

## SENATE.....No. 36.

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### Commonwealth of Massachusetts.

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IN SENATE, February 19, 1846.

The Joint Standing Committee on Banks and Banking, to whom was committed an Order of the 24th ult. referring to said Committee the Abstract of the Returns of the several Institutions for Savings, "with instructions to examine the same and report whether or not they have been conducted during the past year, in accordance with the laws of the Commonwealth," have attended to that duty and submit their

### REPORT :

Savings Banks deserve a high place among charitable institutions, for their management not less than for their effects. It is a great result to redeem from unheeding waste so large a sum, as ten millions of dollars; and it is better still when this large amount is gathered, for the most part, for the benefit of those, who thus for the first time, have a reserved capital, a little hoard of wealth for the exigencies and necessities of life, and a foundation for future accumulations; and to this is added a more precious treasure, in habits of economy and strength of independence, which might not otherwise be acquired.

In theory and ordinarily in fact, the savings banks of our State are managed by a few paid officers, who are reasonably compensated for their time and talents, under the minute direction as to investments, and under the frequent inspection of the most able and most trusted men of business in the community, who devote their labor to this work, without pay. The demand for this labor of love is commonly met with readiness and faithfulness. But since the service is voluntary, it is possible that, at times, faithfulness may grow weary and private interests may withdraw attention from duties, which have no visible reward. From this consideration, and the inability of depositors, as a class, to protect their own interests, it is fit that the Legislature should take notice of any facts in the annual returns, which indicate whether these institutions have been conducted according to law. And such an examination is especially important, while the Commonwealth shall venture to dispense with the wholesome, but, not always acceptable visitations of Bank Commissioners.

The irregularity of certain returns, pointed out by the Secretary of the Commonwealth, deserves remark. One return was not made until four days after it became due, and four others are not verified as the law requires. The approved legal forms of business are not idle ceremonies, and the neglect of attention and accuracy, wherever observed, is dangerous and suspicious.

It is worthy of notice, that the average is \$168 67 for each depositor, which shows that the large amount of nearly ten million of dollars is made up chiefly of the collections of the savings of those, for whom these institutions were designed.

The aggregate annual expense is stated to be \$27,017 58, which gives 27 cents and 5 mills for the receipt, often in very small sums, and for the investment and care of each hundred dollars for the year. A small payment for a large amount of the most valuable labor of the country.

The enactments of the statutes concerning investments are merely directory, they hold out no forfeiture and no penalty; yet they present a well considered system, to which the managers of these institutions are under moral obligation to con-

form, and the Legislature will be authorized and disposed to consider the wilful disregard of these enactments, as a just cause for the repeal of a charter. And another reason, not less cogent, for conformity to the directions of the statutes, results from the consideration, that depositors entrust their money to these institutions, with the expectation and on the implied engagement, that investments shall be made under the system established by law. If it can be made to appear, that it is necessary or expedient to enlarge or change the system, the sanction of the Legislature will not be refused.

Though your Committee suggest no doubt that these institutions have been conducted with safety and reasonable profit in the last year, the annual returns exhibit instances of disregard of the provisions of the laws, which it is the duty of this Committee particularly to notice. And such a notice, sustained by sound reason and public sentiment, is deemed to be sufficient to lead back the feet of the erring to the narrow path of the law.

The statute of 1841, chap. 44, permits savings banks to make loans on pledge of rail-road stocks, with very cautious restrictions; but no law permits investments in rail-road stock. Yet it has strangely happened, that since 1841, the forms of returns furnished to savings banks by the Secretaries of the Commonwealth, have always contained a column for investments in rail-road stocks, and no column for loans on pledge of such stock. And several savings banks have returned the fact that they have made investments in rail-road stock, and also state in explanatory notes, the amount of stock held in pledge. The omission of the law to sanction these investments was deliberately intended, and is deemed wise by your Committee, and it is their opinion that the existing investments in rail-road stock, inadvertently made, should be changed, as soon as may be, for more stable investments.

The form of annual returns now required, does not show whether the rail-road stocks held in pledge, are such as the law allows, nor does it enable any one to judge of the wisdom of investments in public funds, and bank stocks, and of loans on pledge of the same. To supply this defect, a change in the

form of the annual returns is proposed in the accompanying Bill, which will make them similar, in regard to investments, to the returns now required from insurance offices. And it is surely as important to exhibit clearly and fully the investments, which affect the interests of these depositors, as those investments which concern the able and powerful class who do business with insurance companies.

Two of the savings banks have returned in the column of loans to counties and towns, certain amounts loaned to school districts. When school districts have geographical bounds, and are fixed by incorporation, they are safe borrowers of money, for they offer the same kind of security as a town. But if the districts are mere temporary arrangements, defined sometimes by geographical limits, sometimes by the names of families, and liable to be changed every year with the shifting population, the district may be annihilated and the creditor will not know where to look for his money. It is sufficient to say that the law does not authorize such loans.

