

## **SENATE....No. 66.**

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**Commonwealth of Massachusetts.**

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IN SENATE, February 3d, 1852.

ORDERED, That the Committee on Banks and Banking be directed to inquire whether any further legislation is necessary in order to secure a more just and equitable distribution, among the depositors, of the profits of Saving Institutions in this Commonwealth.

Sent down for concurrence,

F. H. UNDERWOOD, *Clerk.*

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HOUSE OF REPRESENTATIVES, February 4th, 1852.

Concurred.

LEWIS JOSSELYN, *Clerk.*

## Commonwealth of Massachusetts.

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IN SENATE, March 19th, 1852.

The Committee on Banks and Banking, to which was referred the order of February 3d, to inquire whether any further legislation was necessary to secure a more just and equitable distribution of the profits of Savings Institutions in this Commonwealth, have considered the same and

### REPORT:

For the information of the Legislature, and to explain more distinctly their views regarding Savings Banks and the subject submitted to their consideration, the Committee ask attention to the history and experience of the oldest and largest Savings Bank in this Commonwealth, which was chartered by the General Court in December, 1816, by the name of the "Provident Institution for Savings in the town of Boston," in consequence of the exertions of the Hon. James Savage and others, who came accidentally in possession of the plans and addresses of the London Institution for Savings, established by Parliament in the same year. The business of the institution was commenced in the Spring of 1817 with the promise of dividing one per cent. quarterly, and more, if circumstances would justify it; in fulfillment of that promise, its dividends after the first one in July of that year were 1 1-4 per cent., equal to 5 per cent. per annum, and that rate of dividend was continued until January, 1822, when the total amount of deposits in the bank was over \$600,000, and the reserved profits accumulated over the 5 per cent. annual dividends was \$6,200.

The institution had an excellent friend and adviser in the distinguished Bishop Cheverus of the Catholic Church in Boston, a man who was almost as remarkable for his wisdom in worldly affairs as for his devotion to the temporal as well as the spiritual wants of the poor : he urged upon the trustees and convinced them that it was far better for the poor objects of their labor to have the encouragement to continue their deposits the longest time, rather than to receive the largest semi-annual dividend ; that ten fold the difference between 2 and 2 1-2 per cent. given once in five years would serve as a greater inducement to frugality, than the small difference it would make in the semi-annual dividend. In conformity with his advice, the regular dividends since that time have been at the rate of 4 per cent. per annum, or 1 per cent. each quarter, and in July, 1822, being five and a quarter years from the time it commenced business, the first dividend of reserved profits was made, amounting to \$8,000. It was divided on the principle that the deposit which had remained for five years was entitled to five times as much as the deposit of one year, in the same proportion for the deposits of two, three, and four years, and it was found that the reserve was less than one cent to each dollar of deposit for a year (exactly .934453 of one cent).

The next extra dividend was in 1827, being the termination of the second period of five years, during which time the regular dividends had been at the rate of 4 per cent. per annum : the total deposit was then \$793,000, and the reserved profits amounted to \$34,000, equal to 1.842103 cents on each dollar of deposit for a year.

In 1832 the total deposit was \$1,442,000, the reserved profit for the extra dividend \$60,500, equal to 1.834,028 cents on each dollar of deposit for a year. The largest share of extra dividend to any one depositor up to this time was not quite \$46.

In 1837 the total deposit was \$2,058,000, the reserved profit for the extra dividend \$99,300, which was a very slight fraction more on each dollar of deposit for a year than the two preceding ones. During the next five years the institution suffered losses by their investments in banks which failed, loans to them, and loans on their stocks, amounting to more than

\$275,000. Fortunately these losses did not occur in one year, but were spread over a period of five years, and were absorbed by the reserved income of each year after making the regular dividends of 4 per cent., so that the greatest deficit shown on the books at any one time was \$15,734. Had these losses occurred at one time, without a reserve to meet them, the institution would have been bankrupt. In January, 1842, the total deposit was \$2,424,000, but there being a deficit of over \$15,000, instead of an amount of reserved profits, no extra dividend could be made.

In 1847 the total deposit was \$3,300,000, the reserved profit for the extra dividend \$316,000: and from present appearances there will be about the same amount in proportion for the extra dividend next July, when the total deposit will be above four and a half millions of dollars.

