus can be placed in loans secured by bonds or stocks. If the collateral is stocks, the market value is to be 15% more than the loan. The general limit on the outright purchase of stocks is 15% of the capital and surplus. The statutes provide also that if a trust company does not receive deposits, loans can be made upon first mortgages up to two-thirds of value to any individual, partnership, or corporation.

California. The provisions regulating the investments of trust companies in the State of California fall into two parts. The investment of capital and surplus resources must conform to the specifications which will be detailed below. All other investment activities are authorized to be conducted under the "prudent man rule". California, as have Massachusetts and Illinois referred to above, has adopted the model prudent-man statute. However, a trust company's capital and surplus can be invested only as California savings banks are permitted to
invest their assets. These regulations are described as follows. The issues of the United States Government and those for which the pledge of that Government is given are eligible. In addition to the regular issues for the State of California, tax anticipation warrants or notes can be purchased if these mature within six months and if the notes do not exceed in total amount more than 50% of the anticipated receipts; the limitation of these last-described issues is 25% of the capital and surplus. Revenue bonds are permissible for purchase up to 10% of assets, with the provisions that the times-earned on all debt for five years has been one and one-tenth, if the gross income has been $2.5 million for a California-issuing unit or $5 million for an issuing unit located elsewhere, and if there has been no default for ten years longer than ninety days. The issues of the political subdivisions of this state are eligible up to 25% of capital and surplus, but the debt of the issuer is limited to 20% of property valuations. The purchase of the issues of other states is confined to 20% of capital and surplus. In the case of the political subdivisions of other states, the record of the issuer is to have been free from default for ten years for no longer periods than ninety days, the times-earned record must have been one and one-half for five years, the population 50,000 or more, and debt limited to 10% of property valuations. As
much as 25% of capital and surplus can be placed in the last-named issues. Canadian bonds are not listed as authorized.

Up to 15% of assets can be invested in railroad equipment trust certificates and first mortgage bonds. The eligibility requirements are as follows. The railroad must have 500 miles of track. The revenue for the last five years must have been $10 million. The times-earned record must have been one and one-sixth the record average for all Class I railroads and one and one-half times-earned for three years in any event.

In addition to the regular mortgage bonds of electric and gas companies, the issues of water companies are authorized, limited to 5% of assets and if certified by the State Banking Commissioner. Up to 10% of assets can be placed in the issues of electric, gas, and water companies. The issuers must have had the previous year a gross revenue of $7.5 million, the funded debt is not to exceed 50% of the value of the securing property, the times-earned record must have been two in four of the last five years, and the bonds purchased must have been part of a total issue of $1 million or more.

As much as 10% of assets can be committed to the purchase of telephone company mortgage issues. It is required that the issuer the previous year have had a gross revenue of $7.5 million, have had a funded debt limited
to 50% of fixed assets, have had a times-earned record of two during four of the last five years, and that the bonds be part of an issue of $1 million or more.

Water company mortgage bonds are eligible in a gross amount up to 2.5% of assets if the population of the issuer is 25,000 or more, if the funded debt is not greater than 60% of fixed assets, if the times-earned has been one and one-half during four of the last five years, and if the bonds are part of an issue of $1 million or more.

In the general and miscellaneous group, we observe that the following can be acquired: the issues of the Federal Land Banks, the Federal Intermediate Credit Banks, and the Federal Home Loan Banks. Within a limitation of 5% of assets, a trust company can purchase the issues of housing authorities of this state if the issues are insured or pledged by an agency of the United States. Certain real estate loans can be made. Up to 10% of assets can also be invested in industrial obligations under certain conditions. In the event these obligations represent unsecured debt, the issuer must not have outstanding any mortgage obligations. Gross income must have been $10 million during the previous five years and net income at least $1 million. The current ratio must be two and one-half and total debt no greater than one-third total assets. Lastly, in the general and
miscellaneous group, it is provided under a limited prudent rule stipulation that up to 25% of capital and surplus or 1% of deposits can be placed in the securities other than shares of any issuer not given in the comments above.

**Life Insurance Companies**

The selected states for statutory review in the life insurance company class are New York, Massachusetts, Pennsylvania, Illinois, Ohio, Connecticut, New Jersey, and California. None of the states has the "prudent man rule" as such. However, Connecticut has vested the life insurance companies of that state with very broad investment powers, as will be seen below. When the term "all" is used in this section it is to be inclusive of the eight selected states of the life insurance company class.

All of the states permit investment in the securities of the United States Government and the governmental agencies for which the credit of the United States is pledged. It is permissible, also, for the life insurance companies to invest in the issues of the various states and, under various qualifications, the issues of the political subdivisions of the various states. All of the states except Illinois provide for investing in Canadian governmental issues, but in several states the statutes make only the Dominion and the provincial issues eligible,
and one state limits eligibility only to Dominion issues.

We find well-defined conditions for most of the remainder of the permissible investments and assume that this is true because of the very great volume of resources being regularly committed. All of the states permit the investment of assets in railroad equipment trust certificates and mortgage bonds. Except for Ohio and California, all of the states authorize purchasing collateral trust bonds and all of the states except Ohio, California, and New Jersey authorize the purchasing of guaranteed bonds.

For electric and gas company issues we find that all of the states except California make eligible the mortgage bonds of such companies. The debentures, however, are authorized only in the states of New York, Pennsylvania, Illinois, Connecticut, and New Jersey. Telephone company bonds are permissible for purchase in all states except California.

In the general and miscellaneous group we observe the following. The issues of the Federal Land Banks are eligible in all of the states except California. The bonds of the International Bank for Reconstruction are approved for all of the states. Certain real estate loans can be made in all of the states. The issues of state or national housing authorities under certain conditions to be detailed below are permitted for all of the states except California. New York, Pennsylvania, and New Jersey
authorize buying the issues of the Federal Home Loan Banks. Ohio, New Jersey, and California permit the purchase of the issues of the Home Owners Loan Corporation. With the exception of Ohio, the states permit the purchase of common stocks under limited conditions. All of the states except Massachusetts and California make eligible the purchase of a limited number of shares in savings and loan associations. New York, Illinois, and Ohio permit the purchase of preferred stocks. An extensive sundry group of securities and evidences of indebtedness are approved in some of the states. These include contingent interest obligations, insurance company stocks, obligations of the Federal Savings and Loan Insurance Corporation, the securities of United States and Canadian corporations that are solvent, owned or leased properties for commercial or domestic renting, preferred and common stocks, trustees' or receiver's obligations, bank acceptances and bills of exchange, policy loans, investments abroad sufficient to commit the funds received in foreign business, collateral loans, tax anticipation obligations, port authorities, bonds of permanent road divisions, and state warrants.

New York. The first state to be reviewed is New York. In the statutes of that state it is provided that a company's minimum capital must be invested in the issues
### General Summary of the Statutes Authorizing the Investment of the Assets of Life Insurance Companies

<table>
<thead>
<tr>
<th>Investment (securities issued by)</th>
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Table 7 (continued)

GENERAL SUMMARY OF THE STATUTES AUTHORIZING THE INVESTMENT OF THE ASSETS OF LIFE INSURANCE COMPANIES

<table>
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<th>Investment (securities issued by)</th>
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Source: Compiled from Moody's Governments and Municipal Manual, 1951. Qualifying conditions are given in Appendix-C.
of the United States, or those guaranteed by the United States, the issues of any of the states, and the issues of any of the political subdivisions of New York. However, it is further provided that 40% of capital can be invested in the issues of any state and in real estate loans in this state. With all of the governmental issuers it is specified that the record shall be free from any defaults. Except for the issues of the United States the statutes indicate that issues are not eligible if payable out of special assessments. As for Canadian governmental issues we find that the issues of cities are not eligible, but up to 10% of the assets and limited to one and one-half times the reserves of Canadian policy contracts can be placed in Dominion and provincial issues with no-default records.

Railroad obligations are eligible under the following conditions. The obligations must be secured by collateral. The maximum of stocks suitable for collateral is one third. The times-earned record must have been one and one-quarter in three of the last five years. In the event the issues are notes or debentures, the times-earned record must have been one and one-half for five years. It is assumed that under the above conditions, eligible for purchase are equipment trust certificates, first mortgage bonds, collateral trust bonds, and guaranteed bonds and notes. The issues of electric and gas companies and of telephone
companies can be purchased under the same conditions as those recited above in this paragraph.

In the general and miscellaneous group the following are eligible for purchase. Up to 5% of assets can be invested in the issues of the World Bank. Real estate loans can be made, as referred to above, and in addition lands purchased and housing projects erected for sale or rental. Housing projects as approved by the Superintendent of Insurance can be invested in, with the provision that if the purchase is in the stocks of the project the shares are to be issued to one or more insurance companies. The shares and obligations of Federal Home Loan Banks are eligible and up to 25% of assets can be placed in the shares of savings and loan associations. As much as 10% of assets can be invested in preferred stocks in companies in which there has been a no-default record, in which the prior obligations are eligible, and in which for five years the times-earned has been one and one-half on obligations plus preferred stock. As much as 3% of assets or one-third of surplus can be invested in common stocks. The issuer, however, must have paid 4% dividends for ten years. In addition the contingent interest obligations of corporations are eligible if for five years the times-earned has been one and one-half. Trustees' or receivers' obligations, if adequately secured and if the assets are under a court jurisdiction, are authorized. Finally,
policy loans can be made to company policyholders.

**Massachusetts.** We turn next to the State of Massachusetts and note a prescribed eligibility in all of the government classes except the agencies for which the pledge of the United States is given. Specifically approved are the issues of the United States, all of the states, the political subdivisions of Massachusetts, and, if the population is at least 100,000 and the debt limited to 5% of valuations, in the issues of the political subdivisions of any state as well as the Dominion, provinces, and cities of Canada.

Railroad equipment trust certificates can be purchased if the total issue does not exceed 90% of the cost of the property and if the maturity is within fifteen years. Such issues of Canadian origin are likewise approved. The conditions attached to approval for buying first mortgage railroad bonds are as follows. Capital stock must be outstanding equal to one-third or more of funded debt; the record must be free from default for five years; for five years there must have been paid 4% on all capital stock; for three of the last five years the times-earned must have been one and one-half; if the issuer has junior liens outstanding these must equal one-third of the mortgage bonds and must have paid 4% on these junior liens for five years. Canadian issues carrying
these qualifications can also be acquired. Collateral trust and guaranteed railroad bonds can be purchased if the railroad is incorporated in Massachusetts.

United States and Canadian electric and gas companies are eligible for purchase if for three of the last five years the times-earned has been two for electric companies and two and one-half for gas companies.

Telephone company bonds are authorized if the issuer has a record of one and one-half times-earned during three of the last five years. First mortgage bonds only are prescribed. Canadian company issues with these qualities are eligible.

General securities specified as eligible include the issues of the Federal Land Banks, the World Bank, and federal housing authorities. Real estate loans can be made and also lands purchased for the erection of housing projects. Except for any part of a purchaser's reserves, investment can be made in the capital stock of other insurance companies. Bank acceptances and bills of exchange which would be eligible for purchase by a Federal Reserve Bank can be acquired. The forms of indebtedness of the American Telephone and Telegraph Company and of its affiliates are approved for portfolio addition. Also, the indebtedness obligations of any United States or Canadian corporation are eligible if for seven years the times-earned has been four. Such acquisitions are limited
to one-half the capital and reserves. Domestic life insurance companies are not permitted to invest under those circumstances which make the companies liable for assessments. Investments are limited to 10% of the capital and surplus in any one corporation. Up to 2½% of the reserves can be placed in the stock of a New England trust company if the issuer has paid 4% on the stock for the last five years and if the surplus of the issuer is equal to one-half or more of the capital stock. As much as 25% of assets can be invested in common stocks up to a limit of 10% of surplus and limited to a holding of 10% of the stock of the issuing company.

Pennsylvania. We turn next to the State of Pennsylvania. Life insurance companies in that state are permitted to invest without limitation in the issues of the United States Government, in the issues for which the pledge of the United States is given, and in the issues of any of the states and the political subdivisions of any of the states. Also included in the eligible government group are the Dominion issues of Canada.

No conditions are attached to the prescribed eligibility to purchase the obligations of railroads, electric and gas companies, and telephone companies.

In the general and miscellaneous group we find the issues of the following eligible: the Federal Land Banks,
the World Bank, the Federal Home Loan Banks, federal housing authorities, and national mortgage associations. Certain real estate loans can be made and loans can be made on leaseholds up to 2% of assets if the loan is amortized and if it is insured by the FHA. The purchase of lands and the erection of housing projects is permitted. The obligations issued or guaranteed by the Federal Savings and Loan Insurance Corporation are prescribed as eligible. An amount equal to the surplus and one-fourth of the capital of a life insurance company can be placed in the stock or the obligations of solvent United States and Canadian corporations. Collateral loans up to 80% of value of the collateral can be made. A sufficient amount can be placed in the issues of foreign governments to carry on business and policy obligations in those countries. As much as 10% of assets can be placed in stocks representing owned or leased housing or commercial or domestic renting. Up to 5% of assets can be placed in any common stocks in which the company cares to invest. The same amount can be placed in the shares of Canadian corporations or trusts and the bonds or forms of indebtedness of any Canadian political subdivisions. Trustees' and receivers' obligations can be acquired if adequately secured and if the assets are under a court jurisdiction. Bank acceptances and bills of exchange eligible for purchase by Federal Reserve Banks are authorized.
Also, policy loans can be made.

**Illinois.** For the State of Illinois the obligations of the United States and those for which the credit of the United States is given can be added to life insurance company portfolios. This is true also for the issues of this state and any of the states when the record is free from defaults in the payment of principal and interest. In addition to the proper record on defaults, the obligations of the political subdivisions of this state or any state must not be payable from special assessments and total debt must be limited to 10% of property valuations. Canadian issues are omitted from eligibility status in the Illinois statutes.

The various unclassified obligations of railroads are approved for purchase if the issuer has experienced no default for five years. Up to one-third the company's assets can be invested in these obligations, with the provision that no holding company securities be acquired.

In Illinois the electric, gas, and telephone companies are classed as public utility companies. As much as one-third of the assets can be placed in public utility company obligations with a no-default record for five years, except that the issues must have been from operating as opposed to holding companies.

In the general and miscellaneous group it is observed
that the issues of the Federal Land Banks and state and national housing authorities can be purchased. Up to 5% of assets can be placed in the issues of the World Bank. In addition to regular real estate loans, 10% of assets can be committed to the erection of apartment and dwelling houses. The insured shares of savings and loan associations of this state are eligible. Up to 10% of assets can be invested in preferred stocks if the dividends prescribed in the certificates have been paid regularly. However, such shares in other insurance companies cannot be purchased. In addition the shares of any corporation except insurance companies, banks, and real estate holding companies can be purchased up to 50% of surplus of the purchaser if the shares are traded on a national exchange and if the issuer earned on the shares as available for payment a total of 12% during three years combined of a five year recent period. Collateral loans can be made if the value of the collateral is 125% of the amount of the loan. Up to 25% of assets can be placed in tax anticipation obligations, both Illinois issuers and for other states if there is reciprocity. A sufficient amount to conduct business in foreign countries can be committed to the issues of such foreign countries. Loans to policyholders can be made.

Ohio. Life insurance companies in the State of Ohio
are authorized to invest in the issues of the United States, the issues for which the pledge of the United States is given, the issues of Ohio and any of the states, and the issues of the political subdivisions of Ohio or any of the states if the political subdivisions have a population of 5,000 or more and have income by tax levy. The Dominion and provincial issues of Canada are approved.

In the case of railroad obligations the statutes provide that equipment trust certificates can be purchased if these issues are amortized over a sixteen-year period or less. For the mortgage bonds of railroads and mortgage or interest-bearing obligations of terminal companies, the issuer must have been in business at least ten years and have a record of no defaults for five years. The times-earned record must have been one and one-half for five years and on junior liens three times for five years.

Electric, gas, and telephone company issues can be bought, but in the case of telephone companies only mortgage bonds are eligible. The issuers must have been in business at least ten years and carry a record of no defaults. The times-earned record must have been one and one-half for five years and three times for five years on junior liens.

In the authorized general group are the bonds of the
Federal Land Banks, the World Bank, the Home Owners Loan Corporation, and federal housing authorities. Certain real estate loans can be made. In addition to regular loans, the loans insured under the Servicemen's Readjustment Act can be made. Ground rents can be purchased and land trust certificates in leased property. Insured shares in Ohio savings and loan associations are approved. Preferred shares can be bought if the conditions are met that the times-earned for five years must have been four after payment of interest on prior obligations and the carrying out of a proper depreciation policy; the common stock is to be 40% of capitalization; and the total in preferred shares must not exceed the capital, surplus, and contingency funds. However, in the case of utilities, preferred shares can be purchased if the times-earned has been two for five years and if the corporate debt plus preferred stock does not exceed more than 70% of the capitalization. Investment can be in bank acceptances and bills of exchange which are eligible for purchase by Federal Reserve Banks. Loans to policyholders on policy reserves can be made. Loans limited to one year and supported by collateral worth 20% more than the loan are permissible. Up to 5% of the assets can be placed in loans or investments which are not otherwise authorized in the statutes.
Connecticut. The State of Connecticut has established a modified form of "prudent man" statutes for the investment activities of life insurance companies of that state. The following conditions are prescribed. Any company issuing bonds shall be eligible if the company has a no-default record for five years immediately preceding the purchase. Loans are limited to 50% of mortgage value or 90% of collateral value. The stocks of electric and gas companies are approved for purchase. All other investments are eligible except mining and manufacturing stocks and the latter can be purchased if the issuers paid dividends of 3½% or more during the last five years.

New Jersey. We turn next to the State of New Jersey and note that the issues of all government groups, including the United States, those for which the pledge of the United States is given, any of the states, any of the political subdivisions in any of the states, and Canadian Dominion, provincial, and city issues can be purchased without limitation.

No limitations or conditions are placed upon the purchase of the bonds of United States and Canadian electric, gas, and telephone companies. The same holds true for all railroad certificates and bonds except guaranteed bonds.
In the general and miscellaneous group are the following. The issues of the Federal Land Banks, the World Bank, the Federal Home Loan Banks, the Home Owner's Loan Corporation, and the insured shares of New Jersey savings and loan associations are authorized for purchase. Real estate loans are limited to 50% of appraised value, or 66 2/3% of value if the loan is amortized and if the loan is insured for 50% of value. Loans can be made on leaseholds if the loans are amortized for a maturity within nine-tenths of the time of the leasehold period. Loans insured under the Servicemen's Readjustment Act are approved. Mortgage participation certificates are eligible as well as title company and guaranteed mortgage loans; also FHA insured loans. Stocks can be purchased, but if dividends have not been paid in full during the last five years the purchase must be of the majority of the stock. The purchase of stock in any one company is normally to be limited to 20% of the voting stock or 2% of the insurance company's assets. No more than 10% of the debt obligations of any one company can be acquired. Loans to policyholders on policy reserves can be made. A sufficient amount can be invested in foreign countries to conduct business in those countries. Also approved for investment are the obligations of the South Jersey Port District, the Port Authority of New York, the first mortgage bonds of camp meeting associations, the obliga-
tions of the Delaware River Joint Commission, in the obligations of any commission appointed by the New Jersey Supreme Court, in the obligations of the South Jersey Transit Authority, the Gloucester Company Tunnel, and the New Jersey Turnpike Authority.

California. Life insurance companies in the State of California are permitted to invest without limitation in the issues of the United States or those for which the credit of the United States is pledged. If there has been no default for longer than ninety days during the previous ten years, the issues of California or any of the states are approved for purchase. The time is reduced from ten to two years on defaults in the eligibility status for the issues of the political subdivisions of California or of any of the states. The obligations of the Dominion or provinces of Canada are authorized if for ten years there has been no default for longer than ninety days.

The statutes specify that excess funds can be invested in any corporate interest-bearing obligations and no other prescriptions are given restricting the investments in the issues of electric, gas, telephone, and railroad companies.

A general group of additional investments, however, is specifically approved. Life insurance companies are
permitted to invest in the obligations of the Federal Land Banks, the World Bank, and the Home Owner's Loan Corporation. Up to 25% of the capital and surplus can be placed in the obligations of the World Bank. In addition to regular real estate loans, notes or bonds secured by mortgage or title insurance and insured mortgage participation certificates are eligible. Excess funds can be placed in five-year leaseholds on a first mortgage basis running fifty years or more but limited to 60% of appraised value. The bonds of any permanent road division of California are legal if the bonds are likewise legal in California for savings banks. Loans insured under the Servicemen's Readjustment Act can be made. Excess funds to a limit of 25% of surplus can be invested in common stocks if they are a "sound investment". Loans are not to exceed 85% of appraised value. Excess funds can also be placed in any corporate interest-bearing obligations. Collateral trust bonds or notes with collateral otherwise considered legal can be invested in if the collateral is worth 15% more than the obligations, or 20% more if combined with other securities. Warrants of California are eligible for purchase. Finally, the usual provisions are present in the statutes authorizing loans to policyholders on policy reserves and investment in the issues of foreign countries in sufficient amounts to conduct insurance business in those countries.
Savings and Loan Associations

The selected states in the savings and loan associations class are New York, Massachusetts, Pennsylvania, Illinois, Ohio, Indiana, California, Florida, Georgia, Kentucky, and Texas. The "prudent man rule" does not prevail or apply in any of these states. When the term "all" is used in this section it is to be inclusive of the eleven selected states of the savings and loan association class. The fundamental purpose for the operation of the associations is to extend credit for the buying of dwellings. The conditions underlying these real estate loans will be reviewed in detail. However, most of the associations from time to time have excess funds and the authorized investment of these funds will also be surveyed.

New York. In the State of New York, savings and loan associations are permitted to invest up to 5% of assets, unless otherwise approved by the Superintendent of Banks, in the shares of the Savings and Loan Bank of New York. No limitation is placed upon the purchase of the obligations of that Bank, nor upon obligations of the Federal Home Loan Banks. The investments authorized for New York savings banks are approved also for New York savings and loan associations. Resources can be
<table>
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<tr>
<th>Investment (loans, securities issued by)</th>
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<th>PA</th>
<th>ILL</th>
<th>OHIO</th>
<th>IND</th>
<th>CAL</th>
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<th>GA</th>
<th>KY</th>
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Table 8 (continued)

GENERAL SUMMARY OF THE STATUTES AUTHORIZING THE
INVESTMENT OF THE ASSETS OF SAVINGS AND LOAN ASSOCIATIONS

<table>
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<tr>
<th>Investment (loans, securities issued by)</th>
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<th>ILL</th>
<th>OHIO</th>
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<tr>
<td>Home Owners Loan Corporation</td>
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<td>Other territories</td>
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<td>National Mortgage Associations</td>
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<tr>
<td>Reconstruction Finance Corporation</td>
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Source: Date assembled from Compilation of the United States Savings and Loan League, 1947 and Powers Granted Savings and Loan Associations to Invest Surplus Funds, 1951; also, Approved Real Estate Loans, 1951. These three compilations were prepared by the United States Savings and Loan League, Chicago, Illinois, and have not been published.
employed in the ownership of the association's place of business, limited, however, to 25% of surplus. The building can also be used in part to obtain rental income.

In their loan business, associations are permitted to invest up to 30% of improved real estate. The limit is 60% if the value of the building is not equal to the value of the land, 66 2/3% on residences, and 50% on unimproved real property with the provision that the amount cannot exceed 15% of capital. Loans generally are to be amortized, but there is no restriction at this point on residential loans. No maximum loan amount is specified. The loan period is twenty years, with no limit in the case of improved real estate.

Massachusetts. In the State of Massachusetts associations can invest without limit in the shares and obligations of the Federal Home Loan Banks and the securities approved for savings bank investments of this state. Loans can be made to other associations (or, to be technically correct in Massachusetts, to cooperative banks) and to the holders of the shares of other cooperative banks. The investment in the operating building must be limited to the total of the surplus and guaranty fund and must not be in excess of two and one-half per cent of the share liabilities, or $100,000.

Loans can be made on improved real estate up to 80%
of value and up to 50% on unimproved real estate. All loans are to be of the direct reduction or sinking fund type. The general maximum amount for loans is $8,000, but as much as 5% of the portfolio can be in loans up to $10,000. The maximum loan period is twenty years.

Pennsylvania. We turn next to the State of Pennsylvania. Associations are authorized to invest without limit in the shares and obligations of the Federal Home Loan Banks. Membership shares in any United States corporation or agency are approved investments. Care is employed in placing resources in the operating building, for the approval of the Superintendent of Banking is required. The investment in the building is limited to 5% of the share values and equipment and improvements are limited to $5,000 if the assets do not exceed $5 million and to $10,000 if the assets are larger than $5 million.

Real estate loans can be made on dwellings up to the four-family size. Loans can be made up to 80% of value to be repaid by the direct reduction or sinking fund method. The maximum size of loan is $20,000, limited to 5% of share liabilities if the loan is more than $10,000. No maximum time period is stipulated.

Excess resources can be invested in the issues of the United States, in the issues for which the direct pledge of the United States is given, in the issues of
Pennsylvania, and in the issues of the Federal Savings and Loan Insurance Corporation.

Illinois. In the State of Illinois the shares but not the obligations of the Federal Home Loan Banks are stated as approved for the purchase of savings and loan associations. No statements are made relative to authorizing investment in an operating building which would limit the amount of such an investment.

Real estate loans of proper caliber are authorized, but no definitive limitations are given.

The issues of the following are eligible for purchase: the United States Government and the agencies for which the direct pledge of the United States Government is given, the issues of Illinois, the Federal Land Banks, the Federal Farm Mortgage Corporation, and housing authorities of this state. Excess funds up to 50% of assets can be placed in the issues of neighborhood redevelopment corporations of this state. If approved by the Auditor of Public Accounts, an association is permitted to invest up to 10% of its assets in the erection of apartments and houses on land designated for slum clearance for purposes either of renting or selling.

Ohio. In the State of Ohio, savings and loan associations are authorized to invest in the shares of Federal
Home Loan Banks. The obligations of Federal Home Loan Banks and the securities which are eligible to secure government deposits in national banks are approved investments.

Loans can be made on improved residences which are used both for business and a dwelling up to 75% of value. Such loans are to be amortized either weekly or monthly, can be made in amounts up to $20,000, and for a maximum of twenty years. Up to 75% can be loaned on farms. These loans can be amortized weekly, monthly, quarterly, or semi-annually. The maximum loan is $20,000 and the maximum period twenty years. On short term loans up to five years, loans can be made up to two-thirds of value on improved residences, farms, or combination business and dwelling, the loan being limited to a maximum of $20,000 and with payments of $21/2% of the principal every six months. Up to 50% of value can be extended as credit on unamortized loans, but the period is confined to five years. As much as 50% of value can be loaned on improved real estate if the value of the building is at least 50% of total value. Such loans are to be reduced by weekly or monthly principal and interest payments equal to 1% per month. No maximum time limit is specified on these loans. Only 40% of value can be extended on this type of loan if the loan is not amortized. In such a case the maximum period is two years. The volume of credit for
the last two kinds of loans must not exceed 15% of the association's assets.

Idle or excess funds can be invested in the issues of the United States or those for which the pledge of the United States is given. Within a limitation of 10%, associations are permitted to invest in the issues of the State of Ohio, of the Federal Land Banks, of the District of Columbia, and of the political subdivisions of Ohio. The issues of the Home Owners Loan Corporation and the securities eligible to secure government deposits in national banks are authorized. Up to 5% of assets can be placed in purchased properties if there is a concurrent contract to sell the properties to members.

**Indiana.** In the State of Indiana, savings and loan associations are authorized to invest in the shares of Federal Home Loan Banks and to place idle funds in the obligations of those Banks. Resources can be invested in an operating building for the association to the extent of the association's contingent fund, or, $100,000, unless otherwise approved. The amount which can be expended for equipment is 5% of the contingent fund and undivided profits.

For real estate loans it is provided that 75% of value can be loaned on a house or combination house and dwelling to be repaid within twenty years on a direct
reduction basis and limited to 1% of assets for loans up to $10,000. A limit of 60% is placed upon other improved property loans to be repaid within twenty years on a direct reduction basis. As much as 50% can be loans on real estate if the loan is not amortized; the period is limited to five years.

