INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

HEARINGS

BEFORE THE

TEMPORARY NATIONAL ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

SEVENTY-SIXTH CONGRESS

THIRD SESSION

PURSUANT TO

Public Resolution No. 113
(Seventy-fifth Congress)

AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO MAKE A FULL AND COMPLETE STUDY AND INVESTIGATION WITH RESPECT TO THE CONCENTRATION OF ECONOMIC POWER IN, AND FINANCIAL CONTROL OVER, PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES

PART 28

LIFE INSURANCE

OPERATING RESULTS AND INVESTMENTS

FEBRUARY 12, 13, 14, 15, 16, 19, 20, 21, 26, 27, 28, 29, AND MARCH 1, 1940

Printed for the use of the Temporary National Economic Committee

UNITED STATES
GOVERNMENT PRINTING OFFICE
124491 WASHINGTON : 1940

TEMPORARY NATIONAL ECONOMIC COMMITTEE

(Created pursuant to Public Res. 113, 75th Cong.)

JOSEPH C. O'MAHONEY, Senator from Wyoming, *Chairman*
HATTON W. SUMNERS, Representative from Texas, *Vice Chairman*
WILLIAM H. KING, Senator from Utah
WALLACE H. WHITE, Jr., Senator from Maine
CLYDE WILLIAMS, Representative from Missouri
B. CARROLL REECE, Representative from Tennessee

THURMAN W. ARNOLD, Assistant Attorney General
*WENDELL BERGE, Special Assistant to the Attorney General
Representing the Department of Justice

JEROME N. FRANK, Chairman
*LEON HENDERSON, Commissioner
Representing the Securities and Exchange Commission

GARLAND S. FERGUSON, Commissioner
*EDWIN L. DAVIS, Chairman
Representing the Federal Trade Commission

ISADOR LUBIN, Commissioner of Labor Statistics
*A. FORD HINRICHS, Chief Economist, Bureau of Labor Statistics
Representing the Department of Labor

JOSEPH J. O'CONNELL, Jr., Special Assistant to the General Counsel,
*CHARLES L. KADES, Special Assistant to the General Counsel
Representing the Department of the Treasury

SUMNER T. PIKE, Business Adviser to the Secretary of Commerce
Representing the Department of Commerce

James R. Brackett, *Executive Secretary*
Theodore J. Kreps, *Economic Adviser*

*Alternates.

REPRINTED
BY
WILLIAM S. HEIN & CO., INC
BUFFALO, N. Y.
1968

CONTENTS

SCHEDULE OF EXHIBITS

Number and summary of exhibits	Introduced at page	Appears on page
2243–2249. Appear in Hearings, Part 31–A	14761	-------
2249–1 to 2249–5. Letters and tables from the Carnegie-Illinois Steel Corporation, re: price announcements	14761	[1]
2250. Appears as Hearings, Part 10–A	14702	-------
2251. Chart: Admitted assets, 1938, of 26 insurance companies	14702	14703
2252. Chart: Types of insurance carried by 26 insurance companies, 1938	14705	14706
2253. Chart: Total premium income, 1929–1938	14707	14708
2254. Table: Total premium income—25 largest legal reserve life insurance companies for each year 1929 to 1938	14707	15490–15491
2255. Chart: New paid-for life insurance, 1913–1938	14709	14710
2256. Table: New paid-for life insurance—exclusive of revivals, dividend additions, and accepted reinsurance—49 U. S. companies	14709	15492
2257. Chart: Total income and disbursements of 25 leading legal reserve life insurance companies, 1929–1938	14713	14714
2258. Table: Total income and disbursements of 25 leading legal reserve life insurance companies, 1929–1938	14713	15493
2259. Table: Long-term investments of 26 life insurance companies in relation to long-term debts in the U. S., 1930, 1934, 1937	14719	15493–15494
2260. Table: Bonds and debentures of five major oil companies and four major rubber companies; total outstanding amounts held by the 26 largest life insurance companies, 1929 and 1938	14721	15494

[1] On file with committee.

[1] On file with committee.

[1] On file with committee.

[1] On file with committee.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, FEBRUARY 12, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Tuesday, January 30, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman), King, and White; Representative Williams; Messrs. Henderson, Lubin, Pike, Kades, Kreps, and Brackett.

Present also: Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; and Helmer R. Johnson, attorney, Securities and Exchange Commission.

The Chairman. The committee will please come to order.

This morning we resume the study of life insurance. It may be appropriate to point out that this presentation comes under the provisions of section 3 (b) of the resolution [1] which created the Temporary National Economic Committee. This section reads as follows [reading]:

> The Department of Justice, Department of the Treasury, Department of Labor, Department of Commerce, the Securities and Exchange Commisssion, and the Federal Trade Commission are directed to appear before the committee or its designee and present evidence by examination of witnesses or the introduction of documents and reports. The evidence presented by each of these agencies shall cover the subject matter of this inquiry which is within its administrative jurisdiction under existing law or which may be assigned to such agencies by the committee.

The study of life insurance was assigned by the committee to the Securities and Exchange Commission.

Commissioner Henderson will open the hearing.

Mr. Henderson. I have a rather long statement. I offer no apology for it. I offer as an explanation, however, that we are dealing in this set of hearings with something which affects the daily lives of practically all citizens, and is concerned with millions of dollars of investments.

The series of hearings which commence today will be concerned with the general subject of investment and operating problems of the larger legal-reserve life-insurance companies.

It will be recalled that the President in his monopoly message referred to the Securities and Exchange Commission's exhaustive

[1] Public Res. No. 113, 75th Cong., 3d sess. Entered in the record as "Exhibit No. 2"; see Hearings, Part I, appendix, p. 192.

study of investment trusts,[1] which, incidentally, is now in its final stages, and stated [reading]:

> The tremendous investment funds controlled by our great insurance companies have a certain kinship to investment trusts, in that these companies invest as trustees the savings of millions of our people. The Securities and Exchange Commission should be authorized to make an investigation of the facts relating to these investments with particular relation to their use as an instrument of economic power.[2]

The President's message is replete with references to problems of our economy upon which this study of insurance investments and operating results will throw light. Not least of these are the references to concentration and financial controls.

Unless the T. N. E. C. or Congress assigns additional insurance studies to the S. E. C.—and this, Mr. Chairman, is to be noted since there is no bid for such assignment—this presentation is almost the last on life insurance, which is the only form of insurance which the Commission's staff has studied. Sheer lack of funds has forced the Commission to reject all suggestions of inquiry into fire and casualty and other forms of insurance.

A word of caution about the completeness of the present insurance inquiry. The S. E. C. makes no pretense that every phase of life insurance has been canvassed. There are 306 life-insurance companies with assets of $28,000,000,000. We have never had more than 10 men in the field, with a limited home-office staff. The present investment study covers the 26 leading companies, but no study could be called complete which omits review of the investment experience of 280 smaller companies, having several million policyholders and around $4,000,000,000 of assets.

Mr. Chairman, at the initiation of the insurance presentations a year ago, Justice William O. Douglas, then Chairman of the S. E. C., said:

> No policyholder need have any concern that any fact brought out in this inquiry will in any way jeopardize the protection which he counts upon through his insurance policy.[3]

I am happy at this time to reaffirm this statement—based as it was, I believe, on an abiding belief in the institution of life insurance and a firm sense of confidence in the integrity of the inquiry process, so essential to democratic government.

The CHAIRMAN. That statement, Mr. Commissioner, ought to contribute a little to the stability.

Mr. HENDERSON. Well, I don't mind your knowing that I have arranged within the last few weeks to add to my own insurance protection.

Senator KING. Did you get any reduction in the annual premium?

Mr. HENDERSON. No. [Laughter.]

Though this is almost the last public hearing, the final report of the S. E. C. will contain the results of many staff inquiries, conducted through questionnaires, correspondence, and interviews with insurance company executives.

---

[1] S. Doc. No. 173, 75th Cong., 3d sess. Entered in the record as "Exhibit No. 1"; see Hearings, Part I, appendix, p. 185.
[2] Ibid., at p. 190.
[3] Hearings, Part 4, p. 1162.

May I say a few words here on a strong, vigorous, and, at times, overworked topic—that of cooperation. With but a few outstanding exceptions, those responsible for insurance-company policy have gone far beyond the requirements of formal requests for information. Without the volunteer efforts of earnest executives, our small staff could not have presented well-rounded pictures of those insurance topics we have selected as important. After the current hearings, the staff will continue its conferences.

I have already referred to the fact that these hearings will be concerned with both investment and operating problems. The two are so interrelated they cannot be separated. One example will serve to emphasize the point. Supplementary contracts not involving life contingencies, that is to say special contracts for the disposition of matured policy proceeds, have increased from $241,000,000 in 1929 to $1,182,000,000 at the end of 1938. These contracts grew partly because of management emphasis upon new sales techniques and, though admittedly a logical development in the business, have created many new investment problems. In fact one life insurance official said of these contracts that they—

> are forcing the life companies out of their primary function of writing assurances and into the investment banking and trust company field.

This is a subject we will consider. It is cited here only to demonstrate how closely the investment problem is linked to the operating features of the business.

The problems of insurance operations and investments, of course, cover a broad range and have many ramifications. As the presentation proceeds, it will be apparent that we are obliged at least to touch upon topics ranging from technical accounting matters on one hand to questions of management policy and economic import on the other.