One savings bank has returned, in the column of "loans to counties and towns," an amount loaned to corporations, and another savings bank has returned, in the column of "amount secured by bank stock," an amount "secured by pledge of incorporated manufacturing stock." These loans are unauthorized, and they belong to an unsafe class, yet it is admitted that safe and desirable loans may occur in this class.

The Revised Statutes provide, that not more than three fourths of the deposits of a savings bank shall be loaned on mortgages, and the reason of this limitation is found in the advantage of having a due proportion of the funds in a convertible form, so that they may be readily furnished to the exigencies of depositors. From the returns it appears, that in loans on mortgage the Dedham Savings Bank has an excess of \$12,816 99, the Roxbury Savings Bank has an excess of \$3634 80.

The apparent excess of the Roxbury amount is explained by the fact, that real estate taken for debt is included therein; and it is possible that the Dedham Savings Bank may have as good a justification. The failure of an expected payment of a

mortgage, while a new loan was made in anticipation to supply its place, may, on the day of the return, give the appearance of excess which is but temporary.

The Revised Statutes also limit the amount of loans on personal security, to one half of the amount of deposits, and it is evidently the purpose of this provision, to restrain savings banks from the business of ordinary banks of discount, with all the risk with which it is attended. Your Committee is bound to take notice that the amount of loans on personal security exceeds the legal limit—

In Fairhaven Savings Bank, by	.	\$4152 53
In Fall River Savings Bank, by	.	20,471 44
In New Bedford Savings Bank, by	.	3644 67
In Barnstable Savings Bank, by	.	26,845 00

After much consideration, your Committee cannot doubt, that savings banks have power to hold real estate, purchased for accommodations for business and taken for debt, though the statutes do not expressly give this power. This omission of the statutes discountenances investments in real estate, which are unsafe and unsuited to the purposes of these institutions, and prudent managers will take the earliest opportunity to sell any real estate which may fall into their hands. Several savings banks have returned real estate in the column of "loans on mortgage," with explanatory notes, for want of a more appropriate place. A column for real estate will be found in the Bill now proposed.

The form of returns prescribed by the Revised Statues, has a column for "total dividends for the year," which may or may not include the ordinary and extra dividend, and it may have been paid on an amount of deposits, larger or smaller than that found at the period of the return. Thus the column falls entirely short of its object, which was to enable depositors and the public to judge, whether each savings bank yielded a fair interest to its customers. To accomplish this object, a column is proposed for the rate and amount of the ordinary

dividend for the last year, and another column for the average annual per cent. of dividends, for the last five years.

To remedy the defects pointed out in the returns now required from savings banks, your Committee respectfully recommend the passage of the accompanying Bill.

By order of the Committee.

STEPHEN SALISBURY, *Chairman.*

## Commonwealth of Massachusetts.

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In the Year One Thousand Eight Hundred and Forty-Six.

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### AN ACT

Concerning Annual Returns of Savings Banks and Institutions for Savings.

*BE it enacted by the Senate and House of Representatives, in General Court assembled, and by the authority of the same, as follows :*

- 1   SECT. 1. The Treasurer of every Savings Bank  
2 and Institution for Savings, shall, as often as once in  
3 every year, make return of the state thereof, as it  
4 was at two o'clock in the afternoon of the last Satur-  
5 day of some preceding month, to be designated by  
6 the Governor, which return shall be made to the  
7 Secretary of the Commonwealth, within fifteen days  
8 after an order to that effect ; and said return shall  
9 specify the following particulars, namely :—  
10   Place where located ;  
11   Name of Corporation ;

- 12 Number of Depositors ;
- 13 Amount of Deposits ;
- 14 Public Funds, stating amount of each ;
- 15 Loans on Public Funds, stating amount on each ;
- 16 Invested in Bank Stock, stating amount on each ;
- 17 Loans on Bank Stock, stating amount on each ;
- 18 Deposits in Banks bearing interest, stating amount
- 19 in each ;
- 20 Loans on Rail-road Stock, stating amount on each ;
- 21 Invested in Real Estate ;
- 22 Loans on Mortgage of Real Estate ;
- 23 Loans to County or Town ;
- 24 Loans on Personal Security ;
- 25 Cash on hand ;
- 26 Rate and Amount of ordinary dividend for last
- 27 year ;
- 28 Average annual per cent. of dividends of last five
- 29 years ;
- 30 Annual Expenses of the Institution ;
- 31 All of which shall be certified and sworn to by the
- 32 Treasurer, and five or more of the Trustees or Man-
- 33 agers of the Corporation, shall also certify and make
- 34 oath, that the said return is correct, according to
- 35 their best knowledge and belief.

1    SECT. 2. Blank forms of such returns shall be  
2 furnished to every such corporation by the Secretary  
3 of the Commonwealth ; and he shall prepare suita-  
4 ble yearly abstracts thereof, and lay the same before  
5 the Legislature.

1    SECT. 3. The eighty-second and eighty-third sec-  
2 tions of the thirty-sixth chapter of the Revised Stat-  
3 utes are repealed.