Excess or idle funds can be invested in the issues of the United States or those guaranteed by the United States, in the issues of the Federal Savings and Loan Insurance Corporation, in the issues of the State of Indiana or the political subdivisions of Indiana, the Home Owners Loan Corporation, and the issues of other states and territories if their record is free from defaults for at least five years.

California. The savings and loan associations of the State of California are permitted to invest without limit in the shares and obligations of the Federal Home Loan Banks. The securities authorized for savings banks in this state can be purchased, as well as the obligations of California mortgage insurance companies. If approved by the Commissioner of Banking, it is permissible to add to the portfolio the bonds of any railroad or public utility.

Four kinds of real estate loans are authorized. A loan of 80% of value can be made on single dwelling
houses up to $6,000 on a direct reduction basis and to be repaid within twenty years. The limit is 70% on improved real property if the loan is amortized over a twenty-year period and the maximum amount for such loans is 1% of assets unless the amount is under $10,000. For unimproved property the limit is 60% for a three-year loan and 33 1/3% for a twenty-year loan. The loans can be on an amortized or direct reduction basis and the amount limited to 1% unless the loan is under $10,000.

In addition to the issues of the political subdivisions of California, 2% of assets can be placed in street improvement bonds of this state if approved by the Commissioner of Banking. Likewise if approved by the Commissioner, the issues of other states and territories can be purchased. The bonds of National Mortgage Associations are eligible. The total amount which can be invested in the general and miscellaneous group, omitting the shares and obligations of the Federal Home Loan Banks and the issues of this state, is 10% of assets.

Florida. The shares and obligations of the Federal Home Loan Banks and the shares of other savings and loan associations are eligible for purchase by Florida savings and loan associations, if approved by the State Comptroller. The shares of any Federal or state agency created to lend to savings and loan associations can be purchased.
The loans insured by any federal governmental agency can be bought. The investment in the building in which an association operates is limited to one-half the reserve for contingencies unless otherwise approved by the State Comptroller.

In the making of real estate loans the savings and loan associations of Florida are limited to 70% of value. There are no restrictions on the type of loan or the loan period. The maximum loan allowed is $20,000.

Assets can be invested in the issues of the United States Government, the issues of the State of Florida, the political subdivisions of this state, and the issues of the Home Owners Loan Corporation.

Georgia. In the State of Georgia, savings and loan associations are permitted to invest without limit in the shares and obligations of the Federal Home Loan Banks, in the issues of the United States Government, those for which the pledge of the United States is given, the issues of the State of Florida, the political subdivisions of this state, and the Federal Savings and Loan Insurance Corporation.

On real estate loans the statutes provide that up to 75% of value can be loaned on an amortized basis for a twenty-five year period and for a maximum of $20,000.

The shares of other savings and loan associations
can be purchased up to $5,000 in any one association if the shares are insured by the Federal Savings and Loan Insurance Corporation. In addition, any investments approved by the Secretary of State of Florida can be added to the portfolio.

**Kentucky.** The shares and obligations of the Federal Home Loan Banks can be purchased without limit in the State of Kentucky. Excess funds can be invested in "good and safe bonds, or as banks are permitted to invest".

In the making of real estate loans, no limit is specified in the making of any one loan. The loans are to be of the direct reduction type, but no limits are prescribed for the period of the loan or the maximum amount.

In the miscellaneous group the statutes provide that the issues of the Home Owners Loan Corporation can be purchased.

**Texas.** In the State of Texas the statutes prescribe that savings and loan associations can invest excess funds in the shares and obligations of the Federal Home Loan Banks, the shares of other savings and loan associations, the issues of the United States Government and those for which the pledge of the United States is
given, the issues of the Federal Land Banks, the political subdivisions of this state, the Home Owners Loan Corporation, national mortgage associations, and the Reconstruction Finance Corporation. Resources can be placed in a building for operating purposes. Except for the investment in the operating building the limit of investments in all of the securities given above is placed at 25% of assets, including, also, the railroad and utility issues to be given below.

The issues of railroad and public utility corporations can be purchased if the times-earned has been two for the last five years. Other securities approved by the Banking Commissioner can be acquired.

On real estate loans it is provided that up to 80% can be loaned on one to four family houses and 65% on other real estate. All loans are to be of the direct reduction type. The period of any loan is not to exceed twenty-five years and the amount can range from $5,000 to $50,000, dependent upon the amount of the association's assets. However, loans in excess of $50,000 must not exceed 1/2% of total assets. Certain other special loans can be made up to 60% of value for five years on a first mortgage basis and amortized by monthly payments.

Federally chartered associations. In the introduction to this study reference was made to the fact that
on December 31, 1950, there were in the United States 4,421 state-chartered associations and 1,526 federally-chartered savings and loan associations. In the preceding pages a review has been given of the authorized investments for the state-chartered associations. We turn now to a survey of the authorized investments of the federally-chartered associations.

No loans are to be made unless an association has a cash and liquid position equal to at least 6% of assets. This position can be in the combined form of cash plus United States direct or guaranteed obligations.

Loans can be made on improved property on a first mortgage basis. Credit extended on homes or combinations used for business and dwellings can be up to 75% of value on a monthly installment basis for a twenty-year period. In the event a loan is insured or guaranteed the period of the loan can be adjusted to that which will be acceptable to the insuring agency. Also, if the members of an association approve, loans can be made up to 80% of value. In the latter case if the loan is insured or guaranteed the loan can be 80% plus the amount guaranteed.

The loans prescribed in the preceding paragraph can be made on a basis of interest payments semi-annually and principal payments at least annually with the loan maturing within five years. Non-installment loans of this kind can be made on a basis of maturity within fifteen
years if the terms are acceptable to the insuring or guaranteeing agency.

Loans of the types described above can be made without full amortization of the principal. Unless such loans are insured or guaranteed, interest is to be paid at least semi-annually and the loans are limited to 50% of value to be repaid within five years. If the members of an association vote to change the loan operating principles, such loans can be made up to 60% to mature within three years, or up to 80% on construction loans to mature within one year.

In addition to the types of loans described to this point, loans can be made on other improved real estate. The conditions specify that repayment be made within twenty years or a period acceptable to the insuring or guaranteeing agency if the loans are insured. The loan limit is 50% of value. However, the members of an association can vote a change in these operating loan principles to provide for larger loans under the following conditions. If the loan is insured, the maximum can be that amount which is acceptable to the insuring agency. Up to 75% can be loaned on five or six family residential property and 60% for property for seven to twelve families. If a loan is on property to be used primarily for residential purposes the loan can be made on a fifteen year basis up to two-thirds of value, with the provision that payments
be on an installment basis. Up to 60% can be loaned on improved real estate with an income-producing structure if the loan is on an installment basis to be repaid within fifteen years. If any of the loans of this paragraph are guaranteed, the amount of the loan can be increased by the amount of the guarantee, with the loan being 100% of value if the guarantee is at least 20%.

Loans approved for monthly installment payment can be made on any other repayment basis if the loan is limited to 50% of value. If the members vote approval of changed operating principles, this limit can be raised to 60% of value and maturity within three years.

An association can join with other associations in the making of participation loans. Loans of the types described hereinabove can be made by two or more associations insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation and if the real estate is within the lending area of the lenders.

The purchase of approved types of loans can be negotiated by an association, with the provision that the purchase not be made from a director, employee, or attorney for the association.

The lending area for any federal savings and loan association is the area within a fifty-mile radius of the association's office.
Special additional lending provisions are established permitting a maximum of 15% of assets to be placed in blanket loans larger than $20,000 but on which $20,000 can be apportioned to any one piece of mortgaged property. Included in this group, also, are loans outside of the lending territory and investment in property other than that occupied by the association for its business office.

Loans can be made to members upon their pledging of their savings accounts in amounts not to exceed their withdrawable balances.

Two types of unsecured loans can be made. One type provides for loans to be made on an unsecured basis if 20% is guaranteed by the Servicemen's Readjustment Act. The other type provides for loans for repair or alteration purposes in amounts up to $1500, repaid by monthly installments within a five-year period.

In addition to loans, an association is permitted to invest without limit in the stock or obligations of the Federal Home Loan Banks and the direct or guaranteed obligations of the United States. The amount invested in an office building must be limited to the general reserves and surplus unless otherwise approved by the district Federal Home Loan Bank Board.

All of the above regulations for the investment procedures and principles of federal savings and loan associations apply to those operating under Charter N or K.
There are a small number, perhaps twenty or thirty associations, which operate under Charter E. These associations are permitted to invest their assets in first mortgage monthly installment loans maturing in five to twenty years. On properties which are dwellings or combination dwellings and for business the maximum loan can be 75% of value. On other improved real estate the maximum can be 50% of value.

Summary. In reviewing the statutory regulations and the legal lists for the four classes of institutions we find that the emphasis in investment regulation for savings banks, trust companies, and life insurance companies has been in securities and for savings and loan associations the emphasis has been in real estate loans. In most cases the states permit savings banks to purchase the securities issued by the United States, the agencies guaranteed by the United States, the states and cities and political subdivisions of states, railroad and utility companies, the World Bank, and to make real estate loans. Only irregularly and not generally do the states permit savings banks to purchase the securities of housing authorities, bills of exchange and acceptances, trust company and bank stocks, corporate obligations of miscellaneous classifications, and to make sundry personal loans.

In comparison with savings banks, trust companies
are permitted in most cases to purchase the securities generally eligible for savings banks and, in addition, the securities of housing authorities. With irregular frequency, the states permit trust companies to purchase savings and loan association shares. However, broader coverage of general kinds of corporate securities and forms of indebtedness is allowed to trust companies than savings banks. This broader coverage is extended further in the case of life insurance companies.

As stated above, the regulatory emphasis for savings and loan associations in the various states surrounds the conditions for the making of real estate loans. In addition, most states permit the associations to purchase the stock and obligations of Federal Home Loan Banks. With irregular frequency the states permit associations to purchase the shares of other savings and loan associations, issues of the United States and issues guaranteed by the United States, the stock of the Federal Savings and Loan Insurance Corporation, and the securities issued by the local state and the cities and political subdivisions of the local state.

We are concerned to perceive the underlying purposes which motivated the writers of the statutes in the various states. It appears fundamental that the purport of the statutes has been to recognize the very wide public interest in the conservation of the savings and resources
processed by the four classes of primary savings institutions which we have treated. The institutions have become the recipients of some of the largest blocks of savings for the broad strata of income groups in the American public. This makes of them substantial mobilizers of capital. In the cases of perhaps millions of people the institutions serve as capital processors, filling the gaps of lack of time, information, judgment, and technique which would prevent many persons individually from performing well the investing function. With so many people and such a volume of assets involved, it has been considered necessary by the governments of the various states to regulate the investments of the institutions. The strongest measures assuring the safety of the mobilized resources have been considered vital to be taken.

In some instances, equal with the effort to conserve has been the striving for reasonable income, but the theme predominantly has been on the former. On the other hand, the statutory controls have been designed to provide reasonable working conditions for the institutions. While the institutions must bear great responsibilities for the resources deposited with them, they are given some protection for reasonable relief from liability when abiding by the law. In addition to providing this protection, the statutes in some states have established
regulations which would tend to favor businesses operating within those states.

Safety of the dollar amounts of principal deposited with the four classes of institutions in this study appears to be the fundamental goal of the state regulators. We are impressed that safety is planned for in the regulations and assumed to exist in the element of proximity. The investing institution is permitted to purchase securities and to make loans upon less restrictive conditions to security issuers and borrowers within the same state as the investing institution as contrasted with other states and localities. Moreover, safety is presumed to be present with the security issues of the various governmental units, ranging from federal to local. Safety is presumed to co-exist with the securities of well-established and long-established companies carrying extended records of stability. There is no evidence of provision for foresight or growth situations, only in hindsight regulation. The emphasis appears to favor preservation, with little or no effort to neutralize cyclical trends and changes in the value of the dollar. It must be recognized, however, that the patterns of regulation could hardly take widely different form under legal list conditions. We are impressed that the purposes and forms of regulation can be changed fundamentally only by lodging greater discretion with the institutional administrators.
Conflicting Standards. As a second part to our summarizing comments we are interested in observing the presence of any conflicting standards in the investment regulations of the states included in this study. The statutory prescriptions do not fall within a distinct pattern, either within the states of any one class or between the classes. It is hardly to be expected that the statutes evidence an identity or a near identity in content. However, we are impressed that the writers of the statutes in the states used in this study have sought differently to attain the conservation goal. Some states approve statutes which establish working principles in the investment of the resources deposited with them. Other states turn to the near extremes of either legal lists or the "prudent man rule". On the one hand there would seem to be wide confidence in the capacity of the writers of the statutes to be able to discern accurately between very specific conditions, such as approval of one fraction as opposed to another in the number of times interest has been earned. These circumstances create the strong probability of arbitrariness, setting the conditions for the fluctuation of eligibility for specific investments. On the other hand, the use of the "prudent man rule" presupposes under a threat of surcharge for failure that all institutional administrators shall be capable in the fulfillment of their investment
responsibilities.

In the development of this chapter we have observed conditions which point to an appearance of conflicting investment standards. Nearly all of the states treated permit investing in the issues of the political subdivisions of their respective states, but prescribe much more rigid standards, if permission is granted at all, for investing in the political subdivisions of other states. In New England, the states in some cases provide less severe investment standards for adjoining states than for states located farther away. We assume that the statutory writers found a basis for greater confidence, for example, in public bond-issuing units 200 miles away than in the units 1,000 miles away.

The conflict of standards is noted further in tables 9, 10, and 11. In Table 9 a comparison is given of the times-interest-earned requirements for first mortgage bonds. No tendency for primary frequency is revealed in any of the four classes of issuers. In Table 10 a comparison is given for the provisions in the records of the issuers for no default in the payment of principal and interest. The most important characteristic of Table 10 is the prevalence of "No provision". The majority of the states in each of the classes do not provide default requirements. In Table 11 a comparison is given of the portfolio limits permitted for the holding of the
Table 9
COMPARISON OF TIMES-INTEREST-EARNED REQUIREMENTS
FOR FIRST MORTGAGE BONDS BY CLASSES OF ISSUERS

<table>
<thead>
<tr>
<th>PURCHASER</th>
<th>Savings Banks</th>
<th>Trust Life Ins. Companies</th>
<th>Savings &amp; Loans (8 states)</th>
<th>(9 states)</th>
<th>(8 states)</th>
<th>(11 st's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
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<tr>
<td>Railroad Companies</td>
<td>1\frac{1}{2} times for 3 yrs.</td>
<td>2</td>
<td>2</td>
<td></td>
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<tr>
<td></td>
<td>1\frac{1}{2} times for 3 yrs.</td>
<td>1</td>
<td>1</td>
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<tr>
<td></td>
<td>1\frac{3}{4} times for 5 yrs.</td>
<td>1</td>
<td>1</td>
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<tr>
<td></td>
<td>2 times for 3 yrs.</td>
<td>1</td>
<td>1</td>
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<td></td>
<td>2 times for 3 of 5 yrs.</td>
<td>2</td>
<td>1</td>
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<tr>
<td></td>
<td>2 times for 5 yrs.</td>
<td>1</td>
<td>1</td>
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<td></td>
<td>2 times for 25 yrs.</td>
<td>1</td>
<td>1</td>
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</tr>
<tr>
<td>Electric and Gas Companies</td>
<td>2\frac{3}{4} times for 3 yrs.</td>
<td>1</td>
<td>1</td>
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<tr>
<td></td>
<td>2\frac{3}{4} times for 5 yrs.</td>
<td>2</td>
<td>1</td>
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<tr>
<td></td>
<td>No provision</td>
<td>2</td>
<td>7</td>
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<tr>
<td>Telephone Companies</td>
<td>1\frac{1}{2} times 3 of 5 yrs.</td>
<td>1</td>
<td>1</td>
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<tr>
<td></td>
<td>2 times for 3 yrs.</td>
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<td></td>
<td>2 times 4 of 5 yrs.</td>
<td>1</td>
<td>1</td>
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<tr>
<td></td>
<td>2 times for 5 yrs.</td>
<td>1</td>
<td>1</td>
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<td></td>
<td>2 times 5 of 6 yrs.</td>
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<tr>
<td></td>
<td>2\frac{1}{2} times for 3 yrs.</td>
<td>1</td>
<td>1</td>
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<tr>
<td></td>
<td>2\frac{1}{2} times for 5 yrs.</td>
<td>2</td>
<td>1</td>
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<tr>
<td></td>
<td>No provision</td>
<td>2</td>
<td>7</td>
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</tbody>
</table>

133
### Table 10

**Comparison of Requirements for Periods of No Default for First Mortgage Bonds by Classes of Issuers**

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Purchaser</th>
<th>Savings Banks (8 states)</th>
<th>Trust Companies (9 states)</th>
<th>Life Ins. Companies (8 states)</th>
<th>Savings Companies &amp; Loans (11 states)</th>
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</thead>
<tbody>
<tr>
<td><strong>Railroad Companies</strong></td>
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<tr>
<td>6 years</td>
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<td>1</td>
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<tr>
<td>5 years</td>
<td></td>
<td>1</td>
<td>1</td>
<td>3</td>
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<tr>
<td>No provision</td>
<td></td>
<td>6</td>
<td>8</td>
<td>5</td>
<td>11</td>
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<tr>
<td><strong>Electric and Gas</strong></td>
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<td>Companies</td>
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<td>5 years</td>
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<td>8 years</td>
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<td>1</td>
<td>1</td>
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<tr>
<td>No default</td>
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<td>1</td>
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<tr>
<td>No provision</td>
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<td>6</td>
<td>8</td>
<td>6</td>
<td>11</td>
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<tr>
<td><strong>Telephone Companies</strong></td>
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<td>5 years</td>
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<td>8 years</td>
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<tr>
<td>No default</td>
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<tr>
<td>No provision</td>
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<td>5</td>
<td>8</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Issuer</td>
<td>Purchaser</td>
<td>Savings Banks (8 states)</td>
<td>Trust Companies (9 states)</td>
<td>Life Ins. Companies (8 states)</td>
<td>Savings &amp; Loans (11 st's)</td>
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<tr>
<td>Railroad Companies</td>
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<tr>
<td>5%</td>
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<td>20%</td>
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<td>25%</td>
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<td>25% (including electric, gas, telephone)</td>
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<tr>
<td>33 1/3%</td>
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<td>No provision</td>
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<tr>
<td>Electric and Gas Companies</td>
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<td>10%</td>
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<td>20%</td>
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<td>25%</td>
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<tr>
<td>25% (including electric, gas, telephone)</td>
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<tr>
<td>33 1/3% (including telephone)</td>
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<td>40% (including telephone)</td>
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<td>No provision</td>
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<tr>
<td>Telephone Companies</td>
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<tr>
<td>10%</td>
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<tr>
<td>15%</td>
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<tr>
<td>25%</td>
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<tr>
<td>25% (including electric, gas, telephone)</td>
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<tr>
<td>33 1/3% (including telephone)</td>
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<tr>
<td>40% (including gas and electric)</td>
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<tr>
<td>No provision</td>
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obligations of railroad, electric and gas, and telephone companies. To survey the percentage provisions across the classes of purchasers does not provide a basis for concluding that there is a consistency or a pattern in the requirements.

To pursue the appearance of conflict through several more examples, the following can be noted. On the question of whether the financial institutions are permitted to invest in the securities in Canadian governmental units the statutes reveal that the savings banks in three of the eight states surveyed are authorized so to invest; three of the nine trust company states surveyed are authorized so to invest; and six of the life insurance company states of the eight surveyed are authorized so to invest; none of the savings and loan association states surveyed grant this type of investment as permissible.

Another example of the question of consistency in the statutes arises in the prescribed powers of the financial institutions to invest in stocks. For the savings banks the surveys reveal that three states permit investing in the common stocks of trust companies and national banks. In the case of the trust companies we find that one state authorizes buying the common stocks of national banks and other trust companies, one state permits buying common stocks generally, and one state permits buying savings and loan association shares. States in
which the "prudent man rule" prevails would be in addition to the above specific permissions. For life insurance companies the statutes reveal that three states authorize investment in preferred stocks, all of the states except Ohio authorize buying common stocks under limited conditions, and five states permit the buying of savings and loan association shares. In the case of the savings and loan associations, all eleven of the states authorize associations to purchase the shares of the Federal Home Loan Banks and five states permit the buying of the shares of other savings and loan associations of the same state.

To summarize, the observer is inclined to ask whether the differences in investment standards from state to state may be due to widely ranged conceptions among state regulators of the nature of the responsibilities of the institutions. Is the conflict only apparent, with the basis of differing standards founded in the view that there can be many successful standards? However, would not this observation have more foundation if the differences in standards were primarily between the classes of financial institutions? On the other hand, with the differences within any one class of financial institutions so substantial, is there not a basis for concluding that the conflicts have substance? Can the conflict be attributed to the influence of the state
administrators, who differ in qualifications, experience, and degree of political interference in administration?

In the following chapter, aspects of whether the purposes of the regulations are achieved will be looked for in some records of performance under the statutes. An effort will be made in the fourth chapter of this study to approach these questions by looking at who the administrators are and what they see as their assignment.
Chapter III

SOME ASPECTS OF THE RECORD OF PERFORMANCE

A. The Investment Losses of Savings Banks. Over the years the savings banks have desired to maintain a record of safety of deposits and their goal has been achieved substantially. From 1864, the first known date of any losses, to the present time the aggregate losses are reported to have been $25 million after liquidations. The involved banks returned 80.7 cents on the dollar. During the depression period of 1930 through 1938 only thirteen of the savings banks had to close. These banks at the time of closing had combined deposits of $45 million and experienced losses of $7.5 million. Since 1938 there have been no losses from the closing of any mutual savings bank.¹ The loss record of savings banks was in marked contrast with the record of the commercial banks, for more than one-half the commercial banks closed as a result of the depression of the 1930's.

¹Letter to the writer from the National Association of Mutual Savings Banks, dated April 21, 1952.
We desire now to review the loss records of the two leading savings banks states, Massachusetts and New York. In Massachusetts, during the depression years of 1931 to 1936, the savings banks made 45.4% of the write-offs to be taken in the fifteen-year period of 1931 to 1945. However, during the same six-year period beginning in 1931, only 22.4% of the write-offs on foreclosed real estate were taken.¹ For securities there were current quotations on well-organized exchanges. Ordinarily it is not necessary to reduce book valuations in declining markets, but book values far in excess of market quotations are subject to serious question, particularly on defaulted or lower-grade issues. Securities quoted on exchanges reacted with the sharpest declines early in the depression, due in part, perhaps, to the fact that there was a market mechanism which could register public reaction in terms of a price. On the other hand, there was no organized market for real estate except for one initiated late in the depression in New York State. From a market standpoint, loans which are not in default frequently do not bear as close a relationship to real book value of assets as do security prices. Under these circumstances many loans did not give an indication of trouble until

¹Lintner, op. cit., p. 257.
late in the depression.\(^1\) Moreover, the savings bankers in many cases did not want to reveal the weakness inherent in some loans under depression conditions. They tried to limit the total amount of foreclosed property held and deferred foreclosures because the volume in the records so marked had become substantial. The consequence was the holding during the period 1935 to 1939 of a large volume of substandard mortgages. By this means the taking of losses was avoided and surplus was not reduced. The losses were actually taken at later periods, primarily in the early nineteen-forties.

It is recognized that the taking of some loss is inevitably a part of operating conditions in "normal" as well as in depressed cyclical periods. In connection with Massachusetts savings banks, Lintner made an analysis to show that if the savings banks of that state had started a policy in 1926 of setting aside out of earnings as a loss reserve \(0.9\%\) of the portfolio base the losses of the succeeding twenty years would have been covered.\(^2\) His analysis revealed in addition that during depressed times the savings bankers tended to dispose of their better assets first because the loss at the time of sale which would have had to be taken was relatively the

\(^1\)Ibid., p. 259.
\(^2\)Ibid., p. 339.
smallest. The effect on the bankers was an unwarranted souring on mortgages. It was further shown that the risks of losses on loans made early and in the middle period of a cycle are relatively smaller than for the loans made at the peak of the cycle.¹

In terms of a survey of the losses taken by Massachusetts savings banks in the fifteen year period of 1931 to 1945, mortgage losses were the source of three-fifths of all gross losses, but due to small recoveries accounted for three-fourths of the net losses on all assets. As indicated above, the losses on securities were taken early when the market had deteriorated greatly, but three-fifths of the loan losses were taken when the foreclosed properties were finally sold. The combined losses were one-third larger than the book surplus in 1930. Necessarily, the losses had to be taken out of net operating income. One-fifth of the net operating income was so consumed between 1930 and 1945. It followed as a matter of course that dividends fell off sharply until 1941. Dividends were 4.73% in 1930 but averaged only 1.77% in 1945.

We turn now to the State of New York to observe data on the loss records of savings banks in that state. The market values of the savings bank portfolios were less

¹Ibid., p. 343.
than the book values for every year except 1927 for the period from 1910 to 1938. In the depression-bottom year of 1932, the market value figure was 90.8% of book value.\(^1\) Unlike most commercial banks, the savings did not have to liquidate large parts of their bond holdings. The bond holdings had been increasing over the years and were comprised mainly of railroad bonds. The par value of bond investments in 1910 was $700 million, in 1920 was $1,300 million, and in 1930 was $1,800 million.\(^2\) The pressure to dispose of ineligible bonds was alleviated in part by the action taken in 1931 by the Superintendent of Banking declaring a moratorium on the one and one-half times-interest-earned requirement for railroad bonds.

For mortgage loans, on the other hand, the experience in New York was similar to that in Massachusetts. Foreclosures were delayed and reached a peak in 1937. As the depression had deepened, it had become more difficult to dispose of real estate. By 1937 the foreclosures embraced 14% of the mortgage loans on the books. The effect upon the New York savings bankers was to bring greater caution in the making of loans through the use of more scientific appraisals, more adequate facilities to service mortgages, the development of agencies to handle fore-

\(^{1}\) Welfling, op. cit., p. 133.

\(^{2}\) Ibid., p. 113.
closed real estate, and an increased interest and emphasis in bonds.\(^1\) The over-all investment effect of the depression of 1929 to 1935 was a shifting from mortgage loans to bonds.\(^2\)

Speaking for the savings banks of New York State, the Savings Banks Association of the State of New York indicated that during the depression of the 1930's, the examiners, on behalf of the Banking Department, frequently recommended that reserves be set up against securities which had been removed from the legal list or that they be written down to some reasonable basis. In some cases the Banking Department also recommended that the banks dispose of such securities. When possible to do so, the savings banks held the securities for a more favorable market.\(^3\)

In Chapter IV of this study, a description will be given of the replies from fifty-three savings banks to a questionnaire sent to the savings banks of New York. After receiving the replies, observation was made of which sources volunteered additional information. A personal letter was sent to twenty of these savings banks inquiring about their loss histories in the nineteen-

\(^1\)Ibid., p. 110.
\(^2\)Ibid., p. 80.
\(^3\)Letter to the writer from the Savings Banks Association of the State of New York, March 28, 1952.
thirties, whether the losses were real or paper losses, and whether the losses had their source primarily in real estate loans. The answers given by the fourteen replying indicate clearly that there were losses and that they were not paper losses. Some refer primarily to losses from securities, as note the following excerpts.

"I can assure you that all of us had some losses which arose during that period. Such losses were taken care of either by an actual loss by sale or by charge-offs on the book value through the profit and loss account. Indeed many of these were on investments which had become ineligible, although they were on previous legal lists." ¹

"These losses were genuine losses by reason of the fact that not only were we advised by the supervisory bodies to dispose of sub-standard assets during that period, but we also felt that they were in too great volume to hold for eventual recovery. Had we the foresight or the resources to write down the securities turned ineligible to a nominal amount and carry them until the investment and real estate market improved, it appears that we would not have suffered any loss." ²

"The savings banks in New York State did suffer severe losses during the depression years of the early 1930's. These were not paper losses, but actual losses. Our bank suffered some very heavy losses in the rail bonds which were on the legal list and classified as being in the AAA category in the early teens, but became ineligible and our Banking Department insisted that they be sold. As for our real estate loans, we suffered very heavy losses, not only in our own city, but on loans which were held in the metropolitan area. Fortunately, our bank was in a very strong position and was able to

¹Letter from Eastchester Savings Bank, Mount Vernon, New York, dated April 18, 1952.

²Letter from Queens County Savings Bank, Flushing, New York, dated April 7, 1952.
survive without any great injury.\textsuperscript{1}

Other replies emphasized their real estate losses, as can be noted from the following excerpts.