Many aspects of the investment problem have already received attention in the insurance hearings which have been held before this committee from time to time during the last year. The committee has heard, for example, evidence with respect to collateral and mortgage loans to "insiders," loans sometimes of doubtful propriety, and occasionally concealed under the names of dummies who had no beneficial interest in the transactions themselves; the use of company funds to further outside business ventures of officers and directors; the methods of promoters who pyramid or consolidate life insurance companies through holding company stock trades or reinsurance and rewriting operations; and, as in the case of recent hearings before the special subcommittee, evidence illustrating some unusual cases where blatant mismanagement of investments has contributed to receiverships and to policyholder losses.

I believe the study of investments will be better illuminated because of those hearings.

The testimony in the hearings about to commence, which will be concerned primarily with the 26 largest life insurance companies, will have an entirely different emphasis, the effort being to consider and appraise the operations of the business as a whole. Our approach to the investment problem will be primarily from an economic point of view. In this respect we take a sharp departure from the studies of the Armstrong committee which were more concerned with an examination of specific abuses. To further an understanding of this broader problem, the Commission secured investment and operating figures, many of which were not available in public records, by sending out two detailed investment questionnaires. The figures so secured will be presented to the committee in the course of the hearings and will provide a frame of reference against which the operation of the business as a whole, as well as that of individual companies, may be appraised.

Cooperation of the companies in furnishing the required information and in conferring with our representatives on related problems has been commendable and I should like at this time to acknowledge the generous assistance received.

The investment and operating problems of the companies have admittedly become greater in recent years. In 1938, for example, these companies were faced with the gigantic task of finding suitable investments for about $4,000,000,000 comprising $2,500,000,000 that was returned to them through the maturity, sale, and redemption of their old investments and $1,500,000,000 of new money receipts. In other words, into the hands of the officials of life-insurance companies, there was an average daily flow of over $10,000,000 for which they had to find suitable new investments. The admitted assets of the life insurance companies are invested primarily in bonds, mortgages, real estate, and in policyholders' loans. The magnitude of these investments justifies the statement so well phrased in a recent editorial in the Wall Street Journal [1] to the effect that "It would be hardly an exaggeration to say that the assets of the life-insurance companies as a whole represent roughly a first mortgage on the country's business and industry." As early as 1906 the Armstrong Report stated [2] [reading]:

> No tendency in modern financial conditions has created more widespread apprehension than the tendency to vast combinations of capital and assets. But while in the case of railroads and industrials these vast amounts are mostly fixed in particular productive activities, the larger part of the huge accumulations of life insurance companies consists of assets readily convertible into money and susceptible of application to varied uses. It is this fact which has placed the officers and members of finance committees of life insurance companies in positions of conspicuous financial power. * * *

These comments are even more pertinent today for the size of the companies has grown tremendously and the degree of concentration within the business has increased. Indeed, the prime importance of life-insurance company investment practices in the national economy cannot be questioned and as I have indicated it is toward an appraisal of the economic effect of these practices that much of the hearings will be directed. There are many questions upon which some light may be thrown. For example, do farm mortgage and farm real-estate policies of life insurance companies benefit or injure the farmer? Or again, has the trend of private savings to accumulate in insurance companies dried up venture capital and hampered the development of new business enterprises? Other similar problems will come to focus as the hearings proceed.

---

[1] December 28, 1939, p. 4.
[2] State of New York, Ass. Doc. No. 41, Vol. X, p. 389.

Before calling the first witness, however, it may be well to reemphasize the size and scope of the business and to review developments during the last year. The Association of Life Insurance Presidents recently estimated that as of December 31, 1939, the total face amount of life insurance in force in the United States was $113,000,000,000. This amount represents an increase of about $3,000,000,000 during 1939. Similarly, the association estimated that the total admitted assets of all United States companies had grown to a new all-time high of $29,150,000,000, an increase of over $1,000,000,000 from the previous year. With this increase in assets and insurance in force, there was naturally an increase in premium income and an increase in disbursements to policyholders or their beneficiaries.

In the hearings which commence this morning, we wish to trace in a general way the principal operating and investment problems of the business over the last several decades. In this manner, problems which will be studied in detail in the hearings to follow will be placed in better perspective. As in the past, Mr. Gesell will conduct the examination on behalf of the Commission.

The CHAIRMAN. Let me add to what Commissioner Henderson said that the presentation by the Securities and Exchange Commission of this study, or indeed the presentation by any of the agencies of any study to this committee, does not in any degree or sense whatever imply that the committee has taken any position upon any of the matters involved in the hearing. The committee has not. This committee sits in a sense as a court or a jury to listen to evidence. I think I may properly say that the committee has at no time discussed any recommendation with respect to life insurance in any of its sessions, public or executive. No recommendations have been made by the committee, and no suggestions have been made to the committee by any member of the committee or by any member of the staff.[1]

I am reminded of the fact that in the preliminary report [2] which was filed with Congress by this committee this paragraph was included. I read it now, because of the apparent dissemination through the country of inferences and reports that this committee had some legislative plans in mind. This is what the Temporary National Economic Committee said to the President and to the Congress [reading]:

> The Committee does not plan legislative hearings in the ordinary sense. It has no legislative jurisdiction. As in the case of its intensive study of the use of patents in the automobile manufacturing, the glass container, and the beryllium industries, it will be content to develop facts and in proper cases to make recommendations, leaving to the standing committees of the House and the Senate the full jurisdiction and responsibility for drafting and perfecting any legislation that may be deemed necessary.

Of course, in calling attention to the fact that no recommendations have been made and that the committee has not at any time discussed legislative recommendations, I do not, of course, in any way want to foreclose any member of the committee from making any suggestions, but that will come in due course and long after the facts have been developed. Whenever such recommendations are made, if

---

[1] In this connection see also additional material appearing in appendix, p. 15604, et seq.; consisting of (1) letter from Senator O'Mahoney to Representative Edward T. Taylor; (2) material released by the American Life Convention. See also Hearings, Part 10, p. 4345 et seq.

[2] S. Doc. No. 95, 76th Cong., 1st sess., p. 3.

they are made, as stated in the report which I have just read, they will be submitted to the proper legislative committees of the House and the Senate, where they either may be discussed or may be pigeonholed; I can't tell.

Mr. Gesell, are you ready to proceed?

Mr. GESELL. Yes; I am.

Senator KING. I just wanted to add I have noticed in some of the press reports that the members of the committee had reached certain conclusions which it had expressed with reference to the hearings and with reference to remedies which might be suggested. May I say that those reports so far as I am advised have been wholly inaccurate and without foundation. I think the chairman has properly indicated the purpose of this committee's work.

Speaking for myself, I have never expressed an opinion upon any subject matter that we have had under consideration except the patent matter and I was forced to file a dissent with respect to a report which was made by the full committee.

The CHAIRMAN. Mr. Gesell, will you call your first witness, or do you have a statement?

Mr. GESELL. The first witness is Mr. Ernest Howe, chief financial adviser, Insurance Section, Securities and Exchange Commission. I would like to point out Mr. Howe has testified before the committee on a previous occasion[1] and his testimony this morning will be short and purely for the purpose of presenting general background information concerning the companies. Tomorrow he will return to the stand and present a more exhaustive analysis of the investment and operating performances of these 26 companies over the last 10 years.

TESTIMONY OF ERNEST HOWE, CHIEF, FINANCIAL ADVISER, INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.—Resumed

The CHAIRMAN. You have already been sworn?

Mr. HOWE. I have, sir.

Mr. GESELL. Mr. Howe, I show you a volume of schedules entitled "Operating Results and Investments of the Twenty-six Largest Legal Reserve Life Insurance Companies Domiciled in the United States" and ask you if you will explain to the committee the methods pursued in the assembling of the information contained in this volume.

Mr. HOWE. This volume entitled "Operating Results and Investments of the Twenty-six Largest Legal Reserve Life Insurance Companies Domiciled in the United States" is a compilation of certain material which has been received by the Securities and Exchange Commission from replies to two questionnaires which the Commission has issued, the first under the date of January 31, 1939, and the second one under the date of August 11, 1939. The information as assembled here has been checked by the Commission for mechanical accuracy and prima facie consistency but it has not in any sense been audited by the Securities and Exchange Commission. In other words, these are the statements of the life insurance companies themselves, summarized to the best of our ability.

---

[1] See Hearings, Part 4, pp. 1108–1233

The CHAIRMAN. May I interrupt, Mr. Howe, please? Let me suggest, Mr. Gesell, that at this point, inasmuch as this is the beginning of a new hearing on insurance, it might be well for you for the purposes of the record to develop Mr. Howe's background.

Mr. GESELL. That is a matter of record.

The CHAIRMAN. I know it is, but just for today's purposes I think it would be well for the record very briefly to show what his training and experience has been.

Mr. GESELL. Mr. Howe, will you state what your financial training and experience has been for the record?

Mr. HOWE. Well, I was graduated from the Columbia University Business School in 1923, after 3 years of post-graduate study in finance. Subsequently I went to Wall Street, where I was engaged in the so-called buying department of the investment banking firm of Blyth & Co., the buying department being the department which analyzes the securities which the firm is considering underwriting.

Mr. GESELL. That is an investment banking house?

Mr. HOWE. That is an investment banking house.

Mr. GESELL. Were you also connected with Lehman Bros.?

Mr. HOWE. I was connected with Lehman Bros. as an investment supervisor.

Mr. GESELL. For what period of time?

Mr. HOWE. About a year and a half.