The income of the institution since 1822 has never been sufficient to make 5 per cent. dividend during any of the periods of five years, until the one terminating in 1847, and the amount of reserve has not at any time exceeded an amount that prudence would indicate as a proper safeguard against misfortunes, to which they are as much liable now as they have been in former years. Thirty-five years have elapsed since the institution was chartered, during which time the philanthropic gentleman through whose exertions it was established has been devoted to its interests, and it continues to be now the daily object of his care and attention, his only compensation being the satisfaction of witnessing its benefits, and the appreciation of them by others evinced by the establishment of similar institutions in different parts of the Commonwealth, most, if not all of them, formed after the same plan and with the same by-laws, until their number, according to the annual bank return of the past year, has increased to forty-five, with deposits amounting to \$15,554,088.58, belonging to 86,537 depositors, averaging less than \$180 to each depositor.

The object of Savings Banks is not to take considerable sums of money for persons who would like to receive the profits of each year, and then withdraw their money or continue it, as may appear to them most for their individual interest,

incommoding the institutions by obliging frequent changes of investments at times when it is least profitable, by increasing the amounts of their deposits when it is most difficult for the institution to make suitable investments, and withdrawing them when the scarcity of money renders it unprofitable to dispose of investments to meet their calls. A trust company with a capital stock, managed for the interest of the stockholders, where the compensation for the services rendered and the times and conditions for withdrawing and depositing are made a matter of contract, is a more suitable institution for such depositors, instead of taking advantage of the gratuitous services of the managers of a Savings Bank, and defrauding its poorer depositors by superior intelligence of the most advantageous times to make deposits and to withdraw them.

Savings Banks are charitable institutions: disinterested benevolence and the “luxury of doing good” should ever be the guiding principle in the conduct of those who as the trustees take on themselves the responsibilities incident to their faithful and judicious management. They have no capital stock: it is intended that their only assets should be the deposits of the hard-earned fruits of the toil of poor mechanics and laborers of various occupations of both sexes, for whose benefit they are conducted: all the profits which accrue after paying the necessary expenses of the institution belong to them; a portion of it is reserved as a fund to meet any losses that may occur, so that the dividends of profits may be regularly made, and at the end of every period of five years the accumulation of profits which have been reserved in this way is divided among the depositors at that time, in proportion to the length of time their deposits have continued: this “promise of reward” to be received at the end of five years, increasing in value as the end of the term approaches, has been always considered one of the most valuable features of a Savings Bank, for the constantly increasing inducement it holds out to continue the deposits, and to prevent their being unnecessarily withdrawn, to be, perhaps, foolishly squandered, or loaned to crafty and untrustworthy borrowers. The services of a savings bank are gratuitous: it contracts with its depositors to pay them at regular periods the income of their

funds, not to exceed a certain fixed per centage, with the clear understanding that the excess of income over that per centage shall be reserved until the end of a period of five years, to be then paid to those whose deposits remain in the institution. Those who have chosen to withdraw their deposits within the term of the five years, or have been obliged by necessity to do so, received the income which was agreed for while it remained and cannot rightly feel that injustice has been exercised towards them.

The fixed per centage of annual dividend in most of the Savings Banks in this Commonwealth varies between four and five per centum, and any inducements to increase the annual dividends is detrimental to their security by encouraging investments with a view to increased income with more hazard of loss.

It is doubtless true that the object of Savings Banks has been to some extent perverted by persons of property making them the keepers of considerable sums. The Committee are of the opinion that this evil will be lessened by the operation of the law passed last year, requiring of Savings Banks to report to the assessors the names of all depositors having to their credit \$500 and upward: it would be still further lessened by their refusing to receive deposits beyond the sum of \$500; also by the passage of an Act concerning Savings Banks and Institutions for Savings, which the Committee have reported, requiring the treasurers of such institutions to give information of deposits on the request in writing of overseers of the poor or of assessors of cities and towns of this Commonwealth.

The Committee are of the opinion that it is inexpedient to regulate by law the rate or the time of the dividends of the profits of Savings Institutions, and therefore, on the Order referred to them, *report that no legislation is necessary.*

MOSES WOOD, *Chairman.*