"We suffered a loss of $34,000 on disposition of real estate taken by foreclosure. This, we feel, was due to constant pressure by the Banking Department. If we had been allowed to carry these properties into the present boom we could have experienced a handsome profit instead of a loss.\textsuperscript{2}"

"Savings banks did take losses in the 1930's only when they were obliged to have cash position. We did not experience losses in our investments except through real estate loans. Our position was such that we held our investments until profits or par was obtained. Investments turned ineligible could have been held until liquidated without loss, if permission was obtained. This was the procedure in most cases. However, some banks did take actual losses. Our greatest losses were mostly real estate loans gone sour, together with a buyer's resistance for real estate.\textsuperscript{3}"

Another banker stated that the banks with which he was acquainted experienced their greatest losses in loans. However, a large number of savings banks lost cash deposits in commercial banks which closed.\textsuperscript{4}

\textbf{Summary.} Most savings bankers, for public relations purposes, attempted to minimize their losses during the

\begin{itemize}
\item \textsuperscript{1}Letter from Cohoes Savings Bank, Cohoes, New York, dated April 3, 1952.
\item \textsuperscript{2}Letter from Walden Savings Bank, Walden, New York, dated April 7, 1952.
\item \textsuperscript{3}Letter from Peoples Savings Bank of Yonkers New York, Yonkers, New York, dated April 14, 1952.
\item \textsuperscript{4}Letter from Jamaica Savings Bank, Jamaica, New York, dated April 16, 1952.
\end{itemize}
depression of the nineteen-thirties. Perhaps in some cases steps were taken to cover up losses. There appears to have been a difference in treatment of the loss problem between state administrators and bank managers. The local managers attempted to hold bonds and mortgages without adjusting their paper losses to show real losses in their accounting records with the hope that better economic conditions would restore the weak investments to acceptable condition. On the other hand, the state administrators frequently compelled the taking of losses on bonds because there was an organized market reflecting value in terms of price and the prices at times were very low. As long as interest was paid on mortgages, however, no adjustments from face values were forced upon the bank managers. In the latter cases, there was no market to reflect value. While it is true that in New York a central market for the purchase of mortgages was provided in the establishment of the Institutional Securities Corporation, the marketing service of the Corporation was primarily a means of aiding banks to improve cash position rather than to indicate value. The taking of real losses was deferred until a much later period.
B. The Record of Performance of the 1928 Legal List for New York Savings Banks.

Security Removals from 1928 to 1951. As we have observed in the previous section, the savings banks did experience substantial investment losses during the severe testing period of the nineteen-thirties. For decades the states had attempted to regulate the investments of this institutional group with the goal of a careful preservation of the invested deposits. In New York State, as applied to securities, the management element of investment was presumed to be minimized, for the savings bankers had no alternative but to purchase securities from a legal list selected for them. There is nothing stated in the statutes or in banking regulations other than that the savings bank portfolio be maintained in conformity with the legal list.

From time to time the state banking authorities make deletions from as well as additions to the legal list. We are now interested to observe what security removals from the 1928 list were made during the period of 1928 through 1951. This period was chosen in order to reflect the effects of moving into depressed economic conditions and, subsequently, through war economy and inflation conditions.

By reference to Table 12, we can observe how many of the corporate securities in the 1928 legal list remained
Table 12

COMPARISON OF THE NUMBER OF PARTICULAR CORPORATE SECURITY ISSUES IN THE 1928 LEGAL LIST FOR NEW YORK SAVINGS BANKS REMAINING IN THE LIST IN 1951

<table>
<thead>
<tr>
<th>Classification</th>
<th>1928</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railroad bonds</td>
<td>275</td>
<td>11</td>
</tr>
<tr>
<td>Railroad equipment trust certificates</td>
<td>87</td>
<td>0</td>
</tr>
<tr>
<td>Electric and gas bonds</td>
<td>145</td>
<td>4</td>
</tr>
<tr>
<td>Telephone bonds</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>523</td>
<td>17</td>
</tr>
</tbody>
</table>

in the list during the period closing in 1951. The legal lists for this period were obtained from the Superintendent of Banks in New York. The securities were traced through the annual lists to ascertain the year in which the particular securities were removed. An investigation was then made in Moody's Manuals to determine whether the removal had its source in the maturing, refunding, or calling of the security. If these were not the sources it was concluded that the removal was due to action of the Superintendent of Banking finding the security non-legal.
No treatment is attempted here for the three hundred sixty-eight issuers of securities for municipalities and sundry governmental units. In the legal lists only the names of the issuers and not the specific detail of the
issued securities are supplied. Only seventeen of the five hundred twenty-three corporate securities remained in the published legal list of 1951. Of those remaining there were eleven of two hundred seventy-five bonds, none of the eighty-seven railroad equipment trust certificates, four of the one hundred forty-five electric and gas bonds, and two of the sixteen telephone bonds. The practical effect, therefore, was the nearly complete removal of the original group of corporate securities from the legal list during the twenty-three year span.

Table 13

CORPORATE SECURITIES WITHDRAWN FROM THE 1928 LEGAL LIST FOR NEW YORK SAVINGS BANKS DURING THE PERIOD 1928 to 1951

<table>
<thead>
<tr>
<th>Classification</th>
<th>Number Remaining in 1951</th>
<th>Number Matured</th>
<th>Number Called or Refunded</th>
<th>Number Turned Non-Legal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railroad bonds</td>
<td>11</td>
<td>81</td>
<td>8</td>
<td>175</td>
</tr>
<tr>
<td>Railroad equipment trust cert's.</td>
<td>0</td>
<td>33</td>
<td>26</td>
<td>23</td>
</tr>
<tr>
<td>Electric and gas bonds</td>
<td>4</td>
<td>19</td>
<td>91</td>
<td>31</td>
</tr>
<tr>
<td>Telephone bonds</td>
<td>2</td>
<td>3</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

The information given above becomes more significant when we observe the specific reasons for removal from the
legal list. The reasons are given in Table 13. Eighty-one railroad bonds matured, eight were called or refunded, and one hundred seventy-five turned non-legal. The experience with the railroad equipment trust certificates was somewhat different. Of the eighty-seven securities in the original list, thirty-three matured, twenty-six were called or refunded, and twenty-eight turned non-legal. One hundred forty-one of the one hundred forty-five electric and gas bonds in the 1928 list were removed by 1951. Nineteen matured, ninety-one were called or refunded, and thirty-one turned non-legal. In the case of telephone bonds, three matured, seven were called or refunded, and four turned non-legal.

In Table 14, the information given in Table 13 has been combined and expressed as percentages. The column, "Per Cent Removed By Issuer", refers to matured, called, or refunded bonds. The intermediate maturity characteristic of equipment trust certificates appears to be the basis for the relatively large percentage, 67.8, of certificates which were removed by the issuer. On the other hand, the still larger number of electric and gas bonds which were removed by the issuer, 75.9%, probably had much of its origin in the better credit status of utility as opposed to railroad bonds and, in turn, the better opportunities to replace existing bonds with issues
Table 14
CORPORATE SECURITIES WITHDRAWN FROM THE 1928 LEGAL LIST FOR NEW YORK SAVINGS BANKS DURING THE PERIOD 1928 TO 1951
(per cent of the number in the 1928 list)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Per Cent Remaining in 1951</th>
<th>Per Cent Removed By Issuer</th>
<th>Per Cent Turned Non-Legal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railroad bonds</td>
<td>4.0</td>
<td>32.4</td>
<td>63.6</td>
</tr>
<tr>
<td>Railroad equipment trust cert's.</td>
<td>0.0</td>
<td>67.8</td>
<td>32.2</td>
</tr>
<tr>
<td>Electric and gas bonds</td>
<td>2.7</td>
<td>75.9</td>
<td>21.4</td>
</tr>
<tr>
<td>Telephone bonds</td>
<td>12.5</td>
<td>62.5</td>
<td>25.0</td>
</tr>
</tbody>
</table>

carrying lower coupons. This is true, also, for the telephone bonds.

In contrast with the fact that 63.6% of the railroad bonds turned non-legal it is noted that only a fourth or less of the utility bonds turned non-legal. From Table 15 we can observe that the number of years until the railroad bonds turning non-legal were so classified was under a very irregular pattern. In 1932, 22.3% of the railroad bonds in the 1928 list were removed because the bonds failed to meet the statutory tests. This number would have been much larger had the Superintendent of Banking not suspended some of the requirements. When the
Table 15

NUMBER OF YEARS AFTER 1928 UNTIL RAILROAD BONDS IN THE NEW YORK SAVINGS BANK LEGAL LIST TURNED NON-LEGAL

<table>
<thead>
<tr>
<th>Number of Years</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.0</td>
</tr>
<tr>
<td>2</td>
<td>0.0</td>
</tr>
<tr>
<td>3</td>
<td>0.0</td>
</tr>
<tr>
<td>4</td>
<td>22.3</td>
</tr>
<tr>
<td>5</td>
<td>1.1</td>
</tr>
<tr>
<td>6</td>
<td>0.0</td>
</tr>
<tr>
<td>7</td>
<td>8.0</td>
</tr>
<tr>
<td>8</td>
<td>0.0</td>
</tr>
<tr>
<td>9</td>
<td>1.7</td>
</tr>
<tr>
<td>10</td>
<td>62.9</td>
</tr>
<tr>
<td>11</td>
<td>3.4</td>
</tr>
<tr>
<td>12</td>
<td>.6</td>
</tr>
<tr>
<td>13</td>
<td>0.0</td>
</tr>
<tr>
<td>14</td>
<td>0.0</td>
</tr>
<tr>
<td>15</td>
<td>0.0</td>
</tr>
<tr>
<td>16</td>
<td>0.0</td>
</tr>
<tr>
<td>17</td>
<td>0.0</td>
</tr>
<tr>
<td>18</td>
<td>0.0</td>
</tr>
<tr>
<td>19</td>
<td>0.0</td>
</tr>
<tr>
<td>20</td>
<td>0.0</td>
</tr>
<tr>
<td>21</td>
<td>0.0</td>
</tr>
<tr>
<td>22</td>
<td>0.0</td>
</tr>
<tr>
<td>23</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Suspension was lifted in 1938 the large number of bonds that should have been removed in 1932 were classified as non-legal. During the intervening years the railroads had not been able to put their financial houses in order to meet the required credit tests for legality. These were the underlying circumstances for the large figure of 62.9% which were classified as non-legal in 1938.
Market prices of corporate securities from 1928 to 1950. While it is true that the statutes divest the state banking authorities from direct responsibility and management for a savings bank's portfolio, it is clear that the legal list of 1928, lacking as it did the breadth of the lists of recent years, did confine management's hand closely. The legal lists have not been presented as a guarantee for the safety of the investments of the regulated institutions, but the securities in the list are presumed to be approved by the authorities as of high quality until they are classified by them as non-legal. This is true even though the statutes state that the list is not to be regarded as a complete and infallible guide. The content of many of the tests for legality referred to in Chapter II are likewise the elements frequently employed by the buyers and sellers in the bond markets. In contrast, however, the bond markets reflect an up-to-date judgment. Under unfavorable conditions it could frequently be the case that by the time the authorities classed a security as non-legal the management of a savings bank would be placed in a selling position which would be disadvantageous. It is now our purpose to review a portion of this system as it has operated.

As an experiment it is desired that consideration be given only to the price factor, omitting the element of management. The purpose of the survey is to attempt to
answer the question—if corporate securities are purchased in 1928 from the 1928 legal list for savings banks and held until the securities matured, were called or refunded, or until they were classified as non-legal, what would have been the price consequences?

Yearly low quotations were not available for all of the railroad bonds of the four classes referred to in Table 13. Most of the railroad bonds turned non-legal, however, were quoted throughout the survey period of 1928 through 1950. After these securities were classified as non-legal they were not generally refunded for lower coupon issues as was frequently the case with the securities which continued to carry the legality status. The quotations were obtained from Moody's Manuals in the 1929 through 1951 publications.

In Table 16 a comparison is made of the yearly low prices of railroad bonds in the New York savings bank legal list for 1928 with the yearly low prices of the Dow-Jones index for ten high-grade railroad bonds. In all three columns the prices have been compiled in each case into an average. In the first column the average represents the average yearly low prices for fifty-eight railroad bonds in the 1928 legal list. Of the fifty-eight, twenty-six are included also within the group of one hundred sixty-two railroad bonds which turned non-legal subsequent to 1928. The Dow-Jones index for ten high-grade
Table 16

COMPARISON OF THE YEARLY LOW PRICES OF TWO GROUPS OF RAILROAD BONDS IN THE 1928 SAVINGS BANK LEGAL LIST FOR NEW YORK WITH THE YEARLY LOW PRICES OF THE DOW-JONES TEN HIGH-GRADE RAILS (average dollar prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mixed Group 58 Railroad Bonds</th>
<th>162 Non-Legal Railroad Bonds</th>
<th>Dow-Jones 10 High-Grade Railroad Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>94.43</td>
<td>94.09</td>
<td>91.64</td>
</tr>
<tr>
<td>1929</td>
<td>89.63</td>
<td>90.04</td>
<td>88.31</td>
</tr>
<tr>
<td>1930</td>
<td>92.50</td>
<td>91.16</td>
<td>89.51</td>
</tr>
<tr>
<td>1931</td>
<td>73.34</td>
<td>76.23</td>
<td>79.77</td>
</tr>
<tr>
<td>1932</td>
<td>56.32</td>
<td>59.30</td>
<td>71.37</td>
</tr>
<tr>
<td>1933</td>
<td>65.60</td>
<td>63.65</td>
<td>80.35</td>
</tr>
<tr>
<td>1934</td>
<td>80.67</td>
<td>75.83</td>
<td>90.81</td>
</tr>
<tr>
<td>1935</td>
<td>87.00</td>
<td>79.66</td>
<td>103.97</td>
</tr>
<tr>
<td>1936</td>
<td>94.53</td>
<td>84.51</td>
<td>107.99</td>
</tr>
<tr>
<td>1937</td>
<td>88.44</td>
<td>77.71</td>
<td>100.84</td>
</tr>
<tr>
<td>1938</td>
<td>71.00</td>
<td>60.69</td>
<td>83.56</td>
</tr>
<tr>
<td>1939</td>
<td>74.52</td>
<td>61.51</td>
<td>88.55</td>
</tr>
<tr>
<td>1940</td>
<td>72.94</td>
<td>57.13</td>
<td>86.76</td>
</tr>
<tr>
<td>1941</td>
<td>76.70</td>
<td>60.55</td>
<td>89.54</td>
</tr>
<tr>
<td>1942</td>
<td>77.44</td>
<td>61.48</td>
<td>89.02</td>
</tr>
<tr>
<td>1943</td>
<td>80.91</td>
<td>68.01</td>
<td>92.65</td>
</tr>
<tr>
<td>1944</td>
<td>88.16</td>
<td>74.57</td>
<td>102.14</td>
</tr>
<tr>
<td>1945</td>
<td>104.69</td>
<td>83.42</td>
<td>112.56</td>
</tr>
<tr>
<td>1946</td>
<td>101.93</td>
<td>84.68</td>
<td>109.21</td>
</tr>
<tr>
<td>1947</td>
<td>92.94</td>
<td>77.26</td>
<td>100.61</td>
</tr>
<tr>
<td>1948</td>
<td>95.28</td>
<td>86.09</td>
<td>100.55</td>
</tr>
<tr>
<td>1949</td>
<td>92.51</td>
<td>83.47</td>
<td>101.35</td>
</tr>
<tr>
<td>1950</td>
<td>93.90</td>
<td>86.98</td>
<td>101.88</td>
</tr>
</tbody>
</table>
railroad bonds was the only known index which supplied the yearly low that was needed for comparison purposes. While it is true in terms of Moody's bond ratings in 1928 that the bonds contained in the legal list would carry ratings in the upper medium as well as the high-grade group according to a spot check, the state banking authorities for the purposes of the legal list considered the bonds high-grade.

From reading Table 16 we observe that the mixed group of bonds carried higher prices than the non-legal group in twenty of the twenty-three years. The margin was as high as 16.27 points. In the first two years the non-legal group carried higher prices than the Dow-Jones group. However, by 1932 the non-legal group was much lower and remained lower thereafter through 1950 by a span of from twelve to twenty-nine points. In 1932 the mixed group fared worse than either the non-legals or the Dow-Jones groups. This status changed after 1932. The mixed group carried higher prices thereafter through 1950, with prices more than half way between the non-legals and Dow-Jones groups.

The purpose of Table 17 is to present data to show the potential loss in any year in the event the securities purchased in 1928 were sold. The data for the years subsequent to 1928 are expressed as percentages. The figures shown in Table 16 in the second and third columns have
Table 17

COMPARISON OF YEARLY LOW PRICES AFTER 1928 WITH THE 1928 PRICE TO DETERMINE POTENTIAL LOSS

<table>
<thead>
<tr>
<th>Year</th>
<th>162 Non-Legal Railroad Bonds in 1928 New York Savings Bank Legal List (per cent)</th>
<th>Dow-Jones 10 High-Grade Railroad Bonds (per cent)</th>
<th>Loss Margin (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>100.00</td>
<td>100.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1929</td>
<td>95.70</td>
<td>96.91</td>
<td>1.21</td>
</tr>
<tr>
<td>1930</td>
<td>96.89</td>
<td>99.91</td>
<td>3.02</td>
</tr>
<tr>
<td>1931</td>
<td>81.02</td>
<td>87.16</td>
<td>6.14</td>
</tr>
<tr>
<td>1932</td>
<td>63.02</td>
<td>78.97</td>
<td>15.95</td>
</tr>
<tr>
<td>1933</td>
<td>67.65</td>
<td>87.71</td>
<td>20.06</td>
</tr>
<tr>
<td>1934</td>
<td>80.59</td>
<td>99.09</td>
<td>18.50</td>
</tr>
<tr>
<td>1935</td>
<td>84.66</td>
<td>113.56</td>
<td>28.90</td>
</tr>
<tr>
<td>1936</td>
<td>89.82</td>
<td>117.94</td>
<td>28.12</td>
</tr>
<tr>
<td>1937</td>
<td>82.59</td>
<td>110.39</td>
<td>27.80</td>
</tr>
<tr>
<td>1938</td>
<td>64.50</td>
<td>91.18</td>
<td>26.68</td>
</tr>
<tr>
<td>1939</td>
<td>65.37</td>
<td>96.63</td>
<td>31.26</td>
</tr>
<tr>
<td>1940</td>
<td>60.72</td>
<td>94.67</td>
<td>33.95</td>
</tr>
<tr>
<td>1941</td>
<td>64.35</td>
<td>97.82</td>
<td>33.47</td>
</tr>
<tr>
<td>1942</td>
<td>65.34</td>
<td>97.25</td>
<td>31.91</td>
</tr>
<tr>
<td>1943</td>
<td>72.28</td>
<td>101.10</td>
<td>28.82</td>
</tr>
<tr>
<td>1944</td>
<td>79.25</td>
<td>111.46</td>
<td>32.21</td>
</tr>
<tr>
<td>1945</td>
<td>93.97</td>
<td>122.83</td>
<td>28.86</td>
</tr>
<tr>
<td>1946</td>
<td>90.00</td>
<td>119.17</td>
<td>29.17</td>
</tr>
<tr>
<td>1947</td>
<td>82.11</td>
<td>109.80</td>
<td>27.69</td>
</tr>
<tr>
<td>1948</td>
<td>91.50</td>
<td>109.73</td>
<td>18.23</td>
</tr>
<tr>
<td>1949</td>
<td>88.71</td>
<td>110.59</td>
<td>21.88</td>
</tr>
<tr>
<td>1950</td>
<td>92.44</td>
<td>111.17</td>
<td>18.73</td>
</tr>
</tbody>
</table>
been divided into the 1928 price to ascertain the price percentages which the prices for those years bear to the starting year, 1928. The largest loss margin was not in the depression year of 1932, but was in 1940. Except for the first two or three years after 1928 the sale of the securities would have entailed very substantial losses.

In Tables 18 and 19 price data on utility bonds similar to that given above in Tables 13 and 14 on railroad bonds are presented. During the survey period of 1928 through 1950, twenty-five of the thirty-two utility bonds were called or refunded after becoming non-legal and substitutions were made of securities carrying the same rating. In this discussion utility bonds refers to both electric and gas bonds and telephone bonds. Also, it can be recalled from Chapter II that utility bonds were not included in the legal list until 1928. This may have had an influence both upon the limited number and their high quality.

From Table 18 we note that the prices of the non-legal utilities were higher in all years than the prices of the Dow-Jones utilities. The span was from 2.73 to 11.06 points higher. This price pattern was in contrast with the railroad bond price pattern, in which latter case the non-legals were generally priced below the Dow-Jones railroad bonds.
Table 18

Comparison of the Yearly Low Prices of Non-Legal Utility Bonds in the 1928 Savings Bank Legal List for New York with the Yearly Low Prices of the Dow-Jones Ten High-Grade Utility Bonds (average dollar prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>32 Non-Legal Utility Bonds</th>
<th>Dow-Jones 10 High-Grade Utility Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>101.95</td>
<td>95.32</td>
</tr>
<tr>
<td>1929</td>
<td>98.80</td>
<td>90.16</td>
</tr>
<tr>
<td>1930</td>
<td>99.47</td>
<td>91.22</td>
</tr>
<tr>
<td>1931</td>
<td>95.56</td>
<td>85.99</td>
</tr>
<tr>
<td>1932</td>
<td>91.32</td>
<td>82.50</td>
</tr>
<tr>
<td>1933</td>
<td>91.80</td>
<td>85.75</td>
</tr>
<tr>
<td>1934</td>
<td>96.21</td>
<td>91.54</td>
</tr>
<tr>
<td>1935</td>
<td>107.46</td>
<td>99.94</td>
</tr>
<tr>
<td>1936</td>
<td>111.75</td>
<td>104.91</td>
</tr>
<tr>
<td>1937</td>
<td>108.17</td>
<td>100.91</td>
</tr>
<tr>
<td>1938</td>
<td>110.91</td>
<td>101.41</td>
</tr>
<tr>
<td>1939</td>
<td>110.10</td>
<td>104.14</td>
</tr>
<tr>
<td>1940</td>
<td>113.73</td>
<td>105.18</td>
</tr>
<tr>
<td>1941</td>
<td>114.53</td>
<td>107.66</td>
</tr>
<tr>
<td>1942</td>
<td>111.92</td>
<td>107.81</td>
</tr>
<tr>
<td>1943</td>
<td>118.10</td>
<td>109.33</td>
</tr>
<tr>
<td>1944</td>
<td>117.50</td>
<td>108.67</td>
</tr>
<tr>
<td>1945</td>
<td>115.07</td>
<td>104.01</td>
</tr>
<tr>
<td>1946</td>
<td>114.21</td>
<td>106.59</td>
</tr>
<tr>
<td>1947</td>
<td>107.97</td>
<td>100.87</td>
</tr>
<tr>
<td>1948</td>
<td>106.55</td>
<td>100.90</td>
</tr>
<tr>
<td>1949</td>
<td>105.58</td>
<td>102.85</td>
</tr>
<tr>
<td>1950</td>
<td>107.84</td>
<td>103.59</td>
</tr>
</tbody>
</table>
Table 19

COMPARISON OF YEARLY LOW PRICES AFTER 1928 WITH THE 1928 PRICE TO DETERMINE POTENTIAL GAIN OR LOSS

<table>
<thead>
<tr>
<th>Year</th>
<th>32 Non-Legal Utility Bonds in 1928 New York Savings Bank Legal List (per cent)</th>
<th>Dow-Jones 10 High-Grade Utility Bonds (per cent)</th>
<th>Gain or Loss Margin (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>100.00</td>
<td>100.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1929</td>
<td>96.91</td>
<td>94.09</td>
<td>+2.82</td>
</tr>
<tr>
<td>1930</td>
<td>97.57</td>
<td>95.20</td>
<td>+2.37</td>
</tr>
<tr>
<td>1931</td>
<td>93.54</td>
<td>89.74</td>
<td>+3.80</td>
</tr>
<tr>
<td>1932</td>
<td>89.57</td>
<td>86.10</td>
<td>+3.47</td>
</tr>
<tr>
<td>1933</td>
<td>90.04</td>
<td>89.49</td>
<td>+0.55</td>
</tr>
<tr>
<td>1934</td>
<td>94.37</td>
<td>95.53</td>
<td>-1.16</td>
</tr>
<tr>
<td>1935</td>
<td>105.40</td>
<td>104.30</td>
<td>+1.10</td>
</tr>
<tr>
<td>1936</td>
<td>109.61</td>
<td>109.49</td>
<td>+0.12</td>
</tr>
<tr>
<td>1937</td>
<td>106.10</td>
<td>105.31</td>
<td>+0.79</td>
</tr>
<tr>
<td>1938</td>
<td>108.79</td>
<td>105.83</td>
<td>+2.96</td>
</tr>
<tr>
<td>1939</td>
<td>107.99</td>
<td>108.68</td>
<td>-0.69</td>
</tr>
<tr>
<td>1940</td>
<td>111.55</td>
<td>109.77</td>
<td>+1.78</td>
</tr>
<tr>
<td>1941</td>
<td>112.14</td>
<td>112.36</td>
<td>-0.24</td>
</tr>
<tr>
<td>1942</td>
<td>109.78</td>
<td>112.51</td>
<td>-2.73</td>
</tr>
<tr>
<td>1943</td>
<td>115.84</td>
<td>114.62</td>
<td>+1.22</td>
</tr>
<tr>
<td>1944</td>
<td>115.06</td>
<td>113.41</td>
<td>+1.65</td>
</tr>
<tr>
<td>1945</td>
<td>112.87</td>
<td>108.55</td>
<td>+4.32</td>
</tr>
<tr>
<td>1946</td>
<td>112.03</td>
<td>111.24</td>
<td>+0.79</td>
</tr>
<tr>
<td>1947</td>
<td>105.90</td>
<td>105.27</td>
<td>+0.63</td>
</tr>
<tr>
<td>1948</td>
<td>104.32</td>
<td>105.30</td>
<td>-0.96</td>
</tr>
<tr>
<td>1949</td>
<td>106.50</td>
<td>107.34</td>
<td>-0.84</td>
</tr>
<tr>
<td>1950</td>
<td>105.78</td>
<td>108.11</td>
<td>-2.33</td>
</tr>
</tbody>
</table>
The purpose of Table 19 is to show the potential gain or loss in any year in the event the securities purchased in 1928 were sold. The figures are percentages of the 1928 figure at the top of the column in each case. For purposes of comparison it is assumed that the legal list group would not have had a higher price record than the Dow-Jones group. The prices of the non-legals were higher than the prices of the Dow-Jones group in fifteen of the twenty-two years. The span was 2.73 less to 4.32 points more than the Dow-Jones group.

Summary. Five hundred and six of the five hundred and twenty-three corporate securities in the New York Savings Bank legal list of 1928 were removed from the list by 1951. In the case of railroad bonds, 32.4% were removed by the issuer by calling, refunding, or maturing, and 63.6% turned non-legal. The reverse was true for the electric and gas bonds because 75.9% were removed by the issuer and 21.4% turned non-legal.

Most of the railroad bonds which became non-legal would have received such a reclassification status in 1932 if the Superintendent of Banking had not suspended some of the legality requirements. Under these circumstances 22.3% turned non-legal in 1932 and 62.9% in 1938 when the suspension was lifted.

For this study the statutory tests for legality were
not made year by year to check the action of the Superintendent of Banking in his retention or reclassification of securities from the legal list. Prices were surveyed as an aspect of performance primarily to check the success of the legal list system in maintaining the safety of the invested deposits. To conduct the survey it was assumed that the corporate securities in the legal list for 1928 were all purchased in that year and were held until they matured, were called or refunded, or until they were reclassified as non-legal in order to ascertain the price consequences. It was further assumed that a price pattern of a substantial number of securities deviating markedly lower from the price pattern of a separate group of high-grade securities would be tantamount to a failure to maintain safety.