Mr. GESELL. Were you also formerly connected as a special representative of the Federal Housing Administration?

Mr. HOWE. I was, for about 2½ years.

Mr. GESELL. And you have been with the S. E. C. since November 1938, have you not?

Mr. HOWE. That is correct.

Mr. GESELL. Well, now, Mr. Howe, you were telling us that this analysis had not been audited by the Commission but was based upon material submitted by the companies in response to questionnaires. Are there any other further matters with respect to these tables that you wish to mention?

(Senator King assumed the chair.)

Mr. HOWE. There are. The information is largely based on the annual statements of the companies and certain collateral analyses which the companies furnished us which do not appear in the annual statements.

Mr. GESELL. Was the material submitted to the companies for correction and opportunity given them to correct it?

Mr. HOWE. Yes. The information was submitted to the companies for corrections and opportunity was given them to make any corrections which they felt needed to be made.

Mr. GESELL. Those corrections that have been submitted are incorporated in this document I showed you, are they not?

Mr. HOWE. They are. All the figures and factual corrections which have been submitted have been incorporated in this volume as it now stands.

Mr. GESELL. Was this material assembled under your direct supervision?

Mr. HOWE. It was.

Mr. GESELL. And to your best knowledge is it correct?

Mr. HOWE. I believe it is.

Mr. GESELL. I wish to offer this document for the record at this time, subject to our regular understanding that if errors in any of the figures should appear at any time, they may be corrected.

Acting Chairman KING. It will be received. Do you desire this voluminous record to be set forth in extenso in our hearings?

Mr. GESELL. I do, Senator; yes.

Acting Chairman KING. All these figures?

Mr. GESELL. That is my wish. I might say arrangements for printing have been made in that connection with Senator O'Mahoney's approval. I think an approach can be made that will not be very expensive.

Acting Chairman KING. It will be received.

(The volume referred to was marked "Exhibit No. 2250" and was printed separately as Hearings, Part 10–A.)

Senator WHITE. Am I to understand this document which I hold in my hand and which you have been addressing yourself to, has been submitted to the various companies for scrutiny and correction?

Mr. HOWE. Yes; it has, Senator White.

Mr. GESELL. Now, Mr. Howe, turning to the charts behind you entitled "Admitted Assets, 1938," have you——

Acting Chairman KING (interposing). Let's have that marked as an exhibit.

Mr. GESELL. All right. I customarily qualify it before I offer it. I will offer for the record the chart entitled "Admitted Assets, 1938."

Acting Chairman KING. It will be received.

(The chart referred to was marked "Exhibit No. 2251" and appears on p. 14703. The statistical data on which this chart is based are included in Hearings, Part 10–A, p. 5.)

Mr. GESELL. Have you any comments which you wish to make on that chart, Mr. Howe?

Mr. HOWE. This chart which is entitled "Admitted Assets, 1938," shows the total assets as shown on the balance sheets of the 26 companies, whose figures have been incorporated in "Exhibit No. 2250." [1]

On page 5 of this exhibit will be seen the aggregate assets at the end of 1938; the total assets held by these companies at that time was $24,290,000,000, approximately. It will be seen from the chart that there is great concentration of assets in the companies at the top. There were at the end of 1938, six companies with assets exceeding $1,000,000,000. The largest, the Metropolitan, had assets of almost $5,000,000,000. Probably by the end of 1939 it exceeds $5,000,000,000 total assets. The Travelers, which was not quite a billion dollars at the end of 1938, probably exceeds a billion dollars at this time.

Senator WHITE. You had admitted assets—admitted by whom?

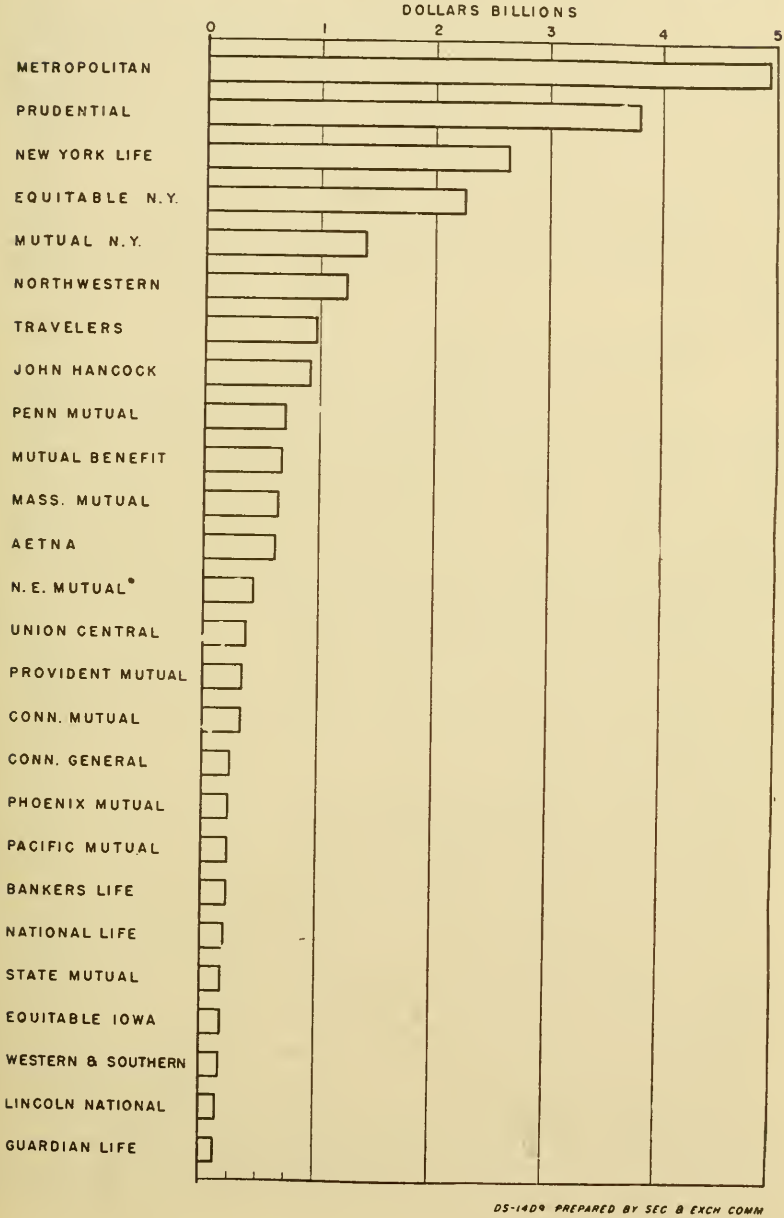
Mr. HOWE. Senator, that is a phrase which is used in the annual statement. It is an accounting phrase which I will explain tomorrow, I hope; but in general that is the total assets. That is the figure that comes at the bottom of the balance sheet. I mean in an ordinary industrial concern, that would be total assets. It involves some valuations, and so forth.

Senator WHITE. Of course, there are involved in that evaluation of securities and properties of all sorts that are held. Now, are you accepting the companies' figures as to the value?

[1] See Hearings, Part 10–A.

EXHIBIT No. 2251

ADMITTED ASSETS - 1938



Mr. HOWE. Oh, entirely so, sir; oh, yes. Those are just the figures which were shown on the annual statements of the respective companies as they were filed with the state departments of the States in which they are domiciled. There has been no adjustment of those figures in any shape, way, or form.

Mr. GESELL. There will be discussion of those admitted assets and problems of valuation asset later on in the hearing. This list of 26 companies, Mr. Howe, am I correct in saying includes all companies with assets in excess of $125,000,000?

Mr. HOWE. Yes; that is the reason for the selection of the strange number 26. We wanted all companies with assets in excess of $125,000,000, and at the end of 1938 there were 26 of them.

Mr. GESELL. How much do they represent of the total?

Mr. HOWE. The 306 American life insurance companies at the end of 1938 had total assets of $27,754,000,000, and these companies represented on this chart constitutes 87½ percent of the assets of the 306 companies.

Mr. GESELL. Now, on December 31, 1938, how many policies did these 26 companies have in force?

Mr. HOWE. These companies had 98,054,000 policies in force. That is to some extent an understatement, because included in there as one policy are master group policies, which really affect a substantially larger number of people but complete statistics aren't available on that, so we must use the sort of hybrid figure. Nevertheless, that is an understatement, a slight understatement. It may be compared with 124,000,000 policies in force in the 306 legal reserve life insurance companies. In other words, 78 percent of the policies outstanding were outstanding in these companies represented on the chart.[1]

Acting Chairman KING. Of course, those are life insurance policies?

Mr. HOWE. Yes, sir; life insurance policies.

Acting Chairman KING. You don't deal in industrial insurance at all?

Mr. HOWE. Oh, yes; industrial insurance policies are included in that number.

Acting Chairman KING. You call those life insurance, too?

Mr. HOWE. Oh, yes; most assuredly so.

Acting Chairman KING. What proportion would be industrial in contradistinction to life insurance per se?

Mr. HOWE. Well, I can answer you in just a second here, Senator.

Acting Chairman KING. My recollection is there are approximately 65,000,000 life-insurance policies—strictly life insurance.

Mr. HOWE. Senator, the estimate is there are about 65,000,000 policyholders. This 124,000,000 is the number of policies, the number of pieces of paper, as it were, as distinguished from the number of individuals.

Mr. GESELL. Some people have more than one policy, do they not?