In the case of the railroad bonds it appears that safety was not maintained, for nearly two-thirds of the bonds turned non-legal early in the test period. Moreover, there was a definitely lower price pattern of the non-legal group, both in comparison with a mixed group of legal bonds and also with a group of ten Dow-Jones high-grade railroad bonds. The greatest potential loss in any year would have derived from sale of the bonds at a value 33.95% lower than the price pattern of ten Dow-Jones high-grade railroad bonds in that year. In contrast, using these same standards, the record of the utility
bonds was one of safety. The price pattern of a group of utility bonds turned non-legal was higher in fifteen of the twenty-two years in the survey period than the pattern of ten Dow-Jones high-grade utility bonds.

In attaching significance to these data we are stimulated to inquire whether it is plausible that the price pattern of the ten Dow-Jones railroad bonds was more favorable than the price patterns of the legal list railroad groups because the former was made up of a smaller number of bonds? If this were true, how could the more favorable price behavior of the non-legal utility bonds be reconciled? Is there a basis for assuming that the lower prices of the non-legal railroad group were made lower by the market recognition of their reclassification status? Does the poor showing of the non-legal railroad group and the "normal" pattern of the non-legal utility group provide a basis for concluding that the hindsight methods used to test legality status cannot be counted upon to carry through in depression periods or any other periods of severe testing? Is it fair to conclude that the tests for legality were inadequate as judged by the fact that nearly two-thirds of the railroad bonds in the 1928 legal list lost their legality status? Perhaps more important, is there a relationship here in the fact that the non-legal railroad bonds suffered in terms of prices much more severely than did the Dow-Jones group, both in the depression and the war period of the early nineteen-forties?
Chapter IV

THE ADMINISTRATION OF THE LAWS GOVERNING
FINANCIAL INSTITUTIONS

A. The character of administrative policy, as reported by state administrators. There are numerous laws governing financial institutions, but compliance with and enforcement of them are not always in full accord with the lawmakers' purpose in setting up the statutes. The applicable statutes provide the procedural rules for the investment activities of the financial institutions. The purpose of this chapter, therefore, is to evaluate the administration of these laws. It is recognized that a full treatment of the problem of administration could be given only by an on-the-spot investigation from state to state over an extended period of time. In this study the approach to the problem of administration is threefold. A questionnaire was sent to the state administrators. Also, a sampling of the nature and purpose of the annual reports of the state administrators will be reviewed. In the third place, a questionnaire was sent to the local savings bank managers and their answers will be surveyed to ascertain the
reactions of those subject to the administrators.

The questionnaire for the state administrators was sent to the commissioner of banking in each of the forty-eight states. The mimeographed letters and questionnaires, specimens of which are given in Appendix-E, were addressed to that officer because it was known that the officers in charge of banking activities have also been charged with the responsibility for administering the laws governing the activities of some of the other basic financial institutions in many of the states. Due to the emphasis given in the second chapter of this study on the nature of the regulating statutes, questionnaires were sent to the state administrators of the other basic financial institutions than banking if the banking commissioner did not at the same time supervise these other classes of financial institutions. Under this plan, a total of sixty-one questionnaires were sent to the forty-eight states. In three states three questionnaires were sent and in two states two were sent. Forty-one replies were received from one or more administrators in thirty-five states. In five states, replies were received from two administrators; and in one state, replies were received from three administrators. In most cases the replies were given by the commissioner or the deputy commissioner. It is important to observe that some filled out only portions of the questionnaire and there was
considerable variation in the amount of information supplied.

The first information called for in the questionnaire was the title of the state regulatory officer for each of the primary classes of financial institutions—savings banks, trust companies, savings and loan associations, and life insurance companies. The replies are summarized in Table 20. The banking department or commissioner of banking in most of the states giving replies supervises the activities not only of the savings banks but also of trust companies and savings and loan associations. On the other hand, most states provide for a separate director of insurance. Whether a banking department can supervise properly the activities of all the financial agencies assigned to it will depend upon such factors as the scope of the statutes, the nature of the staff organization, the number and capacity of those on the regulating staff, and the cooperation of the agencies subject to the state administration. In addition to commercial banks, savings banks, and trust companies, the banking department is frequently charged with supervising industrial banks, credit unions, licensed lenders, licensed check cashers, and savings and loan associations.

The second question asked was whether any of the primary classes of financial institutions was governed by the "prudent man rule". According to the replies
### Table 20

**TITLE OF STATE REGULATORY OFFICER RESPONSIBLE FOR LEGAL INVESTMENTS**

<table>
<thead>
<tr>
<th></th>
<th>Savings Banks</th>
<th>Trust Companies</th>
<th>Savings &amp; Loans</th>
<th>Life Ins. Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Department or Commissioner or Director</td>
<td>15</td>
<td>19</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Insurance Commissioners or Director or Superintendent</td>
<td></td>
<td></td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>Building and Loan Commissioner or Superintendent</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Comptroller or Auditor</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>State Treasurer</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Commissioner of Department of Finance</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Secretary of State</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Commissioner of Banking and Insurance</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Corporation Commissioner</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>State Examiner</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

**Totals**

|                  | 21           | 27            | 29             | 29                  |

168
summarized in Table 21, the majority of the states have not established this method of self-controlled investment. However, a careful analysis made in 1951 by Mayo Adams Shattuck, nationally known authority on trusts, to which reference will be made below, reveals that twenty-nine states do have the "prudent man rule" for trust companies. It seems fair to conclude, therefore, that the replies to this question were too limited to be conclusive.

From the data given in Table 22, it can be observed that most institutions in the four primary classes are subject to an annual inspection of their investment portfolios. In an important minority of cases the investments are inspected twice annually. Three states review the investments of life insurance companies operating in
### Table 22

<table>
<thead>
<tr>
<th></th>
<th>Twice Annually</th>
<th>Less Than Annually</th>
<th>No Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td>16</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Trust Companies</td>
<td>24</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Savings and Loan</td>
<td>25</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Associations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td>13</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

their states less frequently than annually.

The fourth part of the questionnaire inquired whether the proof of conformity of the investment portfolio to the statutes rested upon the investing institutions. The data on this question are given in Table 23. Fourteen of the replies were in the affirmative and three were negative for savings banks, with nine indicating that there were no savings banks in their states. The replies for trust companies were twenty-one affirmative and two negative; for savings and loan associations seventeen affirmative and three negative. We can conclude from these data that by a substantial majority of replies the state supervisors maintain that the investing institutions must be able to demonstrate that their investments portfolios conform to the statutory provisions.
Table 23

RESPONSIBILITY UPON THE INSTITUTIONS FOR PROOF OF CONFORMITY OF PORTFOLIO

<table>
<thead>
<tr>
<th></th>
<th>States</th>
<th>No Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>Trust Companies</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>Savings and Loan Associations</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td>11</td>
<td>3</td>
</tr>
</tbody>
</table>

The next question inquired whether most institutions strive to conform to the requirements to the degree that the practical effect is self-administration. In this instance the replies were almost entirely in the affirmative, as can be noted from Table 24.

In dealing with the practical day to day problems of conducting an investment program, individual commitments must be watched for possible deviations from the fulfillment of portfolio objectives. Almost countless influences and events can be contributory to making an investment less attractive. The Savings Bank Association of the State of New York was asked about the relationship between ineligibility and the delays permitted to a savings bank in that state to take corrective steps. The Association
Table 24

INSTITUTIONAL CONFORMITY TO REQUIREMENTS RESULTING IN SELF-ADMINISTRATION

<table>
<thead>
<tr>
<th>Institution</th>
<th>Yes</th>
<th>No States</th>
<th>No Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td>17</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Trust Companies</td>
<td>22</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Savings and Loan Associations</td>
<td>20</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td>12</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

replied that in the nineteen-thirties the Banking Board removed certain securities from the legal list. Where a savings bank held in its portfolio such securities the examiner recommended that reserves be set up against them or that the book value be written down to some reasonable basis. The Banking Department in some cases recommended that such securities be sold, but permitted retention until the appearance of a more favorable market. Some states, as for example Connecticut and Maryland, permit the delay period to be as much as four years. The general replies on this matter from the state administrators

---

### Table 25

ADJUSTMENT PERIOD FOR AN INSTITUTION NEEDING TO PLACE INVESTMENTS IN CONFORMITY WITH THE LAW

<table>
<thead>
<tr>
<th>Reasonable Period</th>
<th>Specified by Regulating Officer</th>
<th>Immediately</th>
<th>No Inst.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td>14</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Trust Companies</td>
<td>18</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Savings and Loan Associations</td>
<td>15</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td>7</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

are given in Table 25. The question was, if any of an institution's investments do not conform to the law, how long is the institution given to adjust to conformity? The replies show that for savings banks fourteen grant a reasonable period of time to adjust to conformity; eight states reveal that the period is as specified by the regulating officer; and two states declare that the adjustment must be made forthwith upon completion of the bank examination. The replies for trust companies indicate a slightly heavier preponderance for a reasonable period of adjustment, while the replies for savings and loan associations were about the same as for savings banks. The replies for life insurance companies were too
limited to be conclusive.

Associated with the question on conformity was the inquiry on whether the examiners follow through, or, whether a case of non-conformity is turned over to the state regulatory officer. Thirty replies were received on this question. Four stated that the follow through is with the examiner, usually by a proper accounting adjustment at the time of the examination. Twenty-five states revealed that a non-conformity case is turned over to the state regulatory officer for him to follow through with more discretion and time. One administrator stated that responsibility is shared both by the examiner and the regulatory officer.

To summarize, in most states the banking department supervises the savings banks, trust companies, and the savings and loan associations. On the other hand, most states have a separate superintendent for the insurance department. Most states check the investment portfolios of institutions annually. In most states an institution must be able to show that its portfolio conforms to the statutes. State administrators generally agree that the result is self-administration by the institutions. In the event a portfolio needs to be adjusted, the majority of the states provide a reasonable period for the adjustment, but a substantial minority permit the period to be specified by the regulatory officer. The follow through
is usually by the regulatory officer rather than by the examiner.

**Annual reports.** As an additional effort to evaluate the character of state administration, annual reports were obtained from ten state banking departments and four insurance departments. With the prominent exception of the banking report for the State of New York, the banking and insurance department reports appeared to have for a basic purpose the fulfillment of a legislative requirement of filing an annual report. Several of the reports carried brief comments mentioning problems or policy matters. However, almost the entire content of most of the reports was statistical in nature. The financial operations of the institutions being supervised were given in detail. In many cases the entire annual report was made up of financial schedules without interpretative comment.

The data reveal the statistical trends and the condition at the time of reporting of the supervised institutions. In many cases the institutions supervised by the banking department included commercial banks, savings banks, trust companies, industrial banks, savings and loan associations, licensed lenders, credit unions, licensed check cashers, and provident loan associations. In some cases, progress reports on liquidations were included. The insurance department reports included financial
schedules of institutions covering such hazards as fire, marine, casualty, health, liability, mutual benefit, burial, and life. Perhaps the state legislatures are obtaining a greater insight into the very limited value of issuing annual reports that are entirely statistical, for two of the banking reports and one of the insurance reports were confined to a single-page, mimeographed, condensed financial reports, "in the interest of economy".

From among the available annual reports, the New York banking department annual report for 1951 appeared to be issued both in the interest of good administration and also to fulfill the required legislative purpose that a report must be filed annually. While condensed financial schedules are provided, adequate explanations and discussions are presented to show trends, policies, and problems. Problems discussed included branch banking and its extension, changing interest rates, the need for improved internal controls due to the increased trend in defalcations, and legislation providing broadened investment powers.

The New York banking report revealed the efforts of the savings bankers to broaden their branch banking powers. These efforts met determined opposition from the commercial banks. The Superintendent of Banks has been taking steps for an amicable settlement of the dispute.
Another conflict has been the disagreement between the Federal Home Loan Bank Board and the Superintendent of Banks of New York concerning the approval of branches for savings and loan associations. Over the protest of the Superintendent, the Board approved the establishment of four branches for federal savings and loan associations. The Superintendent is of the opinion that Congress should restrict the powers of the Board to approve branches for federal savings and loan associations.

The New York banking report indicated that during the year 1951 a growing number of commercial banks paid 2% on time deposits. This was an increase in the rate and served to wipe out the long standing differential between the rates paid by commercial banks and savings banks. In 1951 the savings banks were pressing the Superintendent to increase the rates permitted to be paid by them and thus restore the differential. In September, 1951, the Superintendent sent a questionnaire entitled "Questionnaire Regarding Auditing, Systems and Controls" to New York banks, trust companies, savings banks, and industrial banks. From the replies the Superintendent has been able to form the opinion that in the next few years improved internal audits and controls will be established in the institutions of that state. The Superintendent emphasizes that deposit insurance should not be regarded as a substitute for good banking, nor is surety bond
coverage a substitute for proper operating methods and adequate auditing.

The New York Banking Department was reported to be staffed by two hundred thirty-three employees, including one Superintendent, five deputy superintendents, one executive assistant, two realty consultants, eleven statisticians, two attorneys, fifty clerks and stenographers, one hundred sixty bank examiners, and one chauffeur. The salary range for these employees was from $2,070 to $17,890 per year as of March 31, 1952, and the average period of service of the principal staff members was eight years.¹

State supervisors function primarily to receive statistical information about financial operations of the supervised institutions. The compiling of this data and issuing of it as a report fulfills the legislative requirement that a report be filed with the governor or legislature. The statistics provide general information and have only general value.

On balance the real value of most of the annual reports stands in considerable question. It is doubtful whether financial statistics only are of practical value. Moreover, to give statistics only should hardly be the

¹Superintendent of Banks, State of New York, One Hundred First Annual Report, 1951, pp. 120-121.
basis for issuing a detailed report. Trends could be obtained from summary or condensed composite reports. If a person or a bank desired to have financial data concerning any one bank or agency it seems probable that more current reports would be available to him upon direct request. If the annual report would treat basic problems, its value could be as an educational mechanism for the institutions supervised, for the examiners are not likely to perform this function. It seems fair to state that unless the annual reports treat primary problems and policies the question remains whether the spirit of the legislative requirement is fulfilled, for the governor or legislature would not be informed on the really important matters simply by a presentation of statistics.

The character of administrative policy, as reported by officers of savings banks in the State of New York. The administration of the statutes should deal both with those responsible to see that the law is abided by and also with those subject to the law. We have noted in Chapter I that the savings banks have been the pace-setters. It is for this reason that savings banks as a class have been selected for this treatment of administrative policy. The volume of business and the number of banks makes New York one of the leading states and
that state has been selected as the one in which inquiry has been made. A specimen copy of the questionnaire is given in Appendix-F.

In selecting the savings banks in New York to which the questionnaires would be sent, use was made of Rand McNally's Bankers Directory, Final 1950 Edition. That source provides the information that there were at the time of assembly of the data for the Bankers Directory one hundred thirty-eight savings banks in the state. Two savings banks in each city were chosen if there were two or more in that city. The basis of choice was the largest and the smallest savings bank as determined by the reported total assets. In New York City there are a large number of savings banks, but questionnaires were sent to only six instead of two as in the case of other cities. The total number of questionnaires sent was seventy-nine. Replies were received from fifty-three, or 67%.

The first question asked was, "How frequently do the state examiners inspect your investment portfolio?" All replies indicated that the inspection was conducted once annually. One bank reported that the portfolio was inspected annually by examination and also annually by the making of a report to the Banking Department of the State of New York. While it is provided in the statutes that examinations are to be made at least annually by the State authorities, we were interested to learn whether the law
and the record were in accord.

Less unanimity was found in the answers to the question, "Is it your opinion that most New York savings banks so strive to conform to the legal list that the practical effect is self-administration?" An affirmative answer was given by 78% of those replying. Sixteen per cent replied in the negative and 6% gave no answer or simply referred to the statutes for the answer. One replied that the legal list is closely followed. Another stated that there was a modest deviation to the "prudent man rule". Still another bank replied that while a small percentage of assets could be invested in the non-legal category, there has been wide adherence to the legal list and that the practical effect has not been self-administration. One bank replied that without the limits established by the legal list the effect upon the quality of investments could only be conjectured. Another replied that while the majority of banks strive to conform, the legal list was very necessary due to the fact that even government bonds bear watching closely "for the most advantageous position". The majority of the bankers giving replies were of the opinion that New York savings banks try to conform to the legal list of that state so closely that the practical effect is self-administration.

The third question asked was, "If you have known of cases in which a savings bank was informed that some of
its investments did not conform to the law, what corrective steps were followed?" The answers given evidenced a general lack of experience in this area. To summarize the answers, 51% stated that incidents of this kind were not known by them; 43% stated that the bank either sold or was directed to sell the investment not conforming to the law. Of the remaining three banks, one stated that the matter would be pointed out to the bank. Another stated that the offender would be asked to prevent a recurrence. A third indicated that non-conformity was seldom experienced. In general comments, one banker stated that during the depression of the nineteen-thirties his bank held some railroad bonds that were classed as non-legal, but that the State Banking Department advised that sale be made at the bank's discretion. A similar comment was made by four other bankers, with the indication that a favorable market could be awaited before sale would have to be made. However, one banker indicated that if the book value of the non-legal security were written down no further enforcement attention would be placed upon the bank.

The next question asked was, "If sales are ordered, within what time limits must such sales be consummated?" As a consequence of the lack of experience in the area of the previous question, the answers to this question likewise were of only limited value. Forty-six per cent
replied with a question mark or else stated "not known". Twenty-one per cent replied that sale could be made within a reasonable period of time and 13% replied that sale could be made when the market was favorable. The reply from 12% of those answering was that no time limit is specified. Four per cent were of the opinion that sale should be made within four days, 2% thought sale should be made immediately, and 2% regarded disposition necessary within six months. In general comments the following were given. The authorities do not press for a general forcing of securities upon the market. One banker indicated that his only experience was with mortgage loans, in which cases the State Banking Department permitted waiting for more favorable conditions. Another banker stated that the pressure to make a sale will depend upon the financial strength of the bank.

In view of the wide expansion of the legal list for New York savings banks, particularly since 1949, as will be noted in further detail later in this chapter, there was a basis for being interested in learning the answer to the question, "Are you of the opinion that too many securities of good quality are omitted from the legal list?" While 2% gave no answer and 2% replied "perhaps", the great majority, 65%, supplied an affirmative answer. One banker qualified his reply by stating that he did not know how many good securities were omitted, but
certainly some were. On the other hand 31% gave a negative answer. One banker replied that the legal list as now constituted gives ample opportunity for the purchase of sufficient good securities as long as the investing bank holds an adequate supply of first mortgage loans. In general the officers of the replying savings banks are of the opinion that too many good securities are omitted from the legal list.

The next question asked was, "If the 'prudent man rule' were followed, is it probable that the investment return would be larger?" In this instance the answer was clear cut, for the replies of 87% were "yes" and only 5% answered "no". Four per cent stated "to some degree" and 4% failed to answer the question. A part of the same question was the inquiry, "If the 'prudent man rule' were followed, is it probable that the investment position would be just as dollar-safe as under the legal list?" Sixty per cent replied in the affirmative and 29% answered in the negative. Nine per cent indicated that it would be questionable and 2% failed to give an answer. In general comments the following are of interest. One banker was of the opinion that the investment would be just as dollar-safe under good supervision, or, as stated by others, if under proper management. Comments on the negative side included such statements
as, the legal list is ample for our needs, an alternative to the legal list might not be safe enough, and, the present system allows sufficient latitude unless equities are considered. We find in the answers to the two-fold question a general attitude that the investment return could be made larger by the establishment of the "prudent man rule", but considerably less assurance that under this system the investment position would be just as dollar-safe as under the legal list. Other comments gave reference to the equities bill pending before the legislature at the time the questionnaire was received (and since passed). Most bankers in preparing their replies had in mind the permission to buy common and preferred stocks rather than a wider inclusion in their investment opportunities of more bonds.

The final question presented was stated as follows. "Is the legal list broad enough for the vast amount of funds calling for investment?" The answers proved to be evenly divided. Forty-five per cent replied affirmatively, 45% replied in the negative, 8% indicated that the matter remained a question for them, and 2% failed to answer. To explain further their answers the bankers made the following comments. One banker stated that the legal list is being expanded rapidly in recent years and four others referred to the broader results which may come from the bill before the legislature. Another banker
was of the opinion that there should be less restriction on investments to meet present day changing conditions. One banker indicated that the savings banks should be permitted to buy preferred and common stocks. An upstate banker declared that the present legal list is broad enough for upstate banks but not for those in New York City.

The savings bankers of New York are of the opinion that their conformity to investment procedures has the practical effect of self-administration. The majority of the bankers had no experience of cases not conforming to the statutes. Most of the bankers thought that too many securities of good quality were omitted from the legal list. A strong majority were of the view that if the "prudent man rule" were followed the investment return would be larger. They had less assurance that the investment position would be just as dollar-safe. The savings bankers were about evenly divided on whether the legal list was broad enough for the volume of funds required to be invested.

B. Flexibility in Statutory Controls. Provisions for flexibility in the investment supply. Since 1941, individuals in the United States are reported to have been placing an average of $7 billion per year with life insurance companies, savings and loan associations, and
mutual savings banks.¹ Of this amount the excess not employed under contract outflow has been invested. On the other hand, the commitment of these funds must be made under conditions which are not as stable as the inflow. The total dollar volume of investments from which the primary classes of financial institutions can make selections will change even when the statutes remain fixed. During prosperity and rising earnings, the number of issues satisfying the statutory requirements tends to increase. This process is thrown into reverse during low income or falling earnings periods. Selected major sources providing the demand for funds can be observed in Table 26. The net increase or decrease in corporate long-term debt excludes intercorporate debt but includes mortgages and term loans of commercial banks. While such fundamental sources in the demand for funds as the federal government are omitted, the data supplied give a significant indication of the wide variability of the demand from year to year.

Changes in statutory requirements affect the supply of available investments. Influences upon the supply are the ebb and flow of demands for mortgage credit, the volume of new security issues having their source in capital

Table 26

SELECTED FACTORS IN THE DEMAND FOR INVESTMENT FUNDS, 1920-1950
(amounts in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Corporate Long-Term Debt</th>
<th>Non-corporate Mortgages</th>
<th>Net Debt of State and Local Governments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>$1.6</td>
<td>$3.4</td>
<td>$0.7</td>
<td>$5.7</td>
</tr>
<tr>
<td>1921</td>
<td>1.2</td>
<td>1.6</td>
<td>0.6</td>
<td>5.4</td>
</tr>
<tr>
<td>1922</td>
<td>0.6</td>
<td>1.4</td>
<td>1.2</td>
<td>3.2</td>
</tr>
<tr>
<td>1923</td>
<td>1.8</td>
<td>2.2</td>
<td>0.5</td>
<td>4.5</td>
</tr>
<tr>
<td>1924</td>
<td>2.3</td>
<td>1.5</td>
<td>0.8</td>
<td>4.6</td>
</tr>
<tr>
<td>1925</td>
<td>1.2</td>
<td>2.5</td>
<td>1.0</td>
<td>4.7</td>
</tr>
<tr>
<td>1926</td>
<td>2.0</td>
<td>2.8</td>
<td>0.7</td>
<td>5.5</td>
</tr>
<tr>
<td>1927</td>
<td>2.7</td>
<td>3.0</td>
<td>0.8</td>
<td>6.5</td>
</tr>
<tr>
<td>1928</td>
<td>1.7</td>
<td>2.8</td>
<td>0.3</td>
<td>5.3</td>
</tr>
<tr>
<td>1929</td>
<td>1.2</td>
<td>1.4</td>
<td>0.9</td>
<td>3.5</td>
</tr>
<tr>
<td>1930</td>
<td>3.8</td>
<td>0.8</td>
<td>0.9</td>
<td>5.5</td>
</tr>
<tr>
<td>1931</td>
<td>-0.8</td>
<td>-1.3</td>
<td>1.4</td>
<td>-0.7</td>
</tr>
<tr>
<td>1932</td>
<td>-1.1</td>
<td>-2.2</td>
<td>1.1</td>
<td>-2.2</td>
</tr>
<tr>
<td>1933</td>
<td>-1.3</td>
<td>-3.3</td>
<td>0.1</td>
<td>-4.5</td>
</tr>
<tr>
<td>1934</td>
<td>-3.3</td>
<td>-0.9</td>
<td>-0.8</td>
<td>-5.0</td>
</tr>
<tr>
<td>1935</td>
<td>-1.0</td>
<td>-0.9</td>
<td>0.1</td>
<td>-1.8</td>
</tr>
<tr>
<td>1936</td>
<td>-1.1</td>
<td>-0.6</td>
<td>0.2</td>
<td>-1.5</td>
</tr>
<tr>
<td>1937</td>
<td>1.0</td>
<td>-0.2</td>
<td>-0.1</td>
<td>-0.7</td>
</tr>
<tr>
<td>1938</td>
<td>1.3</td>
<td>0.0</td>
<td>-0.1</td>
<td>1.2</td>
</tr>
<tr>
<td>1939</td>
<td>-0.4</td>
<td>0.2</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>1940</td>
<td>-0.7</td>
<td>0.8</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>1941</td>
<td>-0.1</td>
<td>1.1</td>
<td>-0.2</td>
<td>0.8</td>
</tr>
<tr>
<td>1942</td>
<td>-0.9</td>
<td>-0.9</td>
<td>-0.5</td>
<td>-2.3</td>
</tr>
<tr>
<td>1943</td>
<td>-1.7</td>
<td>-1.3</td>
<td>-0.9</td>
<td>-3.0</td>
</tr>
<tr>
<td>1944</td>
<td>-1.2</td>
<td>-0.7</td>
<td>-0.8</td>
<td>-2.7</td>
</tr>
<tr>
<td>1945</td>
<td>-1.5</td>
<td>0.7</td>
<td>-0.4</td>
<td>-1.2</td>
</tr>
<tr>
<td>1946</td>
<td>3.0</td>
<td>5.8</td>
<td>-0.2</td>
<td>8.6</td>
</tr>
<tr>
<td>1947</td>
<td>4.8</td>
<td>6.6</td>
<td>1.6</td>
<td>13.0</td>
</tr>
<tr>
<td>1948</td>
<td>6.4</td>
<td>6.7</td>
<td>2.0</td>
<td>15.1</td>
</tr>
<tr>
<td>1949</td>
<td>2.9</td>
<td>5.6</td>
<td>2.1</td>
<td>10.6</td>
</tr>
<tr>
<td>1950</td>
<td>2.8</td>
<td>9.6</td>
<td>2.3</td>
<td>14.7</td>
</tr>
</tbody>
</table>

replacement and expansion, and the retirement of issues.\(^1\)

As noted in Chapter II, the statutory requirements are not uniform, neither from one primary institutional class to another, nor for the states within any one class. The available investment supply, therefore, reflects in part the interest and the restrictive limits of the various classes of institutions.\(^2\)

During the past two decades a major force in extending the investment supply has been the very great growth in the volume of debt instruments of the local, state, and national governments. The federal debt has increased in this time from less than \$20\ billion to more than \$250\ billion.\(^3\) Total debt in the United States, that is, for corporations, individuals, state and local governments, and the federal government increased during the same period from more than \$200\ billion to more than \$550\ billion.\(^4\) Most of the financial institutions of the primary classes invested increasingly in the enlarging supply of government securities. This participation was founded

\(^1\) Lintner, op. cit., p. 214.

\(^2\) Steiner, op. cit., p. 87.


\(^4\) Michener, Dwight W., Director of Research, The Chase National Bank, from an address before the Church Pensions Conference, New York, (November 30, 1951).
not only upon prime safety considered inherent in government securities, but also upon the attitude prevalent among institutional managers and trustees that they are not responsible if losses follow investment in government bonds.\(^1\) The losses from other investments during the depression of the nineteen-thirties had not become dim in memory. Massachusetts savings banks, for example, in the fifteen year span from 1931 to 1945 increased their portfolio percentage of government bonds from 6.4\(^\%\) to 61.02\(^\%\). The holdings of corporate securities decreased from 53.0\(^\%\) to 25.3\(^\%\).\(^2\) In the three year period following the closing of World War II, the mutual savings banks of the nation did not switch out of government securities, even in the face of the temptation to liquidate for the better returns in mortgage loans. Before the war, the mutual savings banks had placed 30\(^\%\) of their investible funds in governments and by 1948 this percentage stood at 65\(^\%\).\(^3\) There appears to be reasonable foundations for assuming that the volume of governments held will be substantial for a considerable period in the future.

An additional factor contributing to an enlargement

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\(^2\)Lintner, op. cit., p. 224.

of the investment supply for some classes of the primary financial institutions has been the statutory changes permitting limited purchases of common stocks. Not only do these changes aid in resolving the problem of the investment of growing institutional resources, but also the purchase of common stocks spreads vastly the ownership. One authority states the case as follows:

"We have left behind the times when a relatively small group of wealthy people supplied the equity capital for industry while banks and insurance companies supplied the funded capital. As our national income is more widely diffused it is essential that more venture capital come from the savings of people of small means."¹

For some time the earnings records of many common stocks have demonstrated sufficient stability to make them attractive for the most conservative of the nation's financial institutions. In recent years many corporations have retained over one-half of their earnings and this has been a larger source for the capital of corporations than has been the new capital issues. This trend can be observed in Table 27. This process has provided financial strength and an earnings base for the future.² During the first half of the present century, the average yield on dividend-paying stocks traded on the New York Stock Exchange was 5.9%; the return on high-grade corporate

¹Bell, op. cit., p. 43.
²Steiner, op. cit., p. 99.
### Table 27

NEW CAPITAL ISSUES OF ALL CORPORATIONS
AND RETAINED EARNINGS

<table>
<thead>
<tr>
<th>Year</th>
<th>1926</th>
<th>1928</th>
<th>1930</th>
<th>1946</th>
<th>1948</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock (Percentage)</td>
<td>12</td>
<td>21</td>
<td>21</td>
<td>20</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>Preferred stock (Percentage)</td>
<td>12</td>
<td>22</td>
<td>9</td>
<td>21</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Bonds and notes (Percentage)</td>
<td>76</td>
<td>57</td>
<td>70</td>
<td>59</td>
<td>85</td>
<td>73</td>
</tr>
<tr>
<td>Total new issues (Billions of dollars)</td>
<td>4.3</td>
<td>5.3</td>
<td>4.7</td>
<td>3.5</td>
<td>5.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Retained earnings (Billions of dollars)</td>
<td>2.3</td>
<td>2.5</td>
<td>4.3d</td>
<td>7.6</td>
<td>12.8</td>
<td>12.5</td>
</tr>
</tbody>
</table>

D (deficit)


bonds was 4.25%.

Greatest conservation in investment operations has generally been attributed to the savings banks, but this class of institutions has joined other classes in displaying interest in stocks. With the approval by New York in April, 1952, of the purchase of common stocks for New York savings banks, twelve of the seventeen savings banks states have given common stock

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1Bell, op. cit., p. 7.
purchase approvals in some form. It is peculiar that the New England states, usually the most conservative, took the lead.¹

The adjustment of statutory controls to permit investment in stocks has been completed to a greater extent for the life insurance companies than for the other primary classes of financial institutions. Reference to Table 28 shows that thirty-four states grant some degree of permission to life insurance companies to purchase common stocks. Approximately one-half place a limit on total common stock holdings of 5% to 10% of the investor's assets. The range of extremes is from 1% to 25%. The remaining one-half make no provision at this point.

Connecticut, Ohio, and Oregon have no specific authorizations to purchase common stocks except under leeway provisions. Fourteen of the states place no restrictions on that portion of their investments permitted under the leeway provisions. The leeway generally has been 5% expressed in some cases as a percentage of surplus and in others subject also to a "prudent man rule".² Twelve of the states placing assets restrictions on the purchase of common stocks also place limits expressed as a percentage of surplus, with the percentage running

¹Ibid., p. 7.
²Bell and Fraine, op. cit., p. 65.
Table 28
LIMITS ON COMMON STOCK HOLDINGS BY LIFE INSURANCE COMPANIES

<table>
<thead>
<tr>
<th></th>
<th>Limit on Total Holdings</th>
<th>Limit on Holdings in One Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Per Cent of Insurance</td>
<td>As Per Cent of Insurance</td>
</tr>
<tr>
<td></td>
<td>As Per Cent of Company</td>
<td>As Per Cent of Company</td>
</tr>
<tr>
<td></td>
<td>Assets</td>
<td>Surplus</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arkansas</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>California</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Connecticut</td>
<td>100</td>
<td>10</td>
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<td>Delaware</td>
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<td>10</td>
</tr>
<tr>
<td>Georgia</td>
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<td>10</td>
</tr>
<tr>
<td>Idaho</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>Illinois</td>
<td>50</td>
<td>2</td>
</tr>
<tr>
<td>Indiana</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Kansas</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Kentucky</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Louisiana</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Maine</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Maryland</td>
<td>10</td>
<td>5</td>
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<td>Massachusetts</td>
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<tr>
<td>Michigan</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>Minnesota</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Nebraska</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Nebraska</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Nevada</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>New Hampshire</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>New Jersey</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>New Mexico</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>3</td>
<td>33 1/3</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>
Table 28 (continued)

LIMITS ON COMMON STOCK HOLDINGS BY LIFE INSURANCE COMPANIES

<table>
<thead>
<tr>
<th>Limit on Total Holdings</th>
<th>Limit on Holdings in One Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>As Per Cent of Insurance of Assets</td>
<td>As Per Cent of Insurance of Surplus</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>North Carolina</td>
<td>10</td>
</tr>
<tr>
<td>North Dakota</td>
<td>10</td>
</tr>
<tr>
<td>Ohio</td>
<td></td>
</tr>
<tr>
<td>Oregon</td>
<td></td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>5</td>
</tr>
<tr>
<td>South Dakota</td>
<td>10</td>
</tr>
<tr>
<td>Tennessee</td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td></td>
</tr>
<tr>
<td>Utah</td>
<td>2</td>
</tr>
<tr>
<td>Vermont</td>
<td>1</td>
</tr>
<tr>
<td>Washington</td>
<td></td>
</tr>
<tr>
<td>West Virginia</td>
<td></td>
</tr>
</tbody>
</table>

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within the range of 25% to 100%. The leeway provisions make possible a number of operating advantages. As opposed to operations under strict regulations, portfolio managers can act more rapidly. At times, if the transaction is not consummated with the time factor in mind, the transaction is lost. Every restrictive statute draws lines. Not infrequently there are border-line cases. In the nineteen-twenties, it is probable that some of the investments within the approved restrictive lines were unsound in the viewpoint of many investment managers. Some observers are of the opinion that many sound securities and mortgages are not now within the approved restrictive lines. Under these circumstances management must reject unsound investments inside the approved lines and likely should have some affirmative discretion concerning investments outside the approved restrictive lines.¹

Data are given in Table 28 to show the limits on holdings in any one stock issuing corporation. Twenty of the states have established provisions ranging from .1% to 10% of the purchaser's assets and three states provided this limit in terms of 10% of surplus. Thirteen states place the limit of the stock of the issuing company which can be purchased in the range of from 2% to

¹Ibid., p. 77.
30% of the outstanding stock.

In Table 29 we can observe the requirements for the selection of common stocks. Ten states have established a requirement of years during which dividends must have been paid and twelve states set the requirements in terms of earnings available for dividend payment. These same twelve states also express the requirement as a per cent of par or stated value in the range of 4% to 6%. Seven of the states also impose the requirement that the stock must be traded on a recognized exchange. New York's specifications that dividends must have been paid for ten years and that the issuer must have earned 4% on the common stock is regarded by some as a severe restriction. It is probable that this restriction will preclude purchases during depressions in many cases, preventing purchase when it would be most advantageous to buy.¹

Sixteen states have established prohibited classes of stocks or corporations. Included in the restricted group are assessable stocks, holding companies, oil, mining, canning, and insurance companies, banks and trust companies, and companies with an income below a stated minimum.

On balance, the actual commitment of funds into common stocks has remained very limited. Of the primary

¹Ibid., p. 77.
<table>
<thead>
<tr>
<th>State</th>
<th>Number of Preceding Years Stock Must Have Paid Dividends</th>
<th>Number of Preceding Years Earnings Must Have Been Available</th>
<th>Minimum Earnings In Preceding Years As Per Cent of Par or Stated Value</th>
<th>Listed on Recognized Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>California</td>
<td>3</td>
<td></td>
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<tr>
<td>Connecticut</td>
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<tr>
<td>Delaware</td>
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<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Georgia</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Idaho</td>
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<td></td>
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<tr>
<td>Illinois</td>
<td>7</td>
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<td>4</td>
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<tr>
<td>Indiana</td>
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<tr>
<td>Kansas</td>
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<td></td>
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<tr>
<td>Kentucky</td>
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<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Louisiana</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maine</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maryland</td>
<td>1</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Massachusetts</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michigan</td>
<td>7</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Minnesota</td>
<td>5</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Nebraska</td>
<td>7</td>
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<tr>
<td>Nevada</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Hampshire</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Jersey</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 29 (continued)

**PRINCIPAL STATUTORY STANDARDS OF SELECTION OF COMMON STOCKS IMPOSED UPON LIFE INSURANCE COMPANIES**

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Preceding Years Stock Must Have Paid Dividends</th>
<th>Number of Preceding Years Earnings Must Have Been Available</th>
<th>Minimum Earnings In Preceding Years As Per Cent of Par or Stated Value</th>
<th>Listed on Recognized Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Mexico</td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>New York</td>
<td>10</td>
<td>10</td>
<td>4</td>
<td>Yes</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Dakota</td>
<td>7</td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Ohio</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pennsylvania</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Dakota</td>
<td>5</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Tennessee</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utah</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Vermont</td>
<td></td>
<td>5</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Washington</td>
<td>1</td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>West Virginia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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classes of institutions, only in the case of the life insurance companies and trust companies have there been any strong advocacy for equity investments. However, with even limited interest on the part of the life insurance companies some significance can be attached in their case, for the extraordinary volume of life insurance company assets—$63 billion—makes any interest important.

More activity in common stocks has been displayed on the part of investment companies and pension funds. These financial groups draw the savings for the most part from the moderate and low income classes of people. The anticipated expansion of the assets of these groups gives a basis for stating the probability that they will be an increasingly important element in the stock market because the larger personal incomes are being depleted substantially by high income taxes. In view of the fixed dollar liabilities of the four primary classes of institutions of this study and the relatively smaller surpluses over debt, it appears that these institutions are not well adapted to meet the solvency problem created by the possible shrinkage of stock values during adverse periods.

The investment supply for the institutions subject to regulation is gradually widening. Where income has not been a complicating factor the very major addition to the supply by the debt instruments of governmental units has been of fundamental importance. There is a limited but
growing participation by the institutions in common stock investment. Moreover, the investment activities of the institutions will likely be subject to greater regulation in the future from the standpoint of the effect of these activities upon the national economy rather than wholly to protect invested dollars. In the past, national monetary policies designed to adjust undesirable cyclical trends have been applied primarily to commercial banks. It is logical to expect for the future that debt management will be directly related also to developments in the long-term capital markets. Institutions conducting major investment activities can be prepared for a more active intervention on the part of the federal government in these markets.¹

The movement away from rigidity. During the early history of the savings banking movement and following the adoption of general regulations of investments, there was recurring agitation for the enlargement of the legal lists. Even in the earlier years the prevailing opinion was that prices were raised artificially and yields correspondingly reduced due to the fact that the savings banks had acquired such a large portion of the eligible securities.²

¹Murray, op. cit., p. 200.
²Welfling, op. cit., p. 120.
The opposition for legal lists has been directed frequently to the defects inherent in the legal list system. The following are the primary criticisms which have been directed against the legal list system. First, it is regarded as impracticable to set standards designed to make a large proportion of all sound securities eligible for the list without also qualifying many questionable securities. One analyst found that only a little more than one-half of the security issues on the savings banks legal lists are common for the fifteen states using the legal list system.\(^1\) Secondly, changes in economic conditions are the source of undesirable fluctuations in the extent of the list. The tests used for eligibility rely upon past performance. There appears to be substance for the statement that within the operation of the system there is an incentive to buy at the top and sell at the bottom, while in recessive periods, as economic conditions force an ineligibility status upon some securities, making necessary their sale, prices are depressed still more. Thirdly, the pressure of investment demand upon a limited

list created the probability of artificially low yields.¹

During the panic of 1907, many of the savings banks in New York State wanted to borrow cash to meet the heavy demand for withdrawals. The Attorney General had to rule upon the legality of whether the savings banks were empowered to borrow under such circumstances. The Superintendent of Banking assumed that the Attorney General would rule against borrowing. Therefore he asked the Attorney General not to open the letter requesting the opinion until most of the banks had already completed their loans under the emergency.² In the same year, to save face for

¹In his article, "Legal and Investment Standards of Trustees", (1935), 4 Fordham Law Review, Vol. 412, Woodruff gives the following illustration:

"Let us suppose that a trustee in 1921 invested the corpus of a new trust in 'legals' at an average price of 95. The entire list appreciates to an average of 105. The trustee may shift the investment, take his profits and look for re-investment opportunities. He will hardly find them within the legal list, for all bonds are likely to be up. Possibly he turns to mortgages. But he is under no compulsion to do anything. On the other hand, let the bond list decline, let the earnings of the obligors fall below the legal standard and the security forthwith becomes non-legal. The trustee may retain it, but it is his own responsibility if he does. By the time this question arises the bonds will have depreciated considerably in price. And here is a fundamental flaw in the statutory prescription of investment standards. An incentive is given for selling out at a low price but no incentive is given for selling out at a high price. Now as a matter of investment management any rule or condition which provides an incentive to dispose of first lien bonds at a time of the obligor's adversity and no corresponding incentive to dispose of them at the height of its prosperity is fundamentally unsound. It is conducive to buying at the top and selling at the bottom."

²Welfling, op. cit., p. 31.
the savings banks the Superintendent in the Annual Report for the banks adjusted the values of their invested assets well above market prices in order to show the banks as being in a solvent condition. ¹ These administrative maneuvers took on considerable importance, for, it can be recalled, the resources of savings banks were greater than for commercial banks until after 1900, and New York was one of the important states. ² These experiences provided further undermining for the rigidity of the legal list system.

Toward a better understanding of the legal list problem a study was completed in 1937 under the sponsorship of the Brookings Institutions. ³ In this study it was found that most statutory tests proved ineffective as legal requirements when judged by actual investment experience. Declared as unsatisfactory were the ratios measuring the burden of debt and the nature of the capital of a railroad, such as the debt per mile, the ratio of property to debt, and the ratio of debt to total capitalization. It was regarded as impossible to provide standards giving effect to probable future developments

¹Ibid., p. 46.
²Ibid., p. 35.
involving changing tastes, shifts of population, and new means of transportation. Municipal tests also fail because they do not permit an exercise of discretion with respect to such important factors as transportation facilities, diversification of industry, community wealth, and the character of municipal management. However, such factors as these must be weighed in the decision of admitting a security to a legal list before it is selling at a premium or removed from the list before it has greatly depreciated. The legal tests for utility bonds carried a better investment experience than had been the case with railroad bonds. However, the legal tests for utility bonds were regarded as defective in their failure to recognize financial differences in the various classes of activities.

The states of New Hampshire and Maine have ventured to resolve the difficulties encountered in attempting to prescribe fixed statutory standards which operate efficiently to provide a sound list of securities. In these states an official or an investment board is authorized to exercise discretion compiling the legal lists. Those in favor of the investment board system consider that an investment board can be more expert than a legislature. If the occasion arises, the board can act promptly. The merits of each security issue can be weighed rather than general standards. A board, it is contended, could
evaluate future investment trends and problems, while statutory general tests must be based upon historical records.¹ While the adoption by a state of the "prudent man rule" would introduce flexibility, the vested position enjoyed by the legal list system would likely be the basis for building up considerable resistance to substitution except by the more middle-of-the-road system of an investment board. In common with an evaluation of other political administrative bodies is the criticism of the use of an investment board that political appointees are frequently not necessarily qualified appointees. In addition, the negative argument is presented that the placing of a security upon a list approved by an investment board might be regarded as giving state approval, not requiring, therefore, careful examination of the security by the investing institution. These difficulties are not regarded as insurmountable and this procedure may merit wider evaluation by the states in working for a solution to the problem of providing a legal list that is sufficiently broad.

A half century ago a strong majority of the states operated trusts under the jurisdiction of the legal list as opposed to "prudent man rule" laws.² During the

¹Welfling, op. cit., p. 122.

intervening period a remarkable growth in the trust business has taken place. It was estimated in 1951 that the total aggregations of trust funds of all kinds may exceed $200 billion.\(^1\) In the legal list states great volumes of securities became disqualified during the nineteen-thirties. In New York the volume of eligible securities declined from $7.6 billion in 1931 to $2.58 billion in 1939. Even during these periods the volume of trust funds continued to grow and with this growth an additional question made its appearance. "The social question that arose in the minds of lawyers and legislators was whether it was entirely safe, let alone wise, to continue to exclude from the enterprise market of capital the entire aggregation of fiduciary funds of great centers of commerce like New York and Chicago."\(^2\) Coupled with this question was the pronounced trend which was developing of lowered returns on bonds. Moreover, trust funds invested under the "prudent man rule" permitting a judicious investment in stocks were benefitted by good returns of income.

Beginning approximately in 1939, the consequences of these developments was a wide swing away from the legal list regulation to the "prudent man rule" type of regulation of trusts. Under the latter type of statutes the

\(^1\)Ibid., p. 500.

\(^2\)Ibid., p. 501.
number of states has increased since that date from nine to twenty-nine. In addition, the states of Indiana, Nebraska, New York, Pennsylvania, Virginia, Wisconsin, Arizona, Mississippi, and South Dakota now permit commitment in limited amounts of stocks, moving, therefore, some steps between the two systems of regulation.1

The State of Maryland regulates the primary financial institutions of that state under the "prudent man rule" and regards the system with approval:2

"It might be surprising for you to learn that this investment procedure in Maryland has been quite satisfactory over the past two decades, and this Department has had little difficulty whatsoever in receiving the cooperation of our various institutions in having the banks confine their investments under the uniform investment policy procedure adopted in 1938.

"Our law requires the Bank Commissioner, his Deputy, or clerks or examiners to make two examinations a year, and during the course of these examinations a complete analysis is made of the various securities in each case."

Most or perhaps all of the states operating under the "prudent man rule" for one or more of the primary classes of financial institutions administer under the 1938 modified agreement of state supervisors and the Federal Deposit Insurance Corporation. Under this agreement the bonds in institutional portfolios are appraised and classified into four divisions. Group I securities

1Ibid., p. 504.

2Letter to the writer from the State Banking Department of Maryland, dated March 28, 1952, op. cit.
are marketable obligations in which the investment characteristics are not distinctly or predominantly speculative. This division includes the four highest grades of rated bonds and unrated obligations of equivalent value. In their appraisals, the administrators take these obligations at par, disregarding both appreciation and depreciation in terms of price. The second division is substandard. The investment characteristics of this class are, "distinctly or predominantly speculative". This division includes the obligations which are rated below the four highest grades and the unrated obligations of equivalent value. The administrators take these securities in their appraisals at current market value. The third division is the doubtful group. Included are securities in default. In their appraisals the administrators classify the net price depreciation as a loss. The fourth division is stocks. These are appraised in the same way as the third class.¹

The administration of financial institutions by the states under the uniform supervisory agreement referred to above brings several benefits. One benefit springs from the advantages of uniformity and consistency in portfolio inspections. Comparisons, under these circumstances,

¹Annual Report of the Federal Deposit Insurance Corporation For the Year Ending December 31, 1938, p. 75.
take on a greater measure of validity. In addition, there is a tendency for more frequent and very thorough portfolio inspections. There is more than the simple determination whether securities are on the legal list. Investment activities can be adjusted to localized circumstances when such is warranted. The institutional manager can and should employ foresight in committing institutional funds. With these advantages some believe that there can also be the required safety.

"Proponents of the Massachusetts Rule (the 'prudent man rule') assert that no specific kind of investment, whether in the form of fixed income bearing indebtedness or in the form of equity participation can ever be said to be 'safe'; indeed, that nothing in the world as a matter of physical fact can be deemed 'safe', that the imprimatur of 'safety' placed by legislative fiat upon a list of securities is, demonstrably, a snare and a delusion."

The high regard for safety has by now been refined with the time and the experience of two-thirds of a century. Until 1885 the primary function of bank supervision was to protect the public against fraudulent and unsound note issues. From 1885 the primary concern has been the protection of the depositing public. The place of state supervision is indeed a far cry from the position taken

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2Sailor, Vance L., Chief, Division of Examiners, Federal Deposit Insurance Corporation, address before National Association of Supervisors of State Banks, Cleveland, Ohio, September 18, 1946.
concerning it by the New York legislature in 1843 when the bank commissioner's office was abolished with the following explanation. "Experience has demonstrated that when bank officers are honest, commissioners are unnecessary; when they are dishonest, commissioners are unavailing."¹

For savings banks the movement away from rigidity takes on more significance because this class of institutions has been operating under the most extensive restrictions of any of the classes of financial institutions. Fifteen of the seventeen savings banking states have introduced some degree of flexibility in the statutory requirements for investments.² These provisions include the following: investment in the marketable obligations of any corporation if approved by state banking authorities; consultation with the savings banks in extending the legal list; leeway provisions for investments up to prescribed limits in non-legal issues; and limiting investments to issues rated in the first four grades of two recognized rating agencies.³ While these

¹Ibid.

²There are seventeen states in which there is conducted a substantial volume of savings banking. However, there are at least four more states in which there is savings banking of relatively unimportant volume.

³Steiner, op. cit., p. 90.
provisions are not far-reaching, they contribute significantly to meeting the enlarging needs of the savings banks for extending the legal lists.

For the primary classes of institutions more flexibility is being introduced in terms of earning power and size. During the past twenty years growing recognition has been given to earning power as being as important as physical security.\(^1\) In the matter of size, some proponents of restrictive regulation have gone far by expressing no fear of the practices which might be followed by larger institutions if restrictions were relaxed, but are afraid that small institutions may not be equipped for such freedom of operating. It seems safe to assign to the far future the prediction that "someday we may have statutes permitting business organizations to do the best they are capable of doing, even though this might involve powers to large institutions which are not granted to small ones."\(^2\)

To summarize, within the past ten to fifteen years the statutory regulations of financial institutions have been made less rigid. Increasingly it is recognized that the legal list system bears the weaknesses that

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\(^2\) Ibid., p. 82.
accompany restriction and inflexibility. Some states have established investment boards in order to provide the necessary flexibility for good administration. A large number of the states in recent years have adopted the "prudent man rule" in trust regulation. Even the conservative supervisors of savings banks have provided less administrative rigidity, though of relatively limited proportions. The developments appear to have taken on the aspects of a movement not yet completed.

The expansion of the legal list of New York Savings Banks. A significant change in recent years necessarily having a bearing upon administration and management has been the very great expansion in the legal list for New York savings banks. The legal lists for most years from 1928 to 1951 were obtained from the State Banking Department of New York and the number of securities counted for each particular year. Table 30 shows that there has been a major increase in the number of securities included in the legal lists between the years 1928 and 1951, amounting to approximately 213%. Increases were noteworthy in nearly all classes of issues except railroad bonds. The greatest increases in numbers of issues placed in the legal list took place during the years 1947 to 1951 as can be observed from Table 31. The expansion has been most pronounced during the last three years given in the
Table 30
THE EXPANSION OF THE NEW YORK SAVINGS BANK LEGAL LIST, 1928-1951

<table>
<thead>
<tr>
<th>Issuer</th>
<th>1928</th>
<th>1933</th>
<th>1938</th>
<th>1943</th>
<th>1948</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>States and Territories</td>
<td>49</td>
<td>47</td>
<td>47</td>
<td>47</td>
<td>48</td>
<td>48</td>
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<tr>
<td>Cities and Political Subdiv.</td>
<td>320</td>
<td>542</td>
<td>529</td>
<td>466</td>
<td>567</td>
<td>555</td>
</tr>
<tr>
<td>Railroads—bonds</td>
<td>272</td>
<td>455</td>
<td>210</td>
<td>308</td>
<td>242</td>
<td>266</td>
</tr>
<tr>
<td>Railroads—Equip. certificates</td>
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<td>95</td>
<td>37</td>
<td>67</td>
<td>242</td>
<td>359</td>
</tr>
<tr>
<td>Electric and gas companies</td>
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<td>79</td>
<td>120</td>
<td>131</td>
<td>179</td>
<td>499</td>
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<tr>
<td>Telephone and telegraph</td>
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<td>16</td>
<td>11</td>
<td>17</td>
<td>34</td>
<td>57</td>
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<td>Industrials</td>
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<td>30</td>
<td>34</td>
<td></td>
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<td></td>
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<td>Canadian issues</td>
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<td>21</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
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<tr>
<td>Housing Authority</td>
<td></td>
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</tr>
<tr>
<td>Totals</td>
<td>891</td>
<td>1,176</td>
<td>949</td>
<td>1,049</td>
<td>1,365</td>
<td>1,902</td>
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</tbody>
</table>

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Table 31
THE EXPANSION OF THE NEW YORK SAVINGS BANK
LEGAL LIST, 1947-1951

<table>
<thead>
<tr>
<th>Issuer</th>
<th>1947</th>
<th>1948</th>
<th>1949</th>
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<th>1951</th>
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</thead>
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<tr>
<td>States and Territories</td>
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<td>48</td>
<td>48</td>
<td>48</td>
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</tr>
<tr>
<td>Cities and Political Subdiv.</td>
<td>576</td>
<td>567</td>
<td>553</td>
<td>547</td>
<td>555</td>
</tr>
<tr>
<td>Railroads--bonds</td>
<td>262</td>
<td>242</td>
<td>272</td>
<td>285</td>
<td>266</td>
</tr>
<tr>
<td>Railroads--equip. certificates</td>
<td>182</td>
<td>242</td>
<td>318</td>
<td>350</td>
<td>359</td>
</tr>
<tr>
<td>Electric and gas companies</td>
<td>136</td>
<td>179</td>
<td>236</td>
<td>433</td>
<td>499</td>
</tr>
<tr>
<td>Telephone and telegraph</td>
<td>18</td>
<td>34</td>
<td>48</td>
<td>55</td>
<td>57</td>
</tr>
<tr>
<td>Industrials</td>
<td>23</td>
<td>30</td>
<td>35</td>
<td>35</td>
<td>34</td>
</tr>
<tr>
<td>Canadian Issues</td>
<td>22</td>
<td>21</td>
<td>21</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>World Bank</td>
<td>2</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Housing Authorities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>53</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>1,267</td>
<td>1,365</td>
<td>1,544</td>
<td>1,781</td>
<td>1,902</td>
</tr>
</tbody>
</table>
table. In further detail the governmental and municipal
and railroad issues have remained relatively stable in
number, while expansion is noteworthy in the number of
issues of electric and gas companies and telephone com-
panies. In the period 1928 to 1951 the following broad
classes were added to the legal lists: industrials, Ca-
nadian issues, the World Bank, and housing authorities.
United States Government obligations are not listed in
Tables 30 and 31 even though such issues are eligible.

Of interest in a partial interpretation of the sub-
stantial expansion in the New York savings bank legal
lists in recent years is the question whether the in-
crease of deposit liabilities has been a primary source
of pressure. The 1951 report from the State Banking De-
partment supplies consolidated balance sheet information
which shows a deposit growth as follows: September 30,
1949, $10.9 billion; September 30, 1950, $11.5 billion;
September 30, 1951, $12 billion.\textsuperscript{1} The deposit expansion
during the two year period ending September 30, 1951,
therefore, was approximately 10\% . While this expansion
is important, it is not in accord with the approximate
doubling of the number of securities in the legal list
during the last decade. The expansion in deposit

\textsuperscript{1} Superintendent of Banks, State of New York, One
Hundred First Annual Report, 1951, p. 91
Table 32
COMPARATIVE CONSOLIDATED BALANCE SHEETS OF NEW YORK SAVINGS BANKS, SEPTEMBER 30, 1951
(in thousands of dollars)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>$ 522,650</td>
<td>3.90</td>
</tr>
<tr>
<td>U. S. Government bonds</td>
<td>5,571,174</td>
<td>41.59</td>
</tr>
<tr>
<td>Other bond investments</td>
<td>953,085</td>
<td>7.11</td>
</tr>
<tr>
<td>Mortgages</td>
<td>6,104,232</td>
<td>45.57</td>
</tr>
<tr>
<td>Other real estate</td>
<td>3,029</td>
<td>.02</td>
</tr>
<tr>
<td>Other assets</td>
<td>242,245</td>
<td>1.81</td>
</tr>
<tr>
<td>Totals</td>
<td>$13,396,415</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Liabilities over a much longer period of time may have had a primary influence.