Mr. HOWE. That is correct. Now, of the total 124,000,000 policies to which I refer, 61,000,000 policies are industrial policies held by the top two companies, that is, the Metropolitan and the Prudential.

And of the total 98,054,000 policies, 70,309,000 policies are industrial policies, so that only about 28,000,000 policies are ordinary life insurance policies and master group policies.

---

[1] "Exhibit No. 2251," supra, p. 14703.

Mr. GESELL. Now, I should like to offer for the record at this time a chart entitled "Types of Insurance Carried by Each Company." This chart, Mr. Howe, I think, will aid in answering Senator King's question. Can you make any comment on it in connection with the types of business done by various companies?

Acting Chairman KING. The chart will be received.

(The chart referred to was marked "Exhibit No. 2252" and appears on p. 14706. The statistical data on which this chart is based are included in Hearings, part 10-A, pp. 21, 29, 35, 41, 49, 56, 63, and 68.)

Mr. HOWE. Life-insurance companies are engaged in a variety of different lines of related business. About the only generalization which can be made about the type of business these companies engage in is that the risks which they insure are exclusively risks relating to persons as distinguished from risks relating to property.

Now, the annual statements of the companies classify the types of business which they do, as follows: ordinary life, disability, benefits, individual annuities, accidental death benefits, group life, group annuities, accident and health, and industrial life insurance.

Mr. GESELL. That is eight different classifications?

Mr. HOWE. That is eight different classifications.

Mr. GESELL. Now, with further reference to Senator King's question, how many companies of these 26 write industrial insurance?

Mr. HOWE. Four companies write industrial insurance. That is the Metropolitan, the Prudential, the John Hancock, and the Western and Southern.

There are four more companies which write all types of business except industrial insurance. These are the multiple line companies of Hartford, Conn.—the Travelers, the Aetna, the Connecticut General, and the Equitable of New York, which latter company writes all lines of business with the qualification that their accident and health business is restricted, I believe, to group accident and health.

The remaining 18 companies write only ordinary insurance and individual annuities, except the Lincoln National, which also writes group, and the Pacific Mutual, which also writes accident and health business.

Mr. GESELL. That makes, if I read correctly from the chart, 4 companies that write industrial business, 26 which write ordinary, 26 which write disability, 24 which write double idemnity for accidental death, 25 which write individual annuities, 9 which write group life, 7 which write group annuities, and 8 which write accident and health insurance.

Mr. HOWE. That is correct.

Acting Chairman KING. All these corporations to which you referred have their charters under the States in which they have their principal place of business, and they make their reports, annually or quarterly or semiannually, pursuant to requirements of the statutes?

Mr. HOWE. They do so.

Mr. GESELL. They report, do they, not only to the State in which they are incorporated but all States in which they do business?

Mr. HOWE. That is correct. They file elaborate annual reports in all the States.

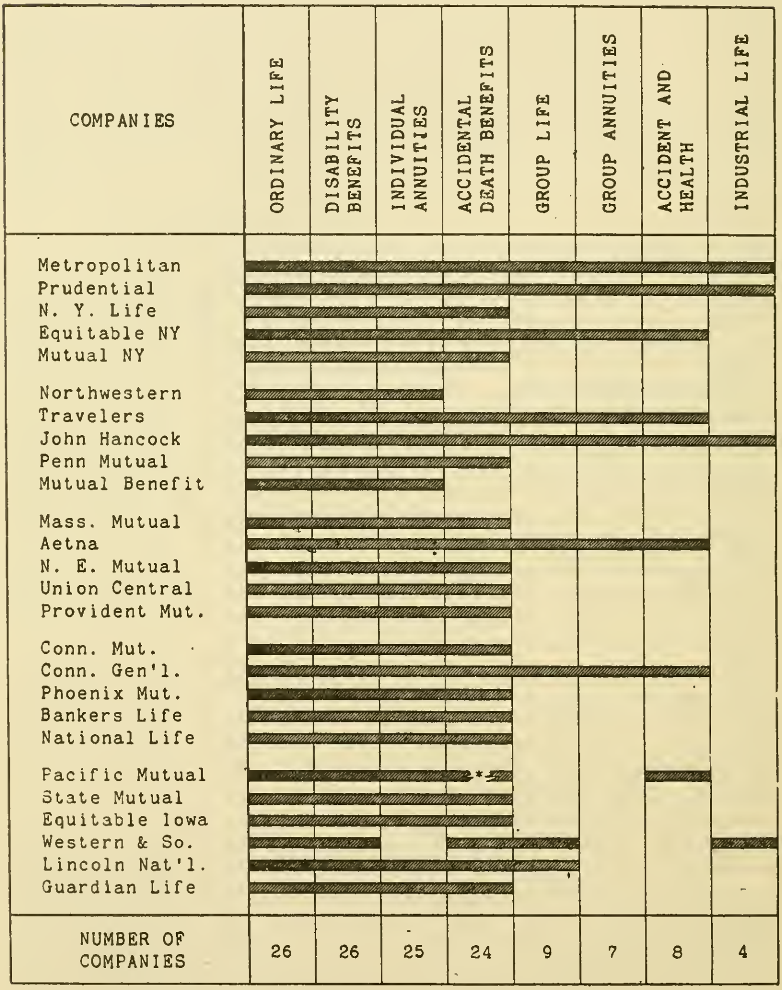
Mr. GESELL. Now, Mr. Howe, will you turn to the chart entitled

EXHIBIT No. 2252

[Prepared by Securities and Exchange Commission]

TYPES OF INSURANCE CARRIED BY EACH COMPANY

1938



* Included in the accident and health department.

Based on reports of total income.

"Total premium income, 1929 to 1939"? I would like to offer at this time the chart so captioned and the schedule of supporting figures.

Acting Chairman KING. The tendered exhibits will be received and marked accordingly.

(The chart referred to was marked "Exhibit No. 2253" and appears on p. 14708. The statistical data on which this chart is based were marked "Exhibit No. 2254" and are included in the appendix on pp. 15490–15491.)

Mr. GESELL. Have you comments you wish to make on this chart?

Mr. HOWE. In order that the relative importance of these various lines of business, in terms of the total premium income, may be understood, a chart has been prepared showing total premium income, 1929–38. Now, this chart indicates the total premiums which have been paid into these 26 companies, with the exception of the Pacific Mutual, for which figures are not available for the period. However, the chart should not be taken in any sense as indication of the relative importance of the various classes of business to any individual company.

Mr. GESELL. These are the assembled totals for all the companies?

Mr. HOWE. These are the assembled totals for all 25 companies. The point I wish to bring out is that in the four industrial companies, for instance, their total premium income from industrial insurance in each case exceeds their total premium, from ordinary insurance, so this chart must be considered only as the aggregate figures.

During the 10-year period, from January 1, 1929, to December 1, 1938, the total premium income of these 25 companies was $31,384,000,000. Of this, $18,782,000,000 was received from ordinary insurance. I refer to ordinary insurance in this condensed blank as distinguished from industrial and other lines.

Industrial premiums amounted to $7,078,000,000 during the same period, while annuities contributed $2,686,000,000.

Acting Chairman KING. That is individual annuities?

Mr. HOWE. That is both individual and group annuities. Individual annuities contributed $2,142,000,000, and group annuities $543,000,000 of the premium income.

Group life insurance provided a total premium of $1,038,000,000, while accident and health insurance premiums amounted to $984,000,000 of the 10-year totals. Therefore, ordinary life insurance accounted for 59.85 percent of the premium income; disability benefits, 1.72; accidental-death benefits, 0.87; industrial insurance, 22.56 percent; individual annuities, 6.83 percent; group annuities, 1.73; group life insurance, 3.31 percent; accident and health insurance, 3.13 percent.

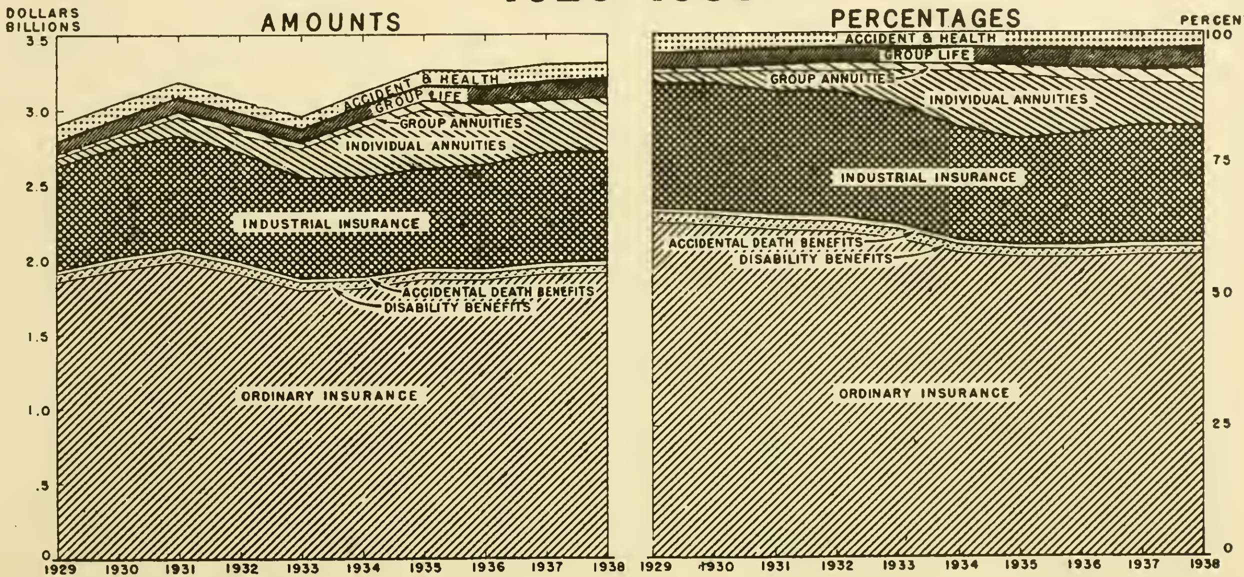
Mr. GESELL. Mr. Howe, in the case of the four industrial companies, can you tell us, in explanation of the chart, whether or not their premium income from industrial policies exceeds or is less than the premium they received from their ordinary policies?