The conservative character of investment management of the savings banks of New York can be noted from the data supplied in Tables 32 and 33. From Table 32 it can be observed that most savings banks assets have been invested in government bonds and real estate loans. Only 7.11% of the assets have been placed in corporate bonds. The securities authorized by the Banking Board on July 1, 1951, were more than ample for the commitments made in

1Ibid., p. 91.
Table 33

COMPARISON OF THE SECURITIES PLACED IN THE NEW YORK SAVINGS BANK LEGAL LIST WITH THE AMOUNTS OF SECURITIES QUALIFYING UNDER STATUTORY TESTS, 1947-1951

(in billions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>States and Municipals</th>
<th>Railroads</th>
<th>Utilities</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>4.8</td>
<td>9.6</td>
<td>3.4</td>
<td>3.0</td>
<td>1.2</td>
</tr>
<tr>
<td>1948</td>
<td>6.4</td>
<td>10.6</td>
<td>3.9</td>
<td>3.8</td>
<td>1.2</td>
</tr>
<tr>
<td>1949</td>
<td>7.8</td>
<td>11.1</td>
<td>4.0</td>
<td>4.6</td>
<td>1.2</td>
</tr>
<tr>
<td>1950</td>
<td>3.4</td>
<td>12.0</td>
<td>4.1</td>
<td>11.3</td>
<td>1.3</td>
</tr>
<tr>
<td>1951</td>
<td>3.3</td>
<td>12.4</td>
<td>4.3</td>
<td>12.3</td>
<td>1.4</td>
</tr>
</tbody>
</table>

corporate bonds, as can be seen by reference to Table 33. An additional indication of conservatism can be noted from this same table. For 1951 the securities in the authorized legal list totaled $3.3 billion, which was only 10.8% of the value of securities that by statutory tests would otherwise qualify as eligible investments for the savings banks of that state. There appears to be a basis for

1Ibid., p. 93.
questioning whether these findings are in accord with the affirmative answer given by two-thirds of the local savings banks when they were asked if too many securities of good quality are now omitted from the legal list.
Chapter V

SUMMARY

The purpose of this study is to inquire into the nature of legal investments. A legal investment is an investment ascertained by the regulating authorities to be in conformity with such standards of quality that it is selected for inclusion in a list approved for such commitments, or, is an investment of such quality that it could be included in the portfolio of a prudent investor responsible for the investment of resources subject to legal investment regulations.

The published treatments on "the legals" and on authorized investments generally have not relieved the dearth of definitive inquiries into this field. Broad economic importance is involved, for an extensive group of people, agencies, and institutions are subject to the legal investment regulations. The largest of the regulated institutions are the savings banks, trust companies, life insurance companies, and savings and loan associations.

This study has been directed as an inquiry into the
nature of the regulations and commitments of the investing activities of these primary institutions. As regulators, the states recognize the protective function as a statutory necessity to assure full performance of the expressed or implied responsibilities associated with the investment of resources subject to legal investment regulation. The regulations for savings banks investments have been pace-setting in many states for the other primary institutions.

It appears that the primary motive of the writers of the statutes and of the regulating agencies has been to maintain the safety of the invested institutional assets. In the statutes income is utilized as an important criterion of eligibility, but apparently is secondary to safety in the administrative planning of the regulators. From a comparison of the statutes the student is impressed that the regulations in some states are designed to favor the businesses of those states.

Two rules or methods have been employed as regulating media. Under the "legal list rule" the approved investments are prescribed by the states, usually in lists of securities or specified classes of loans issued from time to time by the state supervisors or regulating agencies. With the "prudent man rule" the institution is at liberty to decide upon its investments as long as it exercises
a quality of judgment in accord with that employed by a prudent man under similar circumstances.

At the close of 1950, the estimated savings for the United States was $176 billion. Approximately $110 billion of this amount was deposited with the primary classes of financial institutions of this study. Life insurance companies had received $54 billion, trust companies $22 billion, mutual savings banks $20 billion, and savings and loan associations $14 billion. The balance of the $176 billion was $50 billion in United States savings bonds, $13 billion in time deposits in commercial banks, and $3 billion in postal savings. In the third of a century from 1916 to 1950, the life insurance companies, savings banks, and savings and loan associations have become very important in the credit structure of the nation. During that period the assets of these institutions have increased their holdings of the net long-term private debt in the United States from 26% to 83%. If the assets of trust companies were included, the figure would be larger than 83%.

The statutory controls do not fall within a distinct pattern, either within one institutional class or between institutional classes. However, in the cases of savings banks, trust companies, and life insurance companies, it is generally true that United States government bonds can
be purchased without limit. Most states permit these institutions to purchase the securities issued by the various states and the local political subdivisions, the International Bank for Reconstruction, and railroad and utility bonds. The purchases are limited under prescribed conditions of eligibility of a wide range. For savings and loan associations most of the states approve investing in the stock and obligations of the Federal Home Loan Banks and in the shares of other savings and loan associations. Primary attention is given, however, to the making of real estate loans. Here again the conditions of eligibility are not uniform.

The regulators appear to be seeking after rather than having attained the goal of planned conservation of invested institutional resources. As stated above, the regulators have been divided in their methods. One group favors prescribing investments and the other group favors the defining of responsibility. The observer is inclined to inquire whether there is evidence of arbitrariness on the part of the regulators under the prescription method? Are the wide differences in such provisions as times-interest-earned requirements, default-free periods, portfolio limits of eligible groups of securities, approval for investing in Canadian securities, and permission to invest in common stocks, to be construed as normal dif-
ferences in the regulators' interpretations of protective responsibilities? Or, on the other hand, are the differences evidence of inconsistencies in regulation standards? Can the differences in investment standards be attributed to the variations in experience, qualifications, and freedom from political influence of the state administrators and of the writers of the statutes? Are these problems of such weight that the lodging of more investment discretion with the institutions merits broader consideration?

In this study an effort is made to evaluate the investment performance of savings banks as one of the most conservative of the institutional groups by observing the market performance of the securities in the New York savings bank legal list of 1928. The survey period was from 1928 through 1950. As a part of the experiment the management factor was delimited from consideration to ascertain whether the holding of prescribed investments until the investments were classified as non-legal or were otherwise removed by the issuer would maintain the primary goal of safety. During the period, five hundred and six of the five hundred and twenty-three corporate securities in the list were removed. In the case of railroad bonds, 32.4% were removed by the issuer by calling, refunding, or maturing and 63.6% were classified by the Superintendent of Banking as non-legal. This situation
did not prevail with the electric and gas bonds, for 75.9% were removed by the issuer and 21.4% turned non-legal. Most of the railroad bonds which became non-legal would have received such a reclassification status in 1932 if the Superintendent of Banking had not suspended some of the legality requirements. Under these circumstances 22.3% turned non-legal in 1932 and 62.9% in 1938 when the suspension was lifted.

For this study the statutory tests for legality were not made year by year to check the action of the New York Superintendent of Banking in the retention or reclassification of securities in the legal list. However, prices were surveyed as an aspect of performance, primarily to check the success of the legal list system in maintaining the safety of the invested deposits. To conduct the survey it was assumed that all of the corporate securities in the legal list for 1928 were purchased in that year. In addition it was assumed that if a substantial number of securities reflected a price pattern in markedly lower deviation from the price pattern of a separate group of high-grade securities the result would be tantamount to a failure to maintain safety.

In the case of railroad bonds it appears that safety was not maintained, for nearly two-thirds of the bonds turned non-legal early in the test period. Moreover, for the non-legals there was a much lower price pattern,
both in comparison with a mixed group of legal bonds and bonds turned non-legal, as well as with a group of ten Dow-Jones high-grade railroad bonds. The greatest potential loss in any year would have derived from the sale at a value 33.95% lower than the price pattern of ten Dow-Jones high-grade railroad bonds in that year. In contrast, using these same standards, the utility bonds record was one of safety. The price pattern for the period averaged higher for a group of utility bonds that turned non-legal and was higher in fifteen of the twenty-two years of the survey period.

Is it plausible to assume that the price pattern of the Dow-Jones groups were more favorable as compared with the price pattern of the railroad group because the Dow-Jones index in each case was made up of a small number of bonds? If this were true, how could this conclusion be reconciled with the better price behavior of the utility bond group? Is there foundation for assuming that the lower prices of the non-legal railroad group were made lower by market recognition of their reclassification status? Is it probable that the securities markets reflect rather accurately and promptly in terms of price the weaknesses which, when crystallized, become the sources of reclassification to non-legality? Does the poor showing of the non-legal railroad group and the favorable price pattern of the non-legal utility group
provide partial substance for concluding that the hind­sight methods used to test legality status cannot be counted upon to bring consistent results and maintain safety for all classes of qualified securities through periods of severe testing? Or, is it to be expected that, on the one hand, management will not be able to choose qualified securities except from among those in a pre­scribed legal list, but, on the other, will be capable of foresight in selecting and disposing of the weakest hold­ings in the portfolio when it may become necessary to do so in order that the relative safety of the portfolio will be maintained?

Where law and regulation are involved, the observer generally is concerned to evaluate the nature and methods of the administration of the law. In this study the evaluation of administration has been approached through the questionnaire method to the state administrators of the forty-eight states. The viewpoints of the adminis­tered were obtained from the replies to a questionnaire to the savings bankers of New York State. In addition, a brief sampling was made of the annual reports of the state administrators.

In most states the state banking department super­vises the savings banks, trust companies, and savings and loan associations. Life insurance companies are usually regulated by a separate commissioner or superintendent.
Also in most states, institutional investors must be able to show that their portfolios conform to the statutes. State administrators generally agree that this amounts substantially to self-administration.

Under the legal list system and in the event a portfolio must be adjusted to meet legal standards it is usually the case that a reasonable period is permitted to complete the adjustment. However, a substantial minority permit the regulatory officer to determine the length of the period. The administrative follow-through in such cases is frequently by the regulatory officer rather than by the examiner.

An inspection was made of some of the annual reports issued by state administrators. It appears valid to state that the publication of annual reports, for the most part, has been made to complete a legislative requirement. Most of the reports are statistical and may be of doubtful value. Some states are turning to concise summaries or no report at all for reasons both of economy and, apparently, because of questioned usefulness. Only in rare cases are treatments given of primary problems and policies. The reader of the annual reports may be inclined to the opinion that unless the reports supply adequate presentations of primary problems and policies the legislatures and governors will not be informed on the real
status of the institutions reported upon. Under these circumstances the spirit underlying the requirement of the annual reports will not have been fulfilled.

As judged by a sampling of the attitudes of officers of savings banks in New York State, an effort was made to ascertain the character of administrative policy from the viewpoint of the administered. These bankers are subject to the "legal list system" in their investment of bank resources. They were generally of the opinion that their close conformity to the investment procedures and legal list for New York savings banks had the practical effect of self-administration of their investment activities. The bankers were lacking experience concerning concrete cases of failure to conform to statutory regulations. Most bankers thought that too many securities of good quality were omitted from the legal list. Considerable support was given for the viewpoint that the investment return would be larger under the "prudent man system", but were less assured that the investment principals would be just as dollar-safe. Much indecision was evident on the question of whether the legal list was sufficiently broad to care for the volume of funds to be invested.

During the past decade the primary financial institutions have been the recipients of a greatly expanded volume of savings and resources. To fulfill the greater demand for investments there have been two major sources
of increased supply. One source has been the debt instruments of the various governmental units ranging from local to federal. These instruments were issued in very large amounts because the war and post-war economies operated upon greatly expanded spending bases and, in time, upon a price structure characterized by diminishing values of the dollar. The second source was common stocks. The supply in this instance was made greater by the relaxing of restrictions against their purchase.

Along with the broadening of the investment supply a significant change has been the substantial movement to make less rigid the investment prescriptions of financial institutions. Different forms and degrees of relaxation have appeared. In many cases savings bank legal lists have been broadened. Leeway provisions have been provided for insurance companies in some states. Investment boards have been substituted for legal lists. Particularly in trust regulation there has been a preponderant swing to the "prudent man system" during the past decade. It appears that at the present time in the movement away from rigidity we are in the midst of change rather than at the close of a period.
Appendix-A

Summary of Statutes Authorizing the Investments of Savings Banks

New York

Government Bonds
- United States: x
- Pledge of the United States: x
- New York: x
- Any state: x-1
- Political subdivisions of this state: x
- Political subdivisions of adjoining states: x-2
- Political subdivisions of any state: x-3
- Canada, Dominion, provinces, cities: x-4,5,6

Railroad Bonds
- Equipment trust certs.: x-7
- First Mortgage: x-8
- Collateral trust: x-9,10

Electric and Gas Company Bonds
- Mortgage bonds: x-11,12,13,14,15,17
- Debentures: x-11,12,13,16,17,18

Telephone Company Bonds
- Bonds, notes, debentures: x-11,19,13,20,21

Other Issues
- Promissory notes, 90 days: x
- Bonds of Savings and Loan Bank of N. Y.: x
- Bonds, Fed. Land Banks: x
- Bonds, Fed. Int. Cr. Bks.: x
- Bankers' acceptances: x
- Bills of exchange: x
- Certain real estate loans: x
- Obligations, qualifying stock, Federal Home Loan Banks: x
- Qualifying stock, Fed. Res. Bank: x
- Insured obligations, FHA: x
- Securities, housing auth.'s: x-22,23
- Bonds, International Bank for Reconstruction: x
- Securities, trust companies and corporations of N. Y.: x-24,25
- Obligations of corporations: x-26
- Stocks, trust companies and national banks: x-231
Appendix-A (continued)

1 No default more than 90 days for previous 10 years.

2 No default for more than 120 days for the previous 25 years. Population 10,000 or more. Non-negotiable warrants excluded. Debt limited to 12% of real property valuations unless total valuations $200 million and population 150,000.

3 Same as (2) if population 30,000 and if legal for savings banks in state in which issued. Power to levy tax on real property is to be unlimited.

4 Canadian issues limited to 10% of the portfolio.

5 Record to be free from default except for periods no longer than 90 days for previous 10 years. Debt limited to 25% of valuations.

6 Cities must have population of 150,000 and for 25 years free from default except for periods of 120 days.

7 Railroads to have 500 miles, operating revenue of $10 million, 1 1/2 times-earned for five years, paid dividends equal to 1/4 fixed charges for 6 years, and record free from default for 6 years. Certificates must mature within 15 years.

8 Collateral also must be legal.

9 Times-earned of 2 in 5 of last 6 years.

10 In all railroad securities, investment limited to 25% of portfolio.

11 Company must have all franchises in area served.

12 Capital stock to be equal to 2/3 mortgage debt.

13 Company at least 8 years old. No default record, nor with predecessor. For 5 years average times-earned of 2 1/2.

14 Operating revenue $2 million, including consolidated or merged properties.

15 First or refunding mortgage on no more than 2/3 of value of property covered by all bonded debt. Prior liens to be retired before refunding bonds.
Appendix-A (continued)

16 For 5 years interest 3 times-earned.
17 If maturity longer than 15 years, must have sinking fund.
18 Portfolio limited to 25% in electric and gas company bonds.
19 Capital stock equal to 2/3 mortgage debt.
20 Gross operating revenue not less than 5 million, including consolidated or merged properties.
21 Portfolio limited to 25% in telephone company bonds.
22 Issuers in this state.
23 All stock or obligations to be owned by 20 or more savings banks.
24 As approved by state banking board and if all owned by 20 or more savings banks.
25 In participating certificates of trust companies or corporations if certificates represent conveyed instruments of a savings bank of this state.
26 To mature in 5 years. Limited to 5% of borrowers' liability or 2% of bank's assets.
## Appendix-A (continued)

Summary of Statutes Authorizing the Investments of Savings Banks

### Massachusetts

<table>
<thead>
<tr>
<th>Government Bonds</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledge of the United States</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Massachusetts</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any state</td>
<td>x-27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political subdivisions of this state</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political subdivisions of adjoining states</td>
<td>x-28,30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political subdivisions of any state</td>
<td>x-29,30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada, Dominion, provinces, cities</td>
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<table>
<thead>
<tr>
<th>Railroad Bonds</th>
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</thead>
<tbody>
<tr>
<td>Equipment trust certificates</td>
<td>x-31,32,33,34</td>
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<td></td>
</tr>
<tr>
<td>First mortgage</td>
<td>x-31,32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateral trust</td>
<td>x-31,32,32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed</td>
<td>x-31,32</td>
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<thead>
<tr>
<th>Electric and Gas Company Bonds</th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Mortgage bonds</td>
<td>x-39,40,41,42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debentures</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Telephone Company Bonds</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Bonds, notes, debentures</td>
<td>x-35,36,37,38</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Issues</th>
<th></th>
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</tr>
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<tbody>
<tr>
<td>Promissory notes, 90 days</td>
<td>x-47</td>
<td></td>
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<tr>
<td>Bonds of Savings and Loan Bank of N. Y.</td>
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</tr>
<tr>
<td>Bonds, Fed. Land Banks</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds, Fed. Int. Cr. Bks.</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bankers' acceptances</td>
<td>x</td>
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<td></td>
</tr>
<tr>
<td>Bills of exchange</td>
<td>x-46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certain real estate loans</td>
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<td></td>
</tr>
<tr>
<td>Obligations, qualifying stock, Federal Home Loan Banks</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualifying stock, Fed. Res. Bank</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Insured obligations, FHA</td>
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<td></td>
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</tr>
<tr>
<td>Securities, housing auth.'s</td>
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<td></td>
</tr>
<tr>
<td>Bonds, International Bank for Reconstruction</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities, trust companies and corporations of Mass.</td>
<td>x-45</td>
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<td></td>
</tr>
<tr>
<td>Obligations of corporations</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Stocks, trust companies and national banks</td>
<td>x-43,44</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
27 No default more than 120 days for previous 20 years.

28 Net debt not to exceed 4% of real property valuation; or 3% of valuation for a water district with 5,000 population, 6% for a city with a population not over 100,000, and 8% for a city with a population over 100,000. The power to levy taxes must not be limited.

29 Obligations of cities only are eligible; if population 30,000 to 100,000 the net debt is not to exceed 6% of property valuations and is to mature within 15 years; if the population is greater than 100,000 the net debt is not to exceed 8% of valuations. The power to levy taxes must not be limited.

30 No default more than 120 days for previous 10 years.

31 The issuing corporation is required to have 1/4% of the gross revenue for all Class I railroads. For 3 years the times-earned must have been 1 1/2 times and also equal to the average of all Class I railroads.

32 The investment in railroad obligations is limited to 20% of deposits and only 1 1/2% of deposits can be invested in any one railroad.

33 Same as (31) except net operating revenue must be 3 times the interest earned on and for the payment of interest on equipment trust obligations and must be 8% of gross revenues.

34 Not to exceed 90% of the purchase price, with the maturity amortized over a 15 year period.

35 Maturity within 40 years. No record of defaults. Gross income at least $5 million. Times-earned of 2 for 5 of last 6 periods. Capital stock and surplus are to be 2/3 of the funded debt. Bonded debt must not be in excess of 65% of the depreciated value of the fixed assets.

36 The requirements for debentures are the same as (35) with the exception that gross income must be $20 million and the times-earned at least 3. Total debt must not exceed 55% of all assets. The total of mortgage bonds is not to be greater than the amount of the debentures or collateral trust bonds. In addition, the debentures are to be covered equally by any subsequent bond issues.
37 In the case of other bonds and notes, there must be no record of default. A times-earned of 4 during 5 of the last 6 fiscal periods. For the year previous to investment, the issuer must have had $100 million available for dividends.

38 Portfolio limit is 15%, with only 2% of deposits in the issues of any one company.

39 In any class of electric, gas, and water company bonds of companies of this state. Earnings requirements of 4% for 3 years and a minimum gross income of $100,000.

40 Maturity within 40 years. Times-earned record previous year of 1 3/4. Gross income of $1 million. No more than 20% of gross income can be from transportation income.

41 Capital stock and surplus must equal 60% of total funded debt. Bonded debt must not be in excess of 75% of the depreciated value of the fixed property.

42 Portfolio limit is 20%, with only 2% of deposits in the issues of any one company.

43 Issuer must be in this state. No preferred stock is to be outstanding. Must have paid dividends of 4% for previous 5 years. Surplus must be 50% of the capital stock.

44 Issuer can be in any state if it is a member of the Federal Reserve System. No preferred stock is to be outstanding. The value of the surplus, capital stock, and undivided profits must be $40 million and 6% of the deposit liability. For 10 years the company must have paid 4% dividends.

45 Up to 10% of deposits can be invested in the shares of the Savings Bank Investment Fund.

46 First mortgages on real estate in this state.

### Appendix-A (continued)

Summary of Statutes Authorizing the Investments of Savings Banks

<table>
<thead>
<tr>
<th>Government Bonds</th>
<th>Connecticut</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>x</td>
</tr>
<tr>
<td>Pledge of the United States</td>
<td>x</td>
</tr>
<tr>
<td>Connecticut</td>
<td>x</td>
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<tr>
<td>Any state</td>
<td>x-48</td>
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<td>Political subdivisions of any state</td>
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<tr>
<td>Canada, Dominion, provinces, cities</td>
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<table>
<thead>
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<th>Railroad Bonds</th>
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<td>Equipment trust certificates</td>
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<td>First mortgage</td>
<td>x-57</td>
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<td>Collateral trust</td>
<td>x-57</td>
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<td>Guaranteed</td>
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</table>

<table>
<thead>
<tr>
<th>Electric and Gas Company Bonds</th>
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<tbody>
<tr>
<td>Mortgage bonds</td>
<td>x-53</td>
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<tr>
<td>Debentures</td>
<td>x-54</td>
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</table>

<table>
<thead>
<tr>
<th>Telephone Company Bonds</th>
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<td>Bonds, notes, debentures</td>
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<table>
<thead>
<tr>
<th>Other Issues</th>
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<tr>
<td>Promissory notes, 90 days</td>
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</tr>
<tr>
<td>Bonds of Savings and Loan</td>
<td></td>
</tr>
<tr>
<td>Bank of N. Y.</td>
<td></td>
</tr>
<tr>
<td>Bonds, Fed. Land Banks</td>
<td></td>
</tr>
<tr>
<td>Bankers' acceptances</td>
<td></td>
</tr>
<tr>
<td>Bills of exchange</td>
<td></td>
</tr>
<tr>
<td>Certain real estate loans</td>
<td></td>
</tr>
<tr>
<td>Obligations, qualifying stock</td>
<td></td>
</tr>
<tr>
<td>Federal Home Loan Banks</td>
<td></td>
</tr>
<tr>
<td>Qualifying stock, Fed. Res. Bank</td>
<td></td>
</tr>
<tr>
<td>Insured obligations FHA</td>
<td>x-52</td>
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<tr>
<td>Securities, housing auth.'s</td>
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</tr>
<tr>
<td>Bonds, International Bank</td>
<td>x</td>
</tr>
<tr>
<td>for Reconstruction</td>
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<tr>
<td>Securities, trust companies</td>
<td></td>
</tr>
<tr>
<td>and corporations of Conn.</td>
<td>x-59</td>
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<tr>
<td>Obligations of corporations</td>
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<tr>
<td>Stocks, trust companies and</td>
<td>x-58</td>
</tr>
<tr>
<td>national banks</td>
<td></td>
</tr>
</tbody>
</table>
Appendix-A (continued)

48. No default for more than 90 days during the previous 5 years. Limited to 20% of assets.

49. Limited to 25% of assets. Up to 5% in any one taxing unit.

50. Limited to 20% of assets. No default for more than 90 days for 5 years. Population must be 50,000 or more. Debt must not be greater than 9% of property valuations.

51. Limited to 7 1/2% of assets. No default for more than 90 days for the previous 5 years.

52. Limited to 5% of assets. Must be guaranteed by the U. S. or an agency of the U. S.

53. Limited to 25% of assets. Issue to be $1 million or more. Gross revenue is to be at least $7.5 million. The funded debt must not be in excess of the capital stock and surplus. Interest times-earned the previous year must have been 2.

54. Of the holdings of electric and gas company issues, 3/5 can be debentures. There can be no prior mortgage debt. For 4 of the last 5 years the times-earned must have been 2.

55. 15% of assets can be invested in the issues of companies furnishing water service. The population served must be 15,000 or more. During 4 of the last 5 years the times-earned must have been 2.

56. Limited to 15% of assets. Gross revenue must be for the previous year $2.5 million and $25 million for leased property. Funded debt cannot be in excess of capital stock and surplus. During 4 of the last 5 years the times-earned must have been 2. If the issue is a debenture, any mortgage issue of the company can be only 2% of the property covering the mortgage.

57. Limited to 20% of assets. Bonds must be chosen by special state commission.

58. Stock of any bank of this state as well as any bank in Boston, Philadelphia, New York. Issuing bank must have paid dividends of 4% for 5 years. The stocks of banks in other locations can be purchased if the capital, surplus, and undivided profits are $10 million or more.

59. Up to 75% of surplus and undivided profits can be invested in any bonds which the bank considers a prudent investment.
Appendix-A (continued)

Summary of Statutes Authorizing the Investments of Savings Banks

Maryland

Prudent man rule established. Investments are to be on good security at the discretion of the savings bank directors.
Appendix-A (continued)

Summary of Statutes Authorizing the Investments of Savings Banks

Delaware

Prudent man rule established. Savings banks limited to 25% of capital, surplus, and undivided profits in the securities of any one corporation or political entity. Exceptions include the issues of the United States, of Delaware, and of the political subdivisions of Delaware.
### Appendix-A (continued)

**Summary of Statutes Authorizing the Investments of Savings Banks**

<table>
<thead>
<tr>
<th>Investments</th>
<th>Authorizing Statutes</th>
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</thead>
<tbody>
<tr>
<td><strong>Government Bonds</strong></td>
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</tr>
<tr>
<td>United States</td>
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<td>Pledge of the United States</td>
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<td>Pennsylvania</td>
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<tr>
<td>Political subdivisions of adjoining states</td>
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<tr>
<td>Political subdivisions of any state</td>
<td>x-1</td>
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<tr>
<td>Canada, Dominion, provinces, cities</td>
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<tr>
<td><strong>Railroad Bonds</strong></td>
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</tr>
<tr>
<td>Equipment trust certificates</td>
<td>x-61</td>
</tr>
<tr>
<td>First mortgage</td>
<td>x-61</td>
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<tr>
<td>Collateral trust</td>
<td>x-61</td>
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<tr>
<td>Guaranteed</td>
<td>x-61</td>
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<tr>
<td><strong>Electric and Gas Company Bonds</strong></td>
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<tr>
<td>Mortgage bonds</td>
<td>x-62,11</td>
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<tr>
<td>Debentures</td>
<td></td>
</tr>
<tr>
<td><strong>Telephone Company Bonds</strong></td>
<td></td>
</tr>
<tr>
<td>Bonds, notes, debentures</td>
<td>x-62,63</td>
</tr>
<tr>
<td><strong>Other Issues</strong></td>
<td></td>
</tr>
<tr>
<td>Promissory notes, 90 days</td>
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<tr>
<td>Bonds of Savings and Loan Bank of N. Y.</td>
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<tr>
<td>Bonds, Fed. Land Banks</td>
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<tr>
<td>Bankers' acceptances</td>
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<td>Bills of exchange</td>
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<tr>
<td>Certain real estate loans</td>
<td>x-66</td>
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<tr>
<td>Obligations, qualifying stock,</td>
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<tr>
<td>Federal Home Loan Banks</td>
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<tr>
<td>Qualifying stock, Fed. Res. Bank</td>
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<tr>
<td>Insured obligations, FHA</td>
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<tr>
<td>Securities, housing auth.'s</td>
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<tr>
<td>Bonds, International Bank for</td>
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<tr>
<td>Reconstruction</td>
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<tr>
<td>Securities, trust companies</td>
<td>x-64</td>
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<tr>
<td>and corporations of Penn.</td>
<td></td>
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<tr>
<td>Obligations of corporations</td>
<td></td>
</tr>
<tr>
<td>Stocks, trust companies and national banks</td>
<td>x-65</td>
</tr>
</tbody>
</table>
No default for 5 years.

Stock must equal 2/3 of the mortgage debt. No default for 8 years. For 5 years a times-earned of 2. For 5 years paid dividends of 4%. The issue is to be $1 million or more and limited to 60% of the value of the covering property.

Issue to be $5 million or more, mortgage bonds only.

No purchase of shares permitted.

In this state.