Mr. HOWE. In the case of the industrial companies—I am speaking now of the Metropolitan, Prudential, John Hancock, and Western and Southern—the premium income which those companies receive from industrial insurance exceeds the premium income which those companies receive from ordinary insurance.

Mr. GESELL. Do I read that chart correctly in interpreting that the amount of premium income from ordinary insurance has decreased?

EXHIBIT No. 2253

TOTAL PREMIUM INCOME*
1929-1938



* BASED UPON 25 LEADING LIFE INSURANCE COMPANIES DOMICILED IN THE UNITED STATES

DS-1406 PREPARED BY SEC & EXCH COMM

(Twenty-six largest legal reserve life insurance companies excluding the Pacific Mutual Life Insurance Company)

Mr. HOWE. Over the period, the total premium income from ordinary insurance—that is, including renewal premiums—has increased slightly from $1,849,000,000 to $1,903,000,000. However, in terms of the total premiums—that is, relatively in percentages—it has decreased from 63.86 percent in 1929 to 57.58 percent in 1938.

Mr. GESELL. Total premium income received from the ordinary insurance is relatively less important in terms of the total premium income received by the company?

Mr. HOWE. It is.

Senator WHITE. You made reference to ordinary insurance. What do you include in the term ordinary? You don't mean, of course, just ordinary life?

Mr. HOWE. I do not. I mean to include all types of policies or business which are included in the convention blank under the heading "Ordinary." That includes in general, Senator, what is referred to as ordinary life. It includes term insurance. It includes endowments. It includes 20-payment life. It is all of these policies which, under usual practice, are paid for by annual premiums or quarterly or sometimes monthly premiums. I don't mean at all to limit it to that one type of policy known as ordinary life.

Senator WHITE. But the various kinds of insurance you have just now catalogued are included in your term "ordinary" insurance?

Mr. HOWE. That is correct.

Mr. GESELL. Now, do I also interpret the chart [1] correctly in saying that over the period the individual annuities amount to a greater percentage of the total premium income than they did at the beginning of the period?

Mr. HOWE. Individual annuities in 1929 produced a premium income of $55,000,000. By 1935 that had grown to $392,000,000; and by 1938, still remained at the figure of $261,000,000. In other words, individual annuities amounted to or accounted for 1.91 percent of the total premium income of 1929, 12.03 percent of premium income for 1935, and 7.91 percent of the total premium income in 1938.

Mr. GESELL. I should like to offer for the record a chart entitled "New Paid-For Life Insurance" together with the supporting table.

Acting Chairman KING. The exhibits will be received.

(The chart referred to was marked "Exhibit No. 2255" and appears on p. 14710. The statistical data on which this chart is based were marked "Exhibit No. 2256" and are included in the appendix on p. 15492.)

Mr. GESELL. Now, Mr. Howe, have you any comments which you wish to make with respect to this chart?

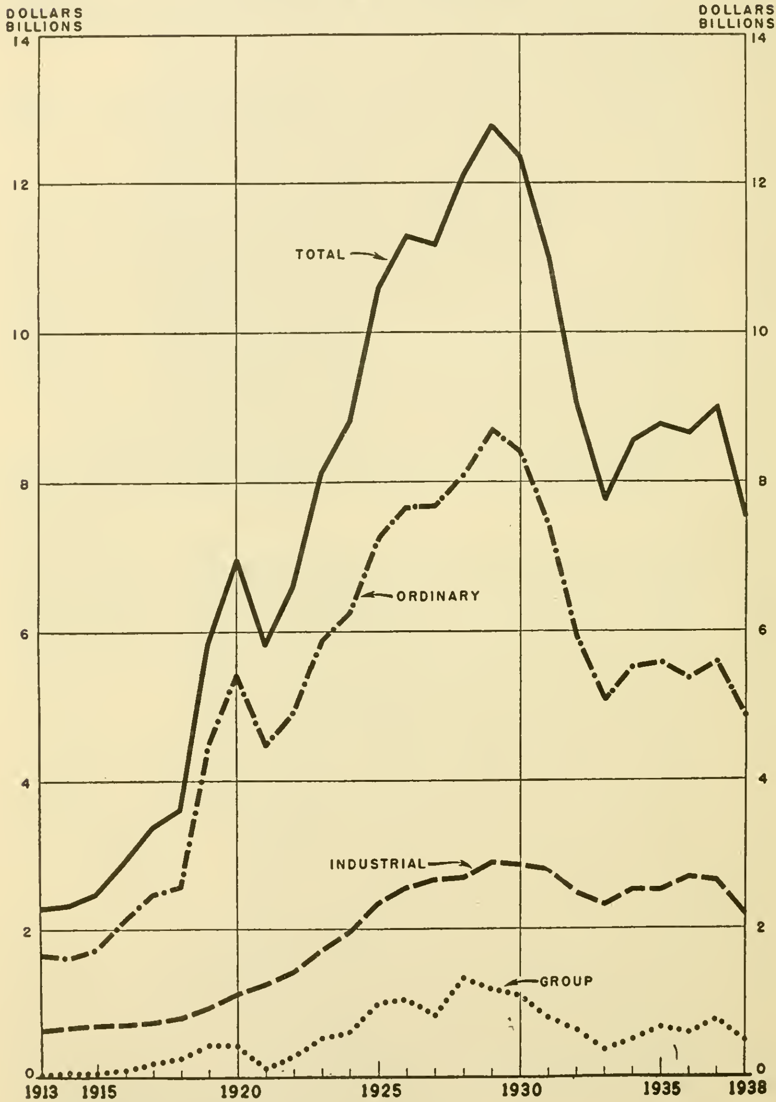
Mr. HOWE. Yes; I have. This chart is based on a regular statistical series, which is published by the Association of Life Insurance Presidents in New York. It covers, according to their statement, the data on 40 United States companies, which constitute 82 percent of the total business outstanding in all the United States legal reserve companies on December 31, 1938. The schedule excludes revivals, increases, and more important still, dividend additions and accepted reinsurance.

In other words, the chart shows, in a general and broad way, the volume of business on which a life-insurance salesman could collect a

[1] "Exhibit No. 2253," supra, p. 14708

EXHIBIT No. 2255

NEW PAID-FOR LIFE INSURANCE* 1913-1938



* EXCLUSIVE OF REVIVALS, INCREASES AND DIVIDEND ADDITIONS - 40 UNITED STATES COMPANIES. THESE COMPANIES HAD 82% OF THE TOTAL BUSINESS IN ALL U.S. LEGAL RESERVE COMPANIES ON DECEMBER 31, 1937
SOURCE: THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS

DS-1418 PREPARED BY SEC. & EXCH. COMM.

commission, and when I say life-insurance business I mean life insurance and not annuities.

Mr. GESELL. And you mean collect the first year's commission?

Mr. HOWE. That is right.

Mr. HENDERSON. Mr. Howe, just on the face of it, this table [1] might seem to contradict the figures I put into the record in my statement, which showed that there was an increase in the admitted assets and an increase in the total amount of life insurance in force. Now, what is the reconcilation between your figures and those that I put in?

Mr. HOWE. These, of course, are a trend of sales. The previous table,[2] for instance, on premium income, includes all of the income from the policies year after year, not only the first year premium income but the continuing premiums which are paid in successive years. That is a very much more level curve.

Now, the continuation of the payment of premiums on life-insurance policies, the renewal premiums, year after year, have, along with other factors which we will discuss, produced a rather substantial increase in the total assets of life-insurance companies; but the actual sales of life insurance during the period from 1929 have shown the trend which is indicated by the chart.[3]

Mr. GESELL. Now, see if I can't help you. The total amount of insurance in force has increased, has it not?

Mr. HOWE. The total amount of insurance in force has increased.

Mr. GESELL. The total amount of new business sold each year, however, has been decreasing since around 1929, as shown on that schedule? [4]

Mr. HOWE. That is correct.

Mr. GESELL. And the difference is made up in the fact that paid-up additions, and other things of that sort, are excluded from these figures but not excluded from the figures Mr. Henderson gave [5] in his opening statement?

Mr. HOWE. That is correct.

Mr. GESELL. As I gather, this is the actual business sold by the agents?

Mr. HOWE. That is right.

Mr. HENDERSON. The agent, however, does not get a commission on such things as this, if I let my dividends accumulate and buy more insurance?

Mr. HOWE. No; he does not receive a commission.

Mr. HENDERSON. That would be excluded from this figure?

Mr. HOWE. That is excluded from that figure.

Acting Chairman KING. Does the chart [6] last exhibited include more than the 26 insurance companies indicated on the first chart [7] which you presented?

Mr. HOWE. It does, Senator. The reason is we don't have figures over a long enough period for the 26 companies. We only have

---

[1] See "Exhibit No. 2256," appendix, p. 15492.
[2] See "Exhibit No. 2254," appendix, pp. 15490–15491.
[3] See "Exhibit No. 2255," supra, p. 14710.
[4] See "Exhibit No. 2256," appendix, p. 15492.
[5] Supra, p. —.
[6] See "Exhibit No. 2255," p. 14710.
[7] See "Exhibit No. 2251," p. 14703.

them for 10 years. This is from the statistical series of the Association of Life Insurance Presidents. There is not any great difference in the trends.

Acting Chairman KING. This chart then would represent as you indicated about 80 percent of the insurance receipts of insurance companies?

Mr. HOWE. Eighty-two percent of the insurance in force, and the 26 companies represent about 78 percent, I believe the figure is, of the insurance in force.

Mr. GESELL. Are there any figures on this chart you wish to point out particularly?

Mr. HOWE. It is interesting to note the difference in the growth of the three principal types of insurance. I speak now of three principal types of insurance as classified by the convention form. That is the ordinary insurance, the importance of which we saw on the preceding chart,[1] industrial insurance, and group insurance.

Now, during the period from 1913 to 1929, it is clearly seen that, in general, there was a period of very rapid growth. For instance, ordinary insurance in 1913 to 1929 increased, on the basis of figures on this chart,[1] 422 percent; industrial insurance, 365 percent; and group insurance, 5,600 percent.

Total insurance during that period, 1913 to 1929, increased 456 percent.

Mr. GESELL. What has been the experience since that time?

Mr. HOWE. Since 1929, as the chart[1] clearly indicates, there has been a decline. New paid-for industrial insurance from 1929 to 1938 declined 25 percent, and group declined 60 percent. Ordinary declined 44 percent.

Mr. GESELL. Now, are these declines continued if one takes into account the estimates of the 1939 figure?

Mr. HOWE. In comparing 1939 with 1938, we see that ordinary insurance has shown an increase of 3 percent; industrial insurance has declined 31.9 percent, or a greater percentage than the decline during the entire period from 1929 to 1938.

Acting Chairman KING. You mean in that one year?

Mr. HOWE. Yes.

Acting Chairman KING. Thirty-eight percent?

Mr. HOWE. No; 31.9 percent from 1938 to 1939 and group insurance increased 68 percent in 1939, as compared with the previous year.

Mr. GESELL. Now, these 1939 figures are based upon estimates, are they not?

Mr. HOWE. I believe so. They are at least the figures which are published by the Association of Life Presidents.

Acting Chairman KING. At the close of 1938, referring to the group figures, there was no indicating, was there, that there would be that large increase during 1939? In other words, there was no upturn apparent?

Mr. HOWE. No, Senator; or perhaps if you look at the figure for 1937 you might say instead of a big upturn in 1939, there was an unaccountable downturn for 1938, because the figure for 1937 was

[1] "Exhibit No. 2253," supra, p. 14708.
[2] "Exhibit No. 2255," supra, p. 14710.

almost as big as 1939. In other words, the sales of new group insurance are a little more erratic from year to year than the other curves which are more stable.

Acting Chairman King. That would be rather an abrupt increase, would it not, in 1939, in the group insurance?

Mr. Howe. Yes; a very considerable increase. Probably, you see, someone wrote a big contract or a few big contracts, having a big effect on the total.

Mr. Gesell. Now, I should like to turn to the chart entitled "Total Income and Disbursements," which I will offer for the record, and the supporting schedule which I would like to offer.

Acting Chairman King. They may be received.

(The chart referred to was marked "Exhibit No. 2257" and appears on p. 14714. The statistical data on which this chart is based were marked "Exhibit No. 2258" and are included in the appendix on p. 15493.)

Mr. Gesell. Mr. Howe, can you explain the chart for the committee, please?

Mr. Howe. This chart is a summation of the total income of the 26 companies for a period from January 1, 1929, to December 31, 1938, and their expenses for the same period.

Acting Chairman King. You are coming back now to the 26 companies?

Mr. Howe. Yes; this is the 26 companies. It will be seen that the total premium income during the period amounted to $31,326,000,000, investment income during the same period amounted to $8,473,000,000, and other income to $2,880,000,000. Thus, total income, which includes some duplications, amounted to $42,679,000,000.

Acting Chairman King. What other sources would there be of income other than investment income and premium income?

Mr. Howe. Senator, that gets into quite a discussion, but——

Acting Chairman King (interposing). Just in a general way?

Mr. Howe. One place that other income comes from is from an accounting practice of this kind: If a man dies and has a $10,000 life-insurance policy under which the provision is that his beneficiary shall be paid not $10,000 in cash but a sum of money over a period of years, the accounting procedure is to include the full $10,000 in death claims and include it again on the income side, and then the disbursements appear again as the monthly payments go out. So that when I say there is some duplication in other income I mean there are some accounting adjustments of that sort.

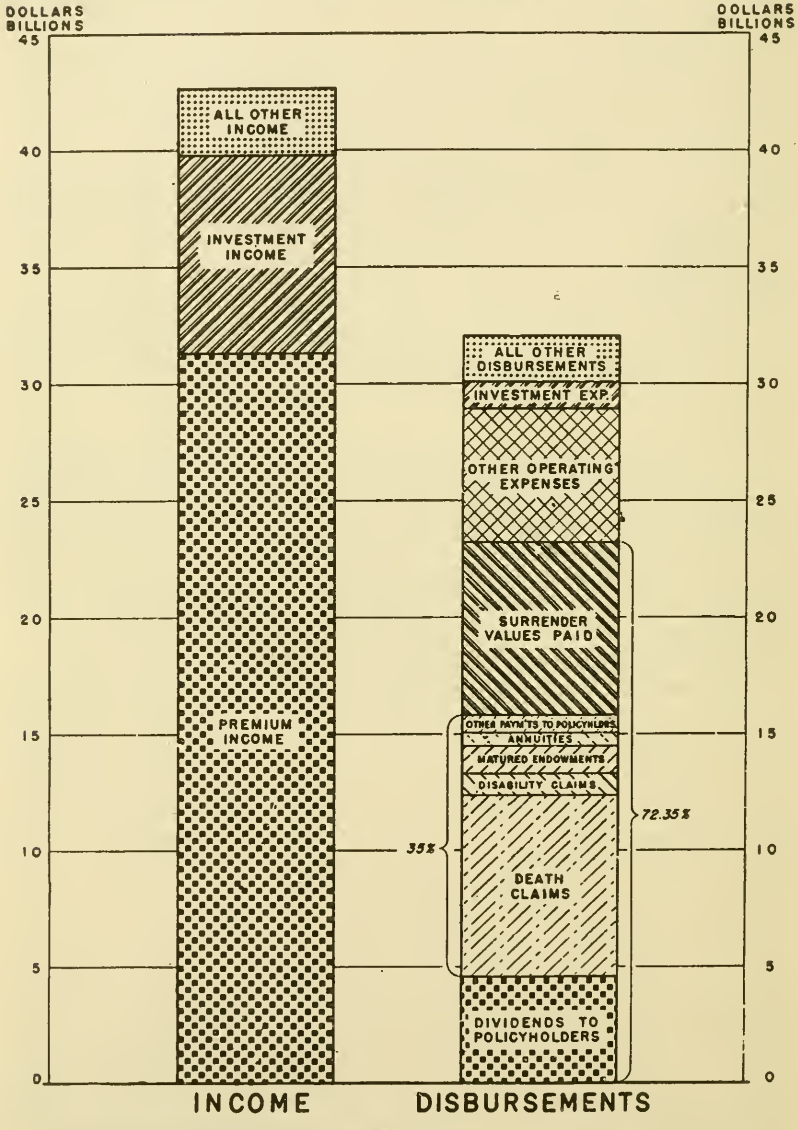
Acting Chairman King. That accounting system doesn't absolve the corporation from any obligation?

Mr. Howe. Not in the least. It is merely a matter of convenience in accounting. But the thing that I wish to state about this schedule of income and disbursements is that probably of all the annual statement schedules prepared by life-insurance companies, this thing is subject to—well, I was going to say the most qualifications, but certainly a great many, and therefore we don't want to take the figures too seriously as to the minute detail; but it does correctly convey the broad general impression that the income of these companies does substantially exceed their disbursements.

Mr. Gesell. What happens to the difference, Mr. Howe?

Exhibit No. 2257

TOTAL INCOME & DISBURSEMENTS* 1929-1938



* BASED ON COMBINED STATEMENTS OF TWENTY-FIVE LEADING LEGAL RESERVE LIFE INSURANCE COMPANIES.

DS-1410 PREPARED BY SEC & EXCH COMM

Mr. HOWE. The difference in this 10 years is that substantially——

Mr. GESELL (interposing). First of all, how much is the difference?

Mr. HOWE. The difference is $10,585,000,000.

Mr. GESELL. Can you tell us in a general way what happened to that difference?

Mr. HOWE. Yes. In a general way, that goes to increase reserves—that is, life-insurance and annuity reserves; it goes to increase surplus; it goes to increase contingency reserves; and part of it has washed out in asset losses.

Acting Chairman KING. Insurance companies, like all other business activities, have some losses?

Mr. HOWE. Senator, we will see that they do.

Acting Chairman KING. Decline in values of property which they have taken or upon which they made loans?