Loans on real estate up to 50% of value. Also bonds secured by mortgage loans.
Appendix-A (continued)

Summary of Statutes Authorizing the Investments of Savings Banks

<table>
<thead>
<tr>
<th>New Jersey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Bonds</td>
</tr>
<tr>
<td>United States</td>
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<tr>
<td>Pledge of the United States</td>
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<td>New Jersey</td>
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<td>Political subdivisions of this state</td>
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<td>Political subdivisions of adjoining states</td>
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<tr>
<td>Political subdivisions of any state</td>
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<tr>
<td>Canada, Dominion, provinces, cities</td>
</tr>
<tr>
<td>Railroad Bonds</td>
</tr>
<tr>
<td>Equipment trust certificates</td>
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<tr>
<td>First mortgage</td>
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<td>Collateral trust</td>
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<td>Guaranteed</td>
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<tr>
<td>Electric and Gas Company Bonds</td>
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<tr>
<td>Mortgage bonds</td>
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<td>Debentures</td>
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<tr>
<td>Telephone Company Bonds</td>
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<tr>
<td>Bonds, notes, debentures</td>
</tr>
<tr>
<td>Other Issues</td>
</tr>
<tr>
<td>Promissory notes, 90 days</td>
</tr>
<tr>
<td>Bonds of Savings and Loan Bank of N. Y.</td>
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<td>Bonds, Fed. Land Banks</td>
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<tr>
<td>Bills of exchanges</td>
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<tr>
<td>Certain real estate loans</td>
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<tr>
<td>Obligations, qualifying stock, Federal Home Loan Banks</td>
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<tr>
<td>Qualifying stock, Fed. Res. Bank</td>
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<td>Insured obligations, FHA</td>
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<tr>
<td>Securities, housing auth.'s</td>
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<tr>
<td>Bonds, International Bank for Reconstruction</td>
</tr>
<tr>
<td>Securities, trust companies and corporations of N. J.</td>
</tr>
<tr>
<td>Obligations of corporations</td>
</tr>
<tr>
<td>Stocks, trust companies and national banks</td>
</tr>
</tbody>
</table>
Appendix-A (continued)

67 For 5 years no default longer than six months.

68 No defaults for 10 years. Total debt limited to 10% of valuations.

69 For 5 years must have operated a railroad of 500 miles, or, must have had a gross revenue of $10 million. For 3 years the times-earned must have been equal to that of the average of Class I railroads, but the times-earned must have been 1 1/4. In addition, certain terminal, dock, and bridge bonds approved.

70 The mortgage must be on 3/4 of the mileage subject to the lien. Any refunding mortgage must take up all prior mortgages.

71 Must have agreed to pay 4% on the capital stock of a leased company during the period of the lease.

72 For 5 years a gross revenue of $2.5 million. For three years a times-earned of 2 1/4. Mortgage limited to 2/3 of the value of the covered assets. The total investments for electric, gas, and telephone company issues limited to 40% of the portfolio.

73 If the issue is water bonds, 95% of the revenue is to be from the sale of water. For 5 years gross revenues of $1.5 million per year and for 3 years a times-earned of 1 3/4.

74 For 5 years income of $20 million. For 3 years a times-earned of 4. Electric, gas, and telephone company issues limited to 40% of the portfolio.

75 Issue limited to 80% of the purchase price.

76 Portfolio limited to 25% for all railroad holdings.

77 Of industrial companies maturing within 30 years. For 5 years a gross income of $10 million and net income of $1 million. Total liabilities not in excess of 40% of assets. Current ratio of 2 1/4 on last statement. For 5 years a times-earned of 4. Portfolio limit of 25%.
Appendix-A (continued)

Summary of Statutes Authorizing the Investments of Savings Banks

Government Bonds
- United States
- Pledge of the United States
- Rhode Island
- Any state
- Political subdivisions of this state
- Political subdivisions of adjoining states
- Political subdivisions of any state
- Canada, Dominion, provinces, cities

Rhode Island
- x
- x
- x-1
- x-1
- x-78

Railroad Bonds
- Equipment trust certificates
- First mortgage
- Collateral trust
- Guaranteed

- x-34
- x-81,83
- x-82,83,85

Electric and Gas Company Bonds
- Mortgage bonds
- Debentures

- x-86,87,88,89,90,91

Telephone Company Bonds
- Bonds, notes, debentures

- x-92,93,88,94,95

Other Issues
- Promissory notes, 90 days
- Bonds of Savings and Loan Bank of N. Y.
- Bonds, Fed. Land Banks
- Bankers' acceptances
- Bills of exchange
- Certain real estate loans
- Obligations, qualifying stock, Federal Home Loan Banks
- Insured obligations, FHA
- Securities, housing auth.'s
- Bonds, International Bank for Reconstruction
- Securities, trust companies and corporations of R. I.
- Obligations of corporations
- Stocks, trust companies and national banks

- x
- x
Appendix-A (continued)  246

78 Any city or town in New England or New York. No default for 10 years. Debt limited to 7% of property valuations. If the issuer is an incorporated district, the population is to be at least 5,000, the debt limited to 5% of valuations, and the issue retired by a sinking fund.

79 Other cities than (77), requirements are no defaults for 10 years, population 3,000 or more, debt limited to 7% of valuations. If the issuer is a county, the population must be 100,000 or more and the debt limited to 3% of valuations.

80 Limited to 2% of deposits.

81 Also notes and receivers' certificates, but not income bonds. Debentures eligible if times-earned of two for 3 years; if property leased, a times-earned of two for 10 years, plus earnings of 4% on capital stock.

82 Times-earned of two for 3 years.

83 Times-earned of two for 3 years on all mortgage debt. If the bonds guaranteed or assumed by two railroads, one of the guarantors must have had a times-earned of 2 for 3 years. Also numerous similar provisions.

84 No default for 10 years. Debt limited to 80% of equipment cost. Serial retirement.

85 Also notes, warrants, and obligations of five-year maturity if the railroad paid dividends of 4% on all stock for 5 years. Receivers' certificates eligible as well as the bonds of Canadian railroads meeting the requirement set for U. S. railroads. 2% of deposits can be invested in certain railroad stocks.

86 Times-earned of two on debt of bond being bought if the issuer is in this state. If in other states and if the issuers are street railways, gross income must have been $400,000 for last 3 years; if combined with gas and electric, a gross income of $600,000. On street railway equipment if the conditions satisfy the requirements of (83).

87 Also bonds of any Canadian utility meeting all the provisions of the Rhode Island statutes.
Appendix-A (continued)

88. Certificates of indebtedness.

89. Bonds in holding corporation owning 90% of the stock and bonds of a Rhode Island electric or street railway if the issuer paid dividends of 4% on the capital stock.

90. Water company bonds if the company has an exclusive service franchise for the territory served and a population of 50,000 if outside of this state.

91. Notes and obligations if the issuers paid 4% on the stock for 5 years, or if supported by collateral of 120%.

92. In telephone company bonds if the issuer has a times-earned of two and gross earnings of $1 million for 3 years. In debentures if the issuer for 3 years had an income of $2 million.

93. Guaranteed and leased company bonds which otherwise qualify.

94. In collateral trust bonds if the bonds are issued for no more than 75% of value of the securities, $5 million gross earnings for 3 years, and for 5 years paid 6% on all stock.

95. Notes and obligations maturing in 10 years if times-earned of 2, gross earnings of $1 million for 3 years, and if paid 6% on the stock for 5 years.

96. Met all interest obligations for 10 years. Debt not to exceed 50% of assets, or 50% of bonds, notes, capital, and surplus. Assets are to be 1 1/2 times the amount of the bonds. Must mature within 25 years and carry sinking fund provisions. Must have a times-earned of 2 for 8 of the last 10 years and a current ratio of 2 to 1.
## Appendix-B

### Summary of Statutes Authorizing the Investments of Trust Companies

**New York**

<table>
<thead>
<tr>
<th>Government Bonds</th>
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<tbody>
<tr>
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<tr>
<td>Pledge of the United States</td>
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</tr>
<tr>
<td>New York</td>
<td>x</td>
</tr>
<tr>
<td>Any state</td>
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<table>
<thead>
<tr>
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<td>Mortgage bonds</td>
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<tr>
<td>Debentures</td>
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</table>

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<tr>
<td>Bonds, Fed. Int. Cr. Bks.</td>
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<tr>
<td>Bonds, International Bank</td>
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<tr>
<td>for Reconstruction</td>
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<tr>
<td>Certain real estate loans</td>
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<tr>
<td>Savings and loan shares</td>
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<tr>
<td>Obligations, housing authorities</td>
<td>x-5</td>
</tr>
<tr>
<td>Corporate securities</td>
<td>x-6,7</td>
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<tr>
<td>Other obligations and securities</td>
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<tr>
<td>Obligations of Federal Home Loan Banks</td>
<td></td>
</tr>
<tr>
<td>Obligations of Home Owners Loan Corporation</td>
<td></td>
</tr>
</tbody>
</table>

| Prudent Man Rule              | x-1      |
Appendix-B (continued)

1 Invest in the designated classes of securities as would a prudent man seeking a reasonable income and preservation of capital.

2 Non-negotiable warrants excluded. Population must be 10,000 or more. Power of taxation must not be limited.

3 No default longer than 90 days for 10 years. If the issuer is a city, there must be no default longer than 120 days for 25 years and unlimited power to levy taxes.

4 Up to $10,000 in shares in federal savings and loan associations with a capital of $100,000 or a state savings and loan association of this state with same capital.

5 Located in this state when secured by pledge of reserves, or guaranteed by governmental agency, or a mortgage up to two-thirds of value.

6 Of railroad, electric, gas, and telephone companies as provided by savings banks statutes.

7 Unclassified securities limited to 35% of portfolio. In companies with securities currently registered with the S. E. C. No stocks except bank and insurance company stocks can be purchased unless the stock is registered on a national exchange.

8 A trustee shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence manage their own affairs considering the probable income as well as the probable safety of the capital.

9 No default longer than 90 days for 10 years.

10 No default for 5 years.

11 Company must have all franchises in area it serves.

12 Stock to equal two-thirds the mortgaged debt. No defaults for 8 years. 2 times-earned for 25 years. For 5 years have available for dividends 4%. The issue must be $1 million or more and not in excess of 60% of value of the covering property.

13 Issue to be $5 million or more. Mortgage bonds only.
Appendix-B (continued)

Summary of Statutes Authorizing the Investments of Trust Companies

Massachusetts

Prudent Man Rule x-8
Appendix-B (continued)

Summary of Statutes Authorizing the Investments of Trust Companies

Maryland

Prudent Man Rule
Appendix-B (continued)

Summary of Statutes Authorizing the Investments of Trust Companies

Pennsylvania

Government Bonds

United States x
Pledge of the United States x
Pennsylvania x-9
Any state x-9
Political subdivisions of this state x-9
Political subdivisions of any state x-9
Canada, Dominion, provinces, cities

Railroad Bonds

Equipment trust certificates x-10
First mortgage x-10
Collateral trust x-10
Guaranteed x-10

Electric and Gas Company Bonds

Mortgage bonds x-11,12
Debentures

Telephone Company Bonds

Bonds, notes, debentures x-11,13

Other Issues

Bonds, Fed. Land Banks x
Bonds, Fed. Int. Cr. Bks. x
Bonds, International Bank for Reconstruction
Certain real estate loans x-14
Savings and loan shares
Obligations, housing authorities
Corporate securities x-15
Other obligations and securities
Obligations of Federal Home Loan Banks
Obligations of Home Owners Loan Corporation

Prudent Man Rule
Appendix-B (continued)

14 Loans on real estate to 50% of value. Also bonds secured by mortgage loans.

15 Stocks of trust companies and national banks in this state and the qualifying stock in the Federal Reserve Bank. No other shares eligible for purchase.

16 Also the obligations of the Philippines, Hawaii, Puerto Rico, and District of Columbia.

17 Obligations of foreign governments if no default for 20 years. If the issuer is a political subdivision, the population must be 100,000 or more, net debt no more than 7% of valuations.

18 No default longer than 90 days for 10 years. Population of counties to be 10,000 or more and cities 1,000.

19 No default longer than 90 days for 20 years. Population of 10,000. Net debt must not exceed 7% of property valuations.

20 Marketable obligations of corporations as permitted by the Superintendent of Banks.

21 Bonds and notes secured by mortgages insured by the federal housing administrator.

22 Up to $5,000 in the shares of federal savings and loan associations.

23 Any trust funds in all classifications to be invested only if twice times-earned for 3 years. 75% of obligation to be retired by maturity. Debt limited to 50% of the value of the property covered.

24 Common and preferred stocks included.

25 Population at least 50,000. No default longer than 120 days for 10 years.

26 Limited to 25% of capital stock and surplus in railroad, public service, and foreign country obligations.

27 Limited to 25% of capital stock and surplus in the obligations of individuals, partnerships, and corporations. Two-fifths to be collateral commercial paper equal in value to 115% of the obligation.
Appendix-B (continued)

Summary of Statutes Authorizing the Investments of Trust Companies

Illinois

Prudent Man Rule x-8
### Appendix-B (continued)

#### Summary of Statutes Authorizing the Investments of Trust Companies

<table>
<thead>
<tr>
<th>Category</th>
<th>Authorizations</th>
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<tbody>
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<td><strong>Government Bonds</strong></td>
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<tr>
<td>First mortgage</td>
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<td>Collateral trust</td>
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<tr>
<td>Guaranteed</td>
<td>x-20</td>
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<tr>
<td><strong>Electric and Gas Company Bonds</strong></td>
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</tr>
<tr>
<td>Mortgage bonds</td>
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<tr>
<td>Debentures</td>
<td>x-20</td>
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<td><strong>Telephone Company Bonds</strong></td>
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<tr>
<td>Bonds, notes, debentures</td>
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<td><strong>Other Issues</strong></td>
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<tr>
<td>Bonds, Fed. Land Banks</td>
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<td>Bonds, Fed. Int. Cr. Bks.</td>
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<tr>
<td>Bonds, International Bank for Reconstruction</td>
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<td>Certain real estate loans</td>
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<td>Savings and loan shares</td>
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<td>Obligations, housing authorities</td>
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<tr>
<td>Corporate securities</td>
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<td>Obligations of Federal Home Loan Banks</td>
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<tr>
<td>Obligations of Home Owners Loan Corporation</td>
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</table>

**Prudent Man Rule**
Appendix-B (continued)

Summary of Statutes Authorizing the Investments of Trust Companies

Michigan

Prudent Man Rule x-24
Appendix-B (continued)

Summary of Statutes Authorizing the Investments of Trust Companies

<table>
<thead>
<tr>
<th>Missouri</th>
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<tbody>
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<td>Government Bonds</td>
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<td>Political subdivisions of this state</td>
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<tr>
<td>Canada, Dominion, provinces, cities</td>
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<tr>
<td>Railroad Bonds</td>
</tr>
<tr>
<td>Equipment trust certificates</td>
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<tr>
<td>First mortgage</td>
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<td>Collateral trust</td>
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<tr>
<td>Guaranteed</td>
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<tr>
<td>Electric and Gas Company Bonds</td>
</tr>
<tr>
<td>Mortgage bonds</td>
</tr>
<tr>
<td>Debentures</td>
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<tr>
<td>Telephone Company Bonds</td>
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<tr>
<td>Bonds, notes, debentures</td>
</tr>
<tr>
<td>Other Issues</td>
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<tr>
<td>Bonds, Fed. Land Banks</td>
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<tr>
<td>Bonds, Fed. Int. Cr. Banks</td>
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<tr>
<td>Bonds, International Bank for Reconstruction</td>
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<tr>
<td>Certain real estate loans</td>
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<tr>
<td>Savings and loan shares</td>
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<tr>
<td>Obligations, housing authorities</td>
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<tr>
<td>Corporate securities</td>
</tr>
<tr>
<td>Other obligations and securities</td>
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<tr>
<td>Obligations of Federal Home Loan Banks</td>
</tr>
<tr>
<td>Obligations of Home Owners Loan Corporation</td>
</tr>
</tbody>
</table>

Prudent Man Rule
Appendix-B (continued)

28 The provisions of (x-27) can be 35% if the collateral is in the form of warehouse receipts for agricultural goods.

29 Loans secured by the stock of another bank or trust company is limited to 50% of the stock of such other company.

30 Limited to one-third the capital and surplus in loans secured by bonds or stocks. If the collateral is stocks, the market value must be 15% more than the loan.

31 Limited to 15% of the capital and surplus in stocks.

32 If a trust company does not receive deposits, it can make loans on first mortgages up to two-thirds of value. Also, it can invest in the securities of states or their political subdivisions within an amount equal to capital and surplus.

33 A trust company may invest capital and surplus only as a savings bank is permitted to invest.

34 Limited to 25% of capital and surplus. The debt of the issuer must be limited to 20%.

35 Limited to 20%.

36 Limited to 25%. No default longer than 90 days for 10 years. Times-earned 1 for 5 years. Population of 50,000. Debt limited to 10% of valuation.

37 Limited to 5% in various water district bonds certified as legal.

38 In addition to regular issues, tax anticipation notes. Mature 6 months. Amount not in excess 50% anticipated receipts. Limited to 25% capital and surplus.

39 Revenue bonds up to 10% bank's deposits, if 1 1/10 times-earned on all debt for 5 years, if gross income 2 1/2 million in California or $5 million elsewhere, and if no default for 10 years longer than 90 days.

40 Of this state, if pledged by U. S. or U. S. agency. Limited to 5% of savings deposits.
### Appendix-B (continued)

**Summary of Statutes Authorizing the Investments of Trust Companies**

<table>
<thead>
<tr>
<th>Government Bonds</th>
<th>California</th>
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<tbody>
<tr>
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<tr>
<td>California</td>
<td>x-38,39</td>
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<td>x-36,39</td>
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<table>
<thead>
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<tr>
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<td>Mortgage bonds</td>
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<td>Debentures</td>
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<th>Telephone Company Bonds</th>
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<td>Bonds, notes, debentures</td>
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<table>
<thead>
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<td>Bonds, International Bank</td>
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<td>for Reconstruction</td>
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<tr>
<td>Certain real estate loans</td>
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<td>Savings and loan shares</td>
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<td>Obligations, housing authorities</td>
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<td>Other obligations and securities</td>
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<tr>
<td>Obligations of Federal Home Loan Banks</td>
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<tr>
<td>Obligations of Home Owners Loan Corporation</td>
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</tr>
</tbody>
</table>

| Prudent Man Rule                      | x-8,33     |
Appendix-B (continued)

41 Up to 10% of deposits in industrial obligations; if in unsecured obligations there can be no prior mortgages; gross income must be $10 million for 5 years and net income $1 million; current ratio $2$; limitation of debt to $1/3$ of assets.

42 Up to 5% deposits. Railroad 500 miles or more. For 5 years gross revenue $10 million. For 15 years $1\frac{1}{6}$ times-earned for all Class I railroads and $1\frac{1}{2}$ times-earned for 3 years.

43 Also water companies. Up to 10% deposits if gross revenues $7.5 million, funded debt not to exceed 50% of valuations, twice times-earned for 4 of last 5 years, bond issue to be at least $1$ million.

44 Up to 10% of deposits if gross revenues $7.5 million, funded debt 50% of fixed assets, twice times-earned for 4 of last 5 years, bond issue to be at least $1$ million.

45 Water company mortgage bonds up to $2\frac{1}{2}$% of assets if the issuer serves a population of 25,000, funded debt limited to 60% of fixed assets of issuer, times-earned of $1\frac{1}{2}$ for 4 of last 5 years, bond issue to be at least $1$ million.
Appendix-C

Summary of Statutes Authorizing the Investments of Life Insurance Companies

New York

Government Bonds
- United States: x-1,2
- Pledge of the United States: x-1,2
- New York: x-1,2,3
- Any state: x-1,2,3
- Political subdivisions of this state: x-1,2,3
- Political subdivisions of any state: x-1,2,3
- Canada, Dominion, provinces, cities: x-9

Railroad Bonds
- Equipment trust certificates: x-4
- First mortgage: x-4
- Collateral trust: x-4
- Guaranteed: x-4

Electric and Gas Company Bonds
- Mortgage bonds: x-4
- Debentures: x-4

Telephone Company Bonds
- Bonds, notes, debentures: x-4

Other Issues
- Bonds, Fed. Land Banks: x-15
- Bonds, Fed. Int. Cr. Banks: x-15
- Bonds, International Bank for Reconstruction: x-15
- Certain real estate loans: x-1,15
- Obligations, housing authorities: x-11
- Corporate securities: x-5
- Other obligations and securities: x-7,8,10,16
- Obligations, Federal Home Loan Banks: x-12
- Obligations, Home Owners Loan Corporation: x-14
- Preferred stocks: x-6
- Shares, savings and loan associations: x-6a
- Common stocks: x-6a
Appendix-C (continued)

1. Minimum capital to be invested in (x-1) designations, with 40% permitted in issues of any State, and, Certain real estate loans.

2. No record of defaults.

3. Not eligible if payable out of special assessments.

4. If secured by collateral (stocks limited to one-third the collateral); times-earned 1\(\frac{1}{2}\) in 3 of 5 last years; for notes and debentures 1\(\frac{1}{2}\) times-earned for 5 years.

5. Contingent interest obligations must have 1\(\frac{1}{2}\) times-earned for 5 years.

6. Limited to 10%. No defaults. Prior obligations eligible. For 5 years 1\(\frac{1}{2}\) times-earned on obligations plus preferred stock requirements.

6a. Limited to 3% of assets or 1/3 of surplus. Issuer must have paid 4% dividends for 10 years.

6b. Limited to 25% of assets as well as 10% of the surplus of the purchaser; only 10% of the stock of the issuing company.

7. Trustee's or receiver's obligations if adequately secured and if assets under a court jurisdiction.

8. Bank acceptances and bills of exchange approved if these instruments also eligible for purchase by Federal Reserve Banks.

9. Issues of cities not eligible. Up to 10% assets but limited to 1\(\frac{1}{2}\) times-reserves under contracts written in Canada. No defaults.

10. (x-9) provisions apply in foreign countries where insurance written. 10% limitation inclusive of foreign currency.

11. As authorized by Superintendent of Insurance. If stock, all shares must be issued to one or more insurance companies.

12. Including stock.

13. Limited to 5%.

14. Limited to 25%. 
Appendix-C (continued)

Summary of Statutes Authorizing the Investments
of Life Insurance Companies

**Massachusetts**

### Government Bonds
- **United States**
- **Pledge of the United States**
- **Massachusetts**
- **Any state**
- **Political subdivisions of this state**
- **Political subdivisions of any state** x-17
- **Canada, Dominion, provinces, cities** x-17

### Railroad Bonds
- **Equipment trust certificates** x-22
- **First mortgage** x-19,20,21
- **Collateral trust** x-18
- **Guaranteed** x-18

### Electric and Gas Company Bonds
- **Mortgage bonds** x-24
- **Debentures**

### Telephone Company Bonds
- **Bonds, notes, debentures** x-25

### Other Issues
- **Bonds, Fed. Land Banks** x
- **Bonds, Fed. Int. Cr. Banks**
- **Bonds, International Bank for Reconstruction**
- **Certain real estate loans** x-15
- **Obligations, housing authorities** x
- **Corporate securities** x-26
- **Other obligations and securities** x-23,8,16,27,28
- **Obligations, Federal Home Loan Banks**
- **Obligations, Home Owners Loan Corporation**
- **Preferred stocks**
- **Shares, savings and loan associations**
- **Common stocks** x-6b
Appendix C (continued)

15 Purchase of lands and erection of housing projects permitted. Also real estate loans.

16 Policy loans can be made.

17 Population 100,000. Debt limited to 5% of property valuations.

18 If incorporated in this state.

19 If capital stock equals one-third the funded debt. No default for 5 years and paid 4% on all capital stock. For 3 of 5 last years, $1 \frac{1}{2} \text{ times-earned}.

20 If mortgage bond issuer has junior liens, latter to equal one-third the debt of mortgage bonds. No default for 5 years. For 5 years paid 4% on junior liens.

21 Also in Canadian railroads if these qualify under (x-19) and (x-20).

22 Issue not to exceed 90% of cost and to mature within fifteen years. Such issues of Canada approved.

23 Of American Telephone and Telegraph Company or affiliates.

24 For 3 of 5 last years 2 times-earned for electric companies and 2\frac{1}{2} times-earned for gas companies. Canadian companies eligible.

25 For 3 of 5 last years 1\frac{1}{2} times-earned. Only first mortgage bonds. Canadian companies eligible.

26 Except for any part of reserve, in the capital stock of any insurance company.

27 Indebtedness of any U. S. or Canadian corporation if for 7 years average 4 times-earned. Limited to one-half the capital and reserve.

28 Domestic life companies not permitted to invest where subject to assessments. Limited to 10% of capital and surplus in any one corporation. Can invest stock of a New England trust company if issuer paid 4% for 5 years and if surplus is one-half the capital stock. Limited to 2\frac{1}{2}% of reserves.
Appendix-C (continued)

Summary of Statutes Authorizing the Investments of Life Insurance Companies

<table>
<thead>
<tr>
<th>Pennsylvania</th>
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<tbody>
<tr>
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<td>Pledge of the United States</td>
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<td>Political subdivisions of this state</td>
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<td>Canada, Dominion, provinces, cities</td>
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<table>
<thead>
<tr>
<th>Railroad Bonds</th>
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<tr>
<td>Equipment trust certificates</td>
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<tr>
<td>First mortgage</td>
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<tr>
<td>Collateral trust</td>
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<tr>
<td>Guaranteed</td>
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<th>Electric and Gas Company Bonds</th>
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<td>Mortgage bonds</td>
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<td>Debentures</td>
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<tr>
<th>Telephone Company Bonds</th>
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<tbody>
<tr>
<td>Bonds, notes, debentures</td>
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<tr>
<th>Other Issues</th>
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<td>Bonds, Fed. Int. Cr. Banks</td>
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<tr>
<td>Bonds, International Bank for Reconstruction</td>
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<tr>
<td>Certain real estate loans</td>
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<td>Obligations, housing authorities</td>
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<tr>
<td>Corporate securities</td>
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<tr>
<td>Other obligations and securities</td>
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<tr>
<td>Obligations, Federal Home Loan Banks</td>
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<tr>
<td>Obligations, Home Owners Loan Corporation</td>
</tr>
<tr>
<td>Preferred stocks</td>
</tr>
<tr>
<td>Shares, savings and loan associations</td>
</tr>
</tbody>
</table>
Appendix-C (continued)

29 Dominion issues only.

30 Other corporate bonds and notes if \( \frac{3}{2} \) times-earned for five years.

31 In addition to real estate loans, loans on leaseholds up to two-thirds value, unless FHA insured. Loan to be amortized. Limited to 2% of assets.

32 Obligations issued or guaranteed by Federal Savings and Loan Insurance Corporation.

33 Surplus and capital (25% of capital) in the stock or obligations of any U. S. or Canadian corporation that is solvent. Also collateral loans to 30% of value.

34 Sufficient in issues of foreign countries to do business in those countries.

35 Up to 10% in the stocks of owned or leased property for housing or commercial or domestic renting.

36 Up to 5% in common stocks.

37 Up to 5% in the shares of Canadian corporations or trusts and the bonds or debt of any Canadian political subdivision.
Appendix-C (continued)

Summary of Statutes Authorizing the Investments of Life Insurance Companies

<table>
<thead>
<tr>
<th>Illinois</th>
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<tbody>
<tr>
<td>Government Bonds</td>
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<td>Pledge of the United States</td>
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<tr>
<td>Any state</td>
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<tr>
<td>Political subdivisions of this state</td>
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<tr>
<td>Political subdivisions of any state</td>
</tr>
<tr>
<td>Railroad Bonds</td>
</tr>
<tr>
<td>Equipment trust certificates</td>
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<tr>
<td>First mortgage</td>
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<tr>
<td>Collateral trust</td>
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<tr>
<td>Guaranteed</td>
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<tr>
<td>Electric and Gas Company Bonds</td>
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<td>Mortgage bonds</td>
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<td>Debentures</td>
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<tr>
<td>Telephone Company Bonds</td>
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<tr>
<td>Bonds, notes, debentures</td>
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<td>Other Issues</td>
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<td>Bonds, International Bank for Reconstruction</td>
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<td>Obligations, housing authorities</td>
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<td>Corporate securities</td>
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<tr>
<td>Other obligations and securities</td>
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<td>Obligations, Federal Home Loan Banks</td>
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<td>Obligations, Home Owners Loan Corporation</td>
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<tr>
<td>Preferred stocks</td>
</tr>
<tr>
<td>Shares, savings and loan associations</td>
</tr>
</tbody>
</table>
Appendix-C (continued)

38 Debt limited to 10% of property valuations.

39 Up to one-third assets in the obligations of public utility companies. No defaults for 5 years. No holding company securities eligible.