Mr. HOWE. That is right; a very human characteristic.

Mr. GESELL. Have you any further comments you want to make on this chart? [1]

Mr. HOWE. It will be seen that of the disbursements, about 72 percent are payments which have been made to policyholders in one form or another, including death claims (with the qualification that I just mentioned about supplementary contracts), dividends to policyholders, and surrender values for the policies which have been surrendered. The aggregate of surrender values amounts to about $7,000,000,000, the death claims about the same amount, and operating expenses $6,859,000,000 during the period.

Mr. GESELL. Now, Mr. Howe, will you turn to tables 98 and 99 in "Exhibit No. 2250," the analysis of the 26 company accounts which was placed in the record? [2] These two schedules represent, do they not, the combined balance sheet of these 26 companies?

Mr. HOWE. They do.

Mr. GESELL. They show an increase of assets of slightly over $9,000,000,000 in the 9 years, do they not?

Mr. HOWE. Yes.

Mr. GESELL. What percentage increase is that?

Mr. HOWE. Sixty-three percent.

Mr. GESELL. Now, turning to certain of the principal asset items which have increased substantially, can you give us some idea what the percentage increase has been? The figures are apparent here.

Mr. HOWE. The cash has increased 551 percent. The cash was increased from $102,188,000 to $665,329,000.

Mr. GESELL. How much increased?

Mr. HOWE. Five hundred fifty-one percent.

Mr. GESELL. What about United States Governments?

Mr. HOWE. United States Governments have increased 1,394 percent.

Mr. GESELL. What has been the increase in industrial and miscellaneous bonds?

Mr. HOWE. Industrial and miscellaneous bonds have increased 460 percent.

---

[1] See "Exhibit No. 2257," supra, p. 14714.
[2] See Hearings, Part 10–A, pp. 98 and 99.

Mr. GESELL. Now, coming down to the mortgage and real-estate items, have the mortgages increased or decreased?

Mr. HOWE. The mortgages have decreased. They have decreased 25.03 percent.

Mr. GESELL. Has that been offset by an increase in the amount of real estate held?

Mr. HOWE. Yes; the amount of real estate held was increased 539 percent, or from $277,000,000 to $1,775,000,000.

Acting Chairman KING. In part would that be represented by property taken over under mortgage foreclosures or other real estate?

Mr. HOWE. Mostly foreclosed real estate. The home offices are included, as are housing projects, but mostly the figure is foreclosed real estate taken in satisfaction of debt.

Acting Chairman KING. So there would be losses there?

Mr. HOWE. There may be ultimately. They still own it. You can't tell yet.

Mr. GESELL. We will consider some of that tomorrow.

On the assets you said they had increased 63 percent to the $24,000,000 figure?

Mr. HOWE. Right.

Mr. GESELL. Can you compare that with what the increase has been in insurance in force over the same period?

Mr. HOWE. The increase in insurance in force over the same period has been about 10 percent.

Mr. GESELL. So that assets have increased 63 percent, whereas insurance in force has increased 10 percent?

Mr. HOWE. That is about right.

Mr. GESELL. Now, turning to the liabilities side, Mr. Howe, what has been the increase in annuitie.

Mr. HOWE. The increase in reserves for annuities during this period has been 565 percent.

Acting Chairman KING. That would be from $400,000,000 to $2,665,000,000?

Mr. HOWE. That is correct, sir.

Mr. GESELL. What has been the increase in supplementary contracts not involving life contingencies?

Mr. HOWE. Three hundred ninety percent.

Mr. GESELL. Has there been an increase of dividends left with the companies?

Mr. HOWE. Yes; 89 percent.

Mr. GESELL. And what about the increase of premiums and rent paid in advance?

Mr. HOWE. That has increased 186 percent.

Mr. GESELL. Well, now, turning to one other set of tables, can you tell us what the total amount of funds available for investment to these companies has been over the period, and what the gross investments made have amounted to?

Mr. HOWE. On page 93,[1] it will be seen, are displayed the sources of funds available for investment by life-insurance companies for the year 1929 compared with the year 1938. It will be seen that in the year 1929 these 26 companies had available for investment $2,087,000,000. In 1938 this figure had amounted to $4,315,000,000. During the entire

[1] See Hearings, Part 10–A, p. 3.

period of 10 years, $26,856,514,000 was available for investment by these companies.

Mr. GESELL. How much was the investment? What were the gross investments made?

Mr. HOWE. The gross investments made were $26,189,000,000, and if we look at table 95 on page 95,[1] we see that in 1929 the companies invested $1,989,000,000, whereas in 1938 their investments were $3,649,000,000.

Mr. GESELL. Now, have you prepared some studies, Mr. Howe, which will give some idea of the importance of the life-insurance companies in the capital market?

Mr. HENDERSON. Before you go on, Mr. Gesell, let me see whether I understand something of what you have been saying. In this period, '29 to '38——

Acting Chairman KING (interposing). Inclusive.

Mr. HENDERSON. Inclusive, which included many years of depression in which the admitted assets went up but the life insurance in force went up only about one-sixth as much, and in which time the new paid-for life insurance was going steadily down, the investment problem of the insurance companies, as distinguished from their sales problem, had decidedly increased, had almost doubled, more than doubled, as a matter of fact.

Mr. HOWE. That is right.

Mr. HENDERSON. In other words, in this period where there were declining opportunities for investment which this committee is studying, they had an acceleration of the demands on their managerial efforts to find ways of getting earnings with which to keep insurance at a proper level?

Mr. HOWE. Right.

Acting Chairman KING. With a decline in the receipts from new insurance, their outstanding obligations still existed?

Mr. HOWE. Of course.

Acting Chairman KING. And, of course, they had to obtain revenue from those obligations by loans or otherwise or obviously the day must come when they would have a very serious situation.

Mr. HOWE. Oh, of course; but their premium income, as this chart[2] shows, I mean their gross income in general, exceeds their outgo although the one very great defect of that chart is that it takes no consideration at all of the flow of funds into and out of policy loans. That is a peculiarity of insurance accounting which I will go into tomorrow.

Acting Chairman KING. These charts indicate that there were investments made from which they derived funds to meet their obligations?

Mr. HOWE. Very substantially.

Mr. HENDERSON. That is, they had $26,856,000,000 available for investment and they invested over $26,189,000,000 of it?

Mr. HOWE. That is right; and the difference is the cash account which is $665,000,000.

Mr. LUBIN. Isn't it also true, Mr. Howe, judging by that table,[3] that even if they hadn't got any return on investments, their return

[1] Ibid.
[2] See "Exhibit No. 2257," supra, p. 14714.
[3] See "Exhibit No. 2258," appendix, p. 15493.

on premiums would be enough to meet obligations, death claims, surrender values, and everything else?

Mr. HOWE. That is right, for this period.

(Senator O'Mahoney resumed the chair.)

Mr. GESELL. Mr. Howe, I was about to ask you if you had prepared some studies that would further illuminate the importance of these investments in the capital market?

Mr. HOWE. I have. In the period from 1929 to 1938, the total assets of the life insurance companies included in this study increased, as the table[1] will show, from $14,800,000,000 to $24,300,000,000. This is an average of almost a billion dollars a year.

Mr. GESELL. That is to say, the assets of the companies have been increasing about a billion a year?

Mr. HOWE. That is correct.

Senator KING. Of these 26 companies?

Mr. HOWE. Of these 26 companies, Senator; yes, sir. From 1936 to 1937, however, the increase was $1,180,000,000, and from 1937 to 1938 the increase was $1,290,000,000.

The necessity of finding suitable investments for these increasing amounts of new money has created a frankly difficult problem for the life insurance companies. This difficulty has been aggravated by reason of the fact that the demands for capital have been extremely small from any borrowers, except the United States Government. The situation may be comprehended by examining the total amounts of long-term debts outstanding in the United States at various times during the period. The over-all total amount of long-term private debt in the United States in 1937 was $70,355,000,000. This was $14,165,000,000 less than in 1930.

Senator KING. Where did you get those figures of 70 billion as the over-all indebtedness in the United States? Would that be private indebtedness or corporate, municipal, State, or what?

Mr. HOWE. I will give you the detailed figures in a moment, Senator. That involves the railway debt, industrial debt, public-utility debt, farm-mortgage debt, and urban-mortgage debt.

Mr. GESELL. Those are figures from the Department of Commerce.

Mr. HOWE. The $70,000,000,000 figure involves only the private debt, you see. The Federal and State debt is $55,867,000,000 on top of that, or was at the end of 1937.

Senator KING. Would that include the obligations of small industries, small mercantile establishments? I have received some information to the effect that the total indebtedness in the United States, Federal Sate, county, and municipalities, corporates and partnerships, and individuals, was approximately 200 billion.

Mr. HOWE. Senator, these are the long-term debts only.

Mr. GESELL. These figures are taken from the long-term debt studies in the United States of the Department of Commerce, are they not?

Mr. HOWE. They are.

Mr. GESELL. You were saying that the long-term debt has decreased in the period from '30 to '37?

Mr. HOWE. Yes.

Mr. GESELL. How much did you say it had decreased?

---

[1] See Hearings, pt. 10–A, p. 98.

Mr. Howe. It had decreased $14,165,000,000.

Mr. Gesell. During that period how much did the assets of the insurance companies increase?

Mr. Howe. During that period the assets of the insurance companies increased $16,000,000,000.

Mr. Gesell. How much did they increase?

Mr. Howe. I beg your pardon, they increased from $16,000,000,000 to $23,000,000,000, or $7,000,000,000.

Mr. Gesell. So that the assets of the life-insurance companies increased $7,000,000,000, whereas the total long-term private debt in the country decreased $14,165,000,000?

Mr. Howe. That is correct.

Senator King. May I for my own information inquire as to what they meant by long-term? Was it a bond issue?

Mr. Howe. I think in general that is the type of thing they were thinking of, I mean like the railroads—they get the funded debt.

Senator King. The long-term obligations would not indicate the total obligations of the Government, State and national, corporations, and private individuals?

Mr. Howe. I think you are correct, sir.

Mr. Gesell. Now, expressed in percentages, can you tell us how much the long-term private debt declined as compared with the increase in the assets of the insurance companies?

Mr. Howe. The total long-term private debt, as indicated by these figures, has declined 17 percent, while the total assets of these insurance companies increased 43 percent. In the same interval the long-term public debt increased from $31,891,000,000 to $55,867,000,000. Most of this increase was due to the expansion of the Federal debt from $14,454,000,000 to $36,715,000,000. State and local debts increased from $17,437,000,000 to $19,152,000,000 between 1930 and 1937.

Mr. Gesell. Now, have you prepared a schedule entitled "Long-Term Investments of 26 Life Insurance Companies in Relation to Long-Term Debts in the United States"?

Mr. Howe. I have.

Mr. Gesell. That is based, is it not, on figures submitted by the companies and figures obtained from the Department of Commerce?

Mr. Howe. That is right.

Mr. Gesell. I wish to offer this schedule for the record.

The Chairman. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 2259" and is included in the appendix on pp. 15493–15494.)

Mr. Henderson. Mr. Chairman, in the document from which the long-term debt figures have been taken, prepared by the Department of Commerce, I find they say, "For this particular study, the debts included in the aggregate may be regarded as maturing a year or more from the original date of issue, although not without some qualifications."

Mr. Gesell. Now, from those figures, can you point out some of the significant developments?

Mr. Howe. The 26 companies whose figures are included in this book in 1930 owned 2.1 percent of the Federal Government debt. By 1937 they owned 11.6 percent. Of the State and local debt in 1930 they owned 3 percent, whereas in 1937 they had acquired 6.7 percent.

Senator KING. Their investments, then, in State and Federal securities increased?

Mr. HOWE. They did. Their investments in State and Federal securities increased from $813,000,000 in 1930 to $5,547,000,000 in 1937.

The CHAIRMAN. Mr. Howe, it occurs to me to ask you whether, in preparing these figures on the long-term private debt as compared with the assets of the life-insurance companies, you have examined the figures for the national income in the respective years?

Mr. HOWE. I have not made any comparisons of national income and premium income of insurance companies.

The CHAIRMAN. Let me point out what I have in mind. You say in 1937 the over-all amount of long-term private debt in the United States was $70,335,000,000?

Mr. HOWE. Yes.

The CHAIRMAN. Now, that was in excess of the national income for that year?

Mr. HOWE. I believe it was.

Mr. HENDERSON. Just about equal to it, Senator.

The CHAIRMAN. This is the significant point. In 1930 the private debt, according to your computation, was $14,165,000,000 more than the figure for 1937?

Mr. HOWE. That is correct.

The CHAIRMAN. I wonder what the ratio would be between the national income for 1930 and for 1937?

Mr. GESELL. We can prepare those figures for you and would be glad to submit them.[1]

The CHAIRMAN. I was going to suggest you have that information prepared.

Senator KING. May I state, Mr. Chairman, the witness before you came in indicated, as I recall his testimony, that the $70,000,000,000 did not include a large volume of private individuals, individuals, or short-term.

The CHAIRMAN. Yes; I understand that.

Mr. HOWE. That is my understanding, Senator.

Senator KING. That, plus the other indebtedness to which reference has been made, might amount to $200,000,000,000.

Mr. HOWE. It might.

Mr. GESELL. You were telling the committee about the different percentages of types of investment held by the companies.

Mr. HOWE. Yes; and I gave the figures for public debt, Federal and State and local. With respect to private debt, in 1930 these 26 companies held 18.1 percent of the railway debt, and in 1937 they owned 17.4 percent.

Mr. GESELL. So their ownership of the railroad debt has decreased, has it not?

Mr. HOWE. It has decreased some.

Mr. GESELL. What with respect to the other types?

Mr. HOWE. With respect to industrial indebtedness, in 1930 these companies held 2.5 percent, and in 1937, 11.7 percent.

Mr. GESELL. So industrials have gone up from 2 to 11?

---

[1] The national income for 1930 was $68,300,000,000, and for 1937, $69,800,000,000. See hearings, Part 4, "Exhibit No. 220," appendix, p. 1513.

Mr. Howe. They have; and public utilities has gone up from 10.5 to 18.2. Farm mortgages held by these companies, however, have declined from 19.2 percent of the total farm-mortgage debt to 10.5 percent of the total farm-mortgage debt.

Mr. Gesell. What does that make for the totals?

Mr. Howe. Including urban mortgages, in 1930 these 26 companies held 12.6 percent of the total private debt, and in 1937, 14.4 percent of the private debt. Of the total public and private debts, it is a percentage of 9.8 and 12.14, for 1930 and 1937, respectively.

Mr. Gesell. Have you prepared some studies of special cases in the oil and rubber industry which show what this increase has involved in terms of individual concerns?

Mr. Howe. I have.

Mr. Gesell. Are those studies contained on this schedule which I show you?

Mr. Howe. They are.

Mr. Gesell. I should like to offer the schedule for the record.

The Chairman. The exhibit may be received.

(The schedule referred to was marked "Exhibit No. 2260" and is included in the appendix on p. 15494.)

Mr. Gesell. Mr. Howe, turning to those specific cases, will you describe for the committee what has taken place?

Mr. Howe. We have already considered the great increase in the investments of the 26 life insurance companies in bonds of industrial corporations. In 1929 these companies held $214,000,000 of industrial bonds. In 1938 the bonds in this category amounted to $1,196,000,000. The increase in this 9-year period is $982,000,000. Inasmuch as the total amount of industrial bonds outstanding was declining throughout this period, it is clear that the increased holdings of insurance companies represented an absorption of debt previously held by other lenders. The steadily increasing amount of industrial bonds held by the insurance companies has given them a position of greater relative importance to industrial corporations. On an over-all basis, it appears that these companies rose from a position in 1930 when they held 2.5 percent of the industrial debt to 1937 when they held 11.7. When attention is narrowed to that part of the industrial long-term debt which is an appropriate field for life insurance investment, the change in the position of the insurance companies appears even more striking. In order to show a few illustrations of that change, 5 oil companies and 4 rubber companies were selected. By combining the lists of securities owned by each of the 26 companies, it was possible to discover exactly how much of the total outstanding funded debt of each of the selected oil and rubber companies was held by the 26 life insurance companies as a group.

This was done for 2 years only, 1929 and 1938.

Mr. Gesell. The results are contained on this schedule that was just introduced?

Mr. Howe. The results are summarized on the schedule just introduced.

Mr. Gesell. Without regard to the figures which will be on the exhibit, will you tell us what the increase has meant in terms of percentage, first starting for the oil companies and taking the years 1939 and 1938?

Mr. HOWE. In the Gulf Oil Corporation, the increase from 1929 to 1938 was from 10.8 percent to 100 percent.

Mr. GESELL. You mean in 1929 these 26 companies held 10.8 percent of the total funded debt of the Gulf Oil Corporation?

Mr. HOWE. That is correct.

Mr. GESELL. And that by 1938 they held 100 percent?

Mr. HOWE. That is correct.

Mr. KING. Has it decreased during that period?

Mr. HOWE. Yes; the debt decreased by $15,000,000.

Mr. GESELL. In the case of the Shell Union Corporation of Delaware, what do you find?

Mr. HOWE. In 1929 the companies held 5.6 percent of the debt, and in 1938, 38.8 percent.

Senator KING. That might be less in the total amount which they held in dollars than the 5 percent of the first period?

Mr. HOWE. No; in 1929, Senator, the insurance companies held $7,120,000.

Senator KING. Of the Shell?

Mr. HOWE. Of the Shell, and in 1938 they held $31,000,000.

Mr. GESELL. In the case of Socony Vacuum Oil Co. of New York, the insurance companies increased their holdings both in terms of amount and percentages there, did they not?

Mr. HOWE. They did. The percentage increase was from 8.3 to 66.6.

Mr. GESELL. What about the Standard Oil Co. of New Jersey?

Mr. HOWE. The increase was from 4.1 percent to 26.3 percent.

Mr. GESELL. In the case of the Texas Corporation it was from 6.2 to 8.2?

Mr. HOWE. That is correct.

Mr. GESELL. Turning to the rubber companies, shown on this schedule, what has been the increase in the case of the Firestone Tire & Rubber Co.?

Mr. HOWE. In 1929 these companies owned none of the securities of the Firestone Tire & Rubber Co., whereas in 1938 they owned 25.8 percent.

Senator KING. Does your investigation show any losses in those holdings, do you think, or did they show the securities were valuable?

Mr. HOWE. The securities were unquestionably valuable, Senator. These have been acquired since the depression, largely.

The CHAIRMAN. Do they indicate losses in any of those periods?

Mr. HOWE. No indication of any losses.

Mr. GESELL. In