40 Up to one-third assets in railroad obligations, except no securities in holding companies permitted. No defaults for 5 years.

41 Up to 10% in preferred or guaranteed stocks, except no such stocks in other insurance companies, if the prescribed dividends are being paid.

42 Collateral loans can be made if the collateral is equal to 125% of the loan.

43 Up to 25% in tax anticipation obligations. Valid investing principle for other states if there is reciprocity.

44 Insured shares of associations of this state.

45 Up to 5%.

46 In addition to (x-41), in the shares of a corporation if the shares are traded on a national exchange and if the earnings totaled 12% in 3 of the 5 last years, except the shares of insurance companies, banks, and real estate holding companies not eligible. Limited to 50% of purchaser's surplus.

47 In addition to real estate loans, up to 10% for the erection of apartment and dwelling houses.
Appendix-C (continued)

Summary of Statutes Authorizing the Investments of Life Insurance Companies

Ohio

Government Bonds
United States x
Pledge of the United States x
Ohio x
Any state x
Political subdivisions of this state x-49
Political subdivisions of any state x-49
Canada, Dominion, provinces, cities x-50

Railroad Bonds
Equipment trust certificates x-48
First mortgage x-51
Collateral trust
Guaranteed

Electric and Gas Company Bonds
Mortgage bonds x-51
Debentures

Telephone Company Bonds
Bonds, notes, debentures x-51,52

Other Issues
Bonds, Fed. Land Banks x
Bonds, International Bank for Reconstruction x
Certain real estate loans x-53,53
Obligations, housing authorities x
Corporate securities x-54,56
Other obligations and securities x-16,8,57,59
Obligations, Federal Home Loan Banks
Obligations, Home Owners Loan Corporation x
Preferred stocks x-55
Shares, savings and loan associations x-44
Appendix-C (continued)

48 Amortized within 16 years.
49 If the population 5,000 or more and income by tax levy.
50 Dominion and provincial issues only.

51 For 5 years 1 1/2 times-earned; on junior liens 3 times-earned for 5 years. Must have been in business 10 years and had no defaults for 5 years.

52 Only mortgage bonds eligible.

53 Bonds or mortgages on real estate; also, ground rents, land trust certificates in leased real property.

54 Preferred stocks of utilities if 2 times-earned for 5 years. Debt plus preferred stock limited to 70% of total capitalization.

55 For 5 years 4 times-earned after interest on prior debt and provision for depreciation. Common stock to be 40% of total capitalization. Total not to exceed capital, surplus, and contingency funds.

56 Bonds, notes, debentures if for 5 years no default and 3 times-earned.

57 One-year loans supported by collateral worth 20% more than the loan.

58 Loans insured under Servicemen's Readjustment Act.

59 Up to 5% of assets in loans or investments not otherwise eligible.

60 All investments eligible except mining and manufacturing stocks. However, electric and gas company stocks are approved. The stocks of any private corporation must have paid dividends of 3 1/4% for 5 years. No default on bond issues for 5 years. Loans limited to 50% of mortgage value or 90% of collateral value.
Appendix-G (continued)

Summary of Statutes Authorizing the Investments of Life Insurance Companies

Connecticut (x-60)

Government Bonds
- United States
- Pledge of the United States
- Connecticut
- Any state
- Political subdivisions of this state
- Political subdivisions of any state
- Canada, Dominion, provinces, cities

Railroad Bonds
- Equipment trust certificates
- First mortgage
- Collateral trust
- Guaranteed

Electric and Gas Company Bonds
- Mortgage bonds
- Debentures

Telephone Company Bonds
- Bonds, notes, debentures

Other Issues
- Bonds, Fed. Land Banks
- Bonds, Fed. Int. Cr. Banks
- Bonds, International Bank for Reconstruction
- Certain real estate loans
- Obligations, housing authorities
- Corporate securities
- Other obligations and securities
- Obligations, Federal Home Loan Banks
- Obligations, Home Owners Loan Corporation
- Preferred stocks
- Shares, savings and loan associations
61 Loans limited to 50% of value, or two-thirds of value if the loan amortized and insurance company carries reserve for amount first given above. Loans on leaseholds amortized for maturity in 9/10 of leasehold period.

62 Also of Canadian companies.

63 If stock purchased on which dividends not paid in full during the past 5 years; purchase must be of majority of stock.

64 Purchase of stock in any one company limited to 20% of that company's voting stock, or 2% of insurance company's assets. Limited to 10% of the debt obligations of any one company.

65 Title company and guaranteed mortgage loans. Mortgage participation certificates.

66 Obligations of South Jersey Port District; of Port of New York Authority; first mortgage bonds of camp meeting associations; of Delaware River Joint Commission; by a commission appointed by the New Jersey Supreme Court; the South Jersey Transit Authority; Gloucester County Tunnel bonds; New Jersey Turnpike Authority bonds.

67 FHA insured loans.
Appendix-C (continued)

Summary of Statutes Authorizing the Investments of Life Insurance Companies

California

Government Bonds
United States x
Pledge of the United States x
California x-70
Any state x-70
Political subdivisions of this state x-69
Political subdivisions of any state x-69
Canada, Dominion, provinces, cities x-68

Railroad Bonds
Equipment trust certificates x-76
First mortgage
Collateral trust
Guaranteed

Electric and Gas Company Bonds
Mortgage bonds
Debentures

Telephone Company Bonds
Bonds, notes, debentures

Other Issues
Bonds, Fed. Land Banks x
Bonds, Fed. Int. Cr. Banks
Bonds, International Bank for Reconstruction x-77
Certain real estate loans x-72,73
Obligations, housing authorities x-75,79
Corporate securities
Other obligations and securities x-71,58,73,74,76,16,34

Obligations, Federal Home Loan Banks
Obligations, Home Owners Loan Corporation x
Preferred stocks
Shares, savings and loan associations
Summary of Statutes Authorizing the Investments of Life Insurance Companies

**New Jersey**

**Government Bonds**
- United States
- Pledge of the United States
- New Jersey
- Any state
- Political subdivisions of this state
- Political subdivisions of any state
- Canada, Dominion, provinces, cities

**Railroad Bonds**
- Equipment trust certificates
- First mortgage
- Collateral trust
- Guaranteed

**Electric and Gas Company Bonds**
- Mortgage bonds
- Debentures

**Telephone Company Bonds**
- Bonds, notes, debentures

**Other Issues**
- Bonds, Fed. Land Banks
- Bonds, Fed. Int. Cr. Banks
- Bonds, International Bank for Reconstruction
- Certain real estate loans
- Obligations, housing authorities
- Corporate securities
- Other obligations and securities
- Obligations, Federal Home Loan Banks
- Obligations, Home Owners Loan Corporation
- Preferred stocks
- Shares, savings and loan associations
Appendix-C (continued)

68 Obligations of Dominion or provinces only if for 10 years no default longer than 90 days.

69 For 2 years no default longer than 90 days.

70 For 10 years no default longer than 90 days.

71 Bonds of any permanent road division of this state if legal for savings banks.

72 Notes or bonds secured by mortgage or title insurance and insured mortgage participation certificates.

73 Collateral trust bonds or notes with collateral as legal herein and 15% greater in value (20% greater in value when combined with other securities).

74 Warrants of this state.

75 Excess funds in common stock.

76 Excess funds in any corporate interest-bearing obligations.

77 Up to 25% of capital and surplus.

78 Excess funds in first mortgage five-year loans on leaseholds of 50 years or more, but limited to 60% of value.

79 Excess funds up to 25% of surplus in the stock or obligations of corporations "if they are sound investments". Loans up to 85% of market value of collateral securities.
### Appendix-D

**Summary of Statutes Authorizing the Investments of Savings and Loan Associations**

**New York**

<table>
<thead>
<tr>
<th>Shares, Savings and Loan Bank of N. Y.</th>
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<tbody>
<tr>
<td>Obligations, Savings and Loan Bank of N. Y.</td>
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<tr>
<td>Shares, Federal Home Loan Bank</td>
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<td>Obligations, Federal Home Loan Bank</td>
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<td>Other securities</td>
<td>x-2</td>
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<tr>
<td>Shares, savings and loan associations</td>
<td>x-3</td>
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<td>Real estate loans</td>
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<tr>
<td>Limit</td>
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<tr>
<td>Security</td>
<td>x-5</td>
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<tr>
<td>Type</td>
<td>x-6</td>
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<tr>
<td>Maximum</td>
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<tr>
<td>Period</td>
<td>x-8</td>
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</table>

<table>
<thead>
<tr>
<th>United States Pledge of the United States Federal Savings and Loan Insurance Corporation</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New York Federal Land Banks Federal Farm Mortgage Corp.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other real estate Housing authorities District of Columbia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political subdivisions of this state Home Owners Loan Corporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political subdivisions of any state or territory National mortgage ass'ns.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RFC</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix-D (continued)

1 Limited to 5% of assets except by approval of Superintendent of Banking.

2 Securities authorized for savings banks.

3 Shares of other savings and loan associations if funds not needed for loans to members.

4 For occupancy plus revenue purposes. Limited to 25% of surplus.

5 80% on improved real estate; 60% if building value not equal to the land; 50% on unimproved property, but limited to 15% of capital; 66 2/3% on residences.

6 Amortized, except no restrictions on residences.

7 No limit.

8 Twenty years, except no limit on improved real estate.
Appendix-D (continued)

Summary of Statutes Authorizing the Investments of Savings and Loan Associations

Massachusetts

Shares, Savings and Loan
Bank of N. Y.
Obligations, Savings and Loan Bank of N. Y.
Shares, Federal Home Loan Bank
Obligations, Federal Home Loan Bank
Other securities
Shares, savings and loan associations
Operating building
Real estate loans
Limit
Security
Type
Maximum
Period
United States
Pledge of the United States
Federal Savings and Loan Insurance Corporation
Massachusetts
Federal Land Banks
Federal Farm Mortgage Corp.
Other real estate
Housing authorities
District of Columbia
Political subdivisions of this state
Home Owners Loan Corporation
Political subdivisions of any state or territory
National mortgage ass'ns.
Reconstruction Finance Corporation
Appendix-D (continued)

9 Limited to surplus and guaranty fund and not in excess of $2\frac{1}{2}$% of the share liability, or $100,000.

10 Loans to other cooperative banks or holders of shares in other cooperative banks.

11 Eighty per cent on improved real estate; 50% on unimproved real estate.

12 Direct reduction or sinking fund.

13 $8,000. 5% of portfolio in loans up to $10,000.

14 Twenty years.
Appendix-D (continued)

Summary of Statutes Authorizing the Investments of Savings and Loan Associations

Pennsylvania

Shares, Savings and Loan Bank of N. Y.
Obligations, Savings and Loan Bank of N. Y.
Shares, Federal Home Loan Bank x
Obligations, Federal Home Loan Bank x
Other securities x
Shares, savings and loan associations x-15
Operating building x-16
Real estate loans:
Lim it x-17
Type x-12
Security x-17
Maximum x-18
Period x-19
United States x
Pledge of the United States x
Federal Savings and Loan Insurance Corporation x
Pennsylvania x
Federal Land Banks x
Federal Farm Mortgage Corporation x
Other real estate x
Housing authorities x
District of Columbia x
Political subdivisions of this state x
Home Owners Loan Corporation x
Political subdivisions of any state or territory x
National mortgage ass'ns. x
Reconstruction Finance Corporation x
Appendix-D (continued)

15 Shares of membership in any U. S. corporation or agency.

16 Limited to 5% of share values. Investment to be approved by Superintendent of Banking. Improvements limited to $5,000 if assets $5 million, and $10,000 if assets over $5 million.

17 Eighty per cent. Dwelling size limited to four families.

18 $20,000. 5% of share liability if over $10,000.

19 No limit.
## Appendix-D (continued)

**Summary of Statutes Authorizing the Investments of Savings and Loan Associations**

### Illinois

<table>
<thead>
<tr>
<th>Shares, Savings and Loan Bank of N. Y.</th>
<th>x</th>
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</thead>
<tbody>
<tr>
<td>Obligations, Savings and Loan Bank of N. Y.</td>
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</tr>
<tr>
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<td>Obligations, Federal Home Loan Bank</td>
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<tr>
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<td>x</td>
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<tr>
<td>Shares, savings and loan associations</td>
<td>x</td>
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<tr>
<td>Operating building</td>
<td>x</td>
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<tr>
<td>Real estate loans</td>
<td>x</td>
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<td>Limit</td>
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<td>Security</td>
<td>x</td>
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<tr>
<td>Type</td>
<td>x</td>
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<td>Maximum</td>
<td>x</td>
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<tr>
<td>Period</td>
<td>x</td>
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<tr>
<td>United States</td>
<td>x-20</td>
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<tr>
<td>Federal Savings and Loan Insurance Corporation</td>
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<td>Illinois</td>
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<td>Federal Land Banks</td>
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<tr>
<td>Federal Farm Mortgage Corp.</td>
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<td>Other real estate</td>
<td>x-21</td>
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<td>Housing authorities</td>
<td>x-22</td>
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<td>District of Columbia</td>
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<tr>
<td>Political subdivisions of this state</td>
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<tr>
<td>Home Owners Loan Corporation</td>
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<td>National mortgage ass'ns.</td>
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<tr>
<td>Reconstruction Finance Corporation</td>
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</tbody>
</table>
Appendix-D (continued)

20 Aggregate in (x-20) limited to 50% of assets.

21 If approved by the Auditor of Public Accounts, an association can erect apartments and houses on land declared and designated for slum clearance. Can rent or sell. Limited to 10% of assets.

22 Also neighborhood redevelopment corporations. Limited to 50% of assets. Must be excess funds.

23 Idle or excess funds only.

24 Limited to 10% of assets in the aggregate for (x-24). Other securities eligible to secure government deposits in national banks.

25 (1) 75% on improved residences serving combined house and business. (2) 75% on farms. (3) 66 2/3% on improved residences or combined house and business or farm. (4) 50% on unamortized loans. (5) 50% on permanently improved real estate if the value of the building is 50% or more of total value. (6) 40% if the loan not amortized.

26 Amortized. (1) weekly, or monthly. (2) weekly, monthly, quarterly, and semi-annually. (3) 2 1/2% of principal each six months. (4) straight. (5) monthly (or weekly) principal and interest payments of 1%. (6) straight.

27 (1), (2), (3), (4), $20,000. (5) and (6) together not to exceed 15% of assets.

28 (1) and (2) 20 years. (3) and (4) 5 years. (5) no limit. (6) 2 years.
## Appendix-D (continued)

### Summary of Statutes Authorizing the Investments of Savings and Loan Associations

#### Ohio

<table>
<thead>
<tr>
<th>Shares, Savings and Loan Bank of N. Y.</th>
<th>Obligations, Savings and Loan Bank of N. Y.</th>
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<tbody>
<tr>
<td>Shares, Federal Home Loan Bank</td>
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<td>Other securities</td>
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<td>Shares, savings and loan associations</td>
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<td>Real estate loans</td>
<td>Real estate loans</td>
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<td>Limit</td>
<td>Security</td>
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<tr>
<td>District of Columbia</td>
<td>Political subdivisions of this state</td>
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<td>Political subdivisions of this state</td>
<td>Home Owners Loan Corporation</td>
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<td>Home Owners Loan Corporation</td>
<td>Political subdivisions of any state or territory</td>
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<td>National mortgage ass'ns.</td>
<td>Reconstruction Finance Corporation</td>
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</table>

x-24

x-25

x-26

x-27

x-28

x-29

x-30

x-24

x-24

x-24
Appendix-D (continued)

Summary of Statutes Authorizing the Investments of Savings and Loan Associations

Indiana

| Shares, Savings and Loan Bank of N. Y. | x |
| Obligations, Savings and Loan Bank of N. Y. | x-23 |
| Shares, Federal Home Loan Bank | x |
| Obligations, Federal Home Loan Bank | x-23 |
| Other securities | x-29 |
| Shares, savings and loan associations | x-29 |
| Operating building | x-29 |
| Real estate loans | x-32 |
| Limit | x-32 |
| Security | x-33 |
| Type | x-34 |
| Maximum | x-35 |
| Period | x-35 |
| United States | x-23 |
| Pledge of the United States | x-23 |
| Federal Savings and Loan Insurance Corporation | x-23 |
| Indiana | x-23 |
| Federal Land Banks | x-23 |
| Federal Farm Mortgage Corporation | x-23 |
| Other real estate | x-23 |
| Housing authorities | x-23 |
| District of Columbia | x-23 |
| Political subdivisions of this state | x-23 |
| Home Owners Loan Corporation | x-23 |
| Political Subdivisions of any state or territory | x-31 |
| National mortgage ass'ns. | x-31 |
| Reconstruction Finance Corporation | x-31 |
Appendix-D (continued)

29 In equipment, limited to 5% of contingency fund and undivided profits. Building cost limited to contingency fund or $100,000 unless approved.

30 Limited to 5% in purchased property if concurrent contract sale to members.

31 No default for 5 years.

32 (1) 75% on house or combined house and business. (2) 60% on other improvements. (3) 50% on real estate if loan not amortized.

33 (1) and (2) direct reduction.

34 One per cent of assets up to $10,000.

35 (1) and (2) 20 years. (3) 5 years.
### Appendix-D (continued)

**Summary of Statutes Authorizing the Investments of Savings and Loan Associations**

**California**

| Shares, Savings and Loan Bank of N. Y. |  |
| Obligations, Savings and Loan Bank of N. Y. |  |
| Shares, Federal Home Loan Bank | x |
| Obligations, Federal Home Loan Bank |  |
| Other securities | x-36,2,39 |
| Shares, savings and loan associations |  |
| Operating building |  |
| Real estate loans |  |
| Limit | x-40 |
| Security | x-40 |
| Type | x-41 |
| Maximum | x-42 |
| Period | x-43 |
| United States |  |
| Pledge of the United States |  |
| Federal Savings and Loan Insurance Corporation |  |
| California | x |
| Federal Land Banks |  |
| Federal Farm Mortgage Corporation |  |
| Other real estate |  |
| Housing authorities |  |
| District of Columbia |  |
| Political subdivisions of this state | x-37,39 |
| Home Owners Loan Corporation |  |
| Political subdivisions of any state or territory | x-38 |
| National mortgage ass'ns. | x-39 |
| Reconstruction Finance Corporation |  |
Appendix-D (continued)

36 Bonds of any railroad or public utility if approved by the Commissioner. Obligations of mortgage insurance companies of this state are eligible.

37 In addition to issues of political subdivisions, California street improvement bonds are eligible if approved by the Commissioner, but limited to 2% of assets.

38 If approved by the Commissioner.

39 Aggregate of (x-36, 37, 39) limited to 10% of assets.

40 (1) 80% single family house. (2) 70% improved real property. (3) 60% unimproved real property if a 3 year loan, or 33 1/3% if a 20 year loan.

41 (1) direct reduction. (2) amortized. (3) and (4) either.

42 (1) $6,000. (2), (3), (4) 1% of assets except this provision does not apply to loans under $10,000.

43 (1) 20 years. (2) 20 years. (3) 3 years. (4) 20 years.
Appendix-D (continued)

Summary of Statutes Authorizing the Investments of Savings and Loan Associations

**Florida**

<table>
<thead>
<tr>
<th>Shares, Savings and Loan</th>
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<tr>
<td>Bank of N. Y.</td>
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<table>
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<tr>
<th>Obligations, Savings and Loan Bank of N. Y.</th>
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<tbody>
<tr>
<td>Shares, Federal Home Loan Bank</td>
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<tr>
<td>Obligations, Federal Home Loan Bank</td>
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<td>Other securities</td>
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<td>Shares, savings and loan associations</td>
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<td>Housing authorities</td>
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<tr>
<td>District of Columbia</td>
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<td>Political subdivisions of this state</td>
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<td>Home Owners Loan Corporation</td>
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<tr>
<td>National mortgage ass'ns.</td>
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<tr>
<td>Reconstruction Finance Corporation</td>
</tr>
</tbody>
</table>
Appendix-D (continued)

44 Seventy per cent of value.

45 If approved by State Comptroller, or in shares of any federal or state agency created to loan to savings and loan associations. Also to buy any loans insured by a federal agency.

46 Limited to one-half the reserve for contingencies unless otherwise approved.

47 No restrictions.

48 $20,000.

49 No limit.
## Appendix-D (continued)

### Summary of Statutes Authorizing the Investments of Savings and Loan Associations

**Georgia**

| Shares, Savings and Loan Bank of N. Y. | x
| Obligations, Savings and Loan Bank of N. Y. | x
| Shares, Federal Home Loan Bank | x
| Obligations, Federal Home Loan Banks | x
| Other securities | x-50
| Shares, savings and loan associations | x-51
| Operating building
| Real estate loans
| Limit | x-52
| Security | x-52
| Type | x-53
| Maximum | x-54
| Period | x-55
| United States | x
| Pledge of the United States | x
| Federal Savings and Loan Insurance Corporation | x
| Georgia | x
| Federal Land Banks | x
| Federal Farm Mortgage Corporation | x
| Other real estate housing authorities | x
| District of Columbia | x
| Political subdivisions of this state | x
| Home Owners Loan Corporation | x
| Political subdivisions of any state or territory | x
| National mortgage ass'ns. | x
| Reconstruction Finance Corporation | x
In any investments approved by the Secretary of State.

If shares insured by the Federal Savings and Loan Insurance Corporation, but limited to $5,000 in any one.

Seventy-five per cent on house loans.

Amortized.

$20,000.

Twenty-five years.
Appendix-D (continued)

Summary of Statutes Authorizing the Investments of Savings and Loan Associations

Kentucky

| Shares, Savings and Loan Bank of N. Y. | x-57 |
| Obligations, Savings and Loan Bank of N. Y. | x |
| Shares, Federal Home Loan Bank | x |
| Obligations, Federal Home Loan Bank | x |
| Other securities | x-56 |

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<th>Shares, savings and loan associations Operating building Real estate loans</th>
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<td>x-57</td>
</tr>
<tr>
<td>Type</td>
<td>x-58</td>
</tr>
<tr>
<td>Maximum</td>
<td>x-59</td>
</tr>
<tr>
<td>Period</td>
<td>x-60</td>
</tr>
</tbody>
</table>

United States
Pledge of the United States
Federal Savings and Loan Insurance Corporation

Kentucky
Federal Land Banks
Federal Farm Mortgage Corporation
Other real estate
Housing authorities
District of Columbia
Political subdivisions of this state
Home Owners Loan Corporation | x |
Political subdivisions of any state or territory
National mortgage ass'ns.
Reconstruction Finance Corporation
Appendix-D (continued)

56 Excess in "good and safe bonds", or as banks are permitted to invest.

57 No limit. Real estate.

58 Direct reduction.

59 No limit.

60 No limit.
Appendix-D (continued)

Summary of Statutes Authorizing the Investments of Savings and Loan Associations

Texas

Shares, Savings and Loan
Bank of N. Y.
Obligations, Savings and
Loan Bank of N. Y.
Shares, Federal Home Loan Bank x-61
Obligations, Federal Home
Loan Bank x-61
Other securities x-62
Shares, savings and loan
associations x
Operating building x
Real estate loans
Limit x-63
Security x-63
Type x-64
Maximum x-65
Period x-66
United States x-61
Pledge of the United States x-61
Federal Savings and Loan
Insurance Corporation
Texas x-61
Federal Land Banks
Federal Farm Mortgage Corporation
Other real estate
Housing authorities
District of Columbia
Political subdivisions of
this state x-61
Home Owners Loan Corporation x-61
Political subdivisions of
any state or territory
National mortgage ass'ns. x-61
Reconstruction Finance
Corporation x-61
Appendix-D (continued)

61 Excess funds. No defaults for 10 years. (61) and (62) limited to 25%.

62 Railroad and utility corporations 2 times-earned for 5 years. Other securities as approved by Banking Commissioner. Also other loans; first mortgage, amortized monthly, limited to 60% of value, period of 5 years.

63 (1) 80% on a one to four-family house. (2) 65% on other real estate.

64 All direct reduction.

65 $5,000 to $50,000 depending upon assets. Loans in excess of $50,000 in the aggregate cannot exceed 1% of assets.

66 Twenty-five years.
February 28, 1952

Dear Sir:

I am impressed with the primary importance and the volume of money placed in the care of the nation's basic savings institutions. A contribution can be made by more enlightenment upon the nature of these savings.

Your experience as a state administrator can be very helpful to me in connection with my attempt currently to write in the field of legal investments. I shall be very grateful to you if you will supply the information called for in the six questions on the attached sheet. A stamped, self-addressed envelope is enclosed for your reply. I invite from you additional information and comments which will aid in understanding your problems and experiences. Thank you kindly.

Very truly yours,

Edwin Grossnickle
Appendix-E (continued)
State of ______________________

I. Title of state regulatory officer supervising legal investments of

- Savings banks ..................................................
- Trust Companies ...........................................
- Savings and Loan Associations ..........................
- Life Insurance Companies .................................

II. Are any of the following governed by the "prudent man rule"? Please answer "yes" or "no."

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings and Loan Assoc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

III. Frequency of checking an institution's investments:

<table>
<thead>
<tr>
<th></th>
<th>Annually</th>
<th>Twice Annually</th>
<th>Less Than Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings and Loan Assoc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IV. Does proof of conformity of portfolio rest upon the institutions?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings and Loan Assoc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

V. Do most institutions so strive to conform to requirements that the practical effect is self-administration?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings and Loan Assoc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

VI. If any of an institution's investments do not conform to the law, how long is the institution given to adjust to conformity?

<table>
<thead>
<tr>
<th></th>
<th>Reasonable Period</th>
<th>As specified by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>of Time</td>
<td>Regulating Officer</td>
</tr>
<tr>
<td>Savings Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings and Loan Assoc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Do examiners "follow through"; or, is a case of non-conformity turned over to the regulatory officer?

Comments:
In connection with some writing which I am attempting to complete in the field of legal investments, I shall be very grateful to you if you will answer the following questions. A contribution can be made by more enlightenment on legal investments and your helpfulness will be useful. I invite from you additional information or comments which would aid in understanding your problems and experiences. A stamped, self-addressed envelope is enclosed for your reply. Thank you kindly for your cooperation.

Very truly yours,

Edwin Grossnickle

How frequently do the state examiners inspect your investment portfolio? (approximately)

Is it your opinion that most New York savings banks so strive to conform to the legal list that the practical effect is self-administration?

If you have known of cases in which a savings bank was informed that some of its investments did not conform to the law, what corrective steps were followed?

If sales are ordered, within what time limits must such sales be consummated?

Are you of the opinion that too many securities of good quality are omitted from the legal list?

If the "prudent man rule" were followed, is it probable that:

a) the investment return would be larger?

b) the investment position would be just as dollar-safe as under the legal list?
Is the legal list broad enough for the vast amount of funds calling for investment?

Comments:

Name and title of officer

Bank

City
BIBLIOGRAPHY

A. Books


B. Periodicals


Bankers Magazine, August, 1937.


Fortune, May, 1938.


The Journal of Business of the University of Chicago, January, 1938.


Trusts and Estates, November, 1939; January, 1946.


C. Reports


Superintendent of Banks, State of New York, One Hundred First Annual Report, 1951.
Autobiography

I, Edwin Eugene Grossnickle, was born in North Manchester, Indiana, May 14, 1913. I received my secondary school education in the public schools of that city. My undergraduate training was obtained at Manchester College, North Manchester, Indiana, from which I received the degree of Bachelor of Arts in 1935. From the State University of Iowa, I received the degree Master of Arts in 1939. I entered the Ohio State University in 1940 and became a candidate for the degree Doctor of Philosophy in October, 1941. During the year 1941-1942 I served as a grading and teaching assistant. During 1942-1943 I was an Assistant Professor at Manchester College, North Manchester, Indiana. From 1943 to 1952 I served as denominational Treasurer for the Church of the Brethren. From June, 1952, to the present I have served as Secretary and Treasurer of Rohrer, Hibler & Replogle, psychological consultants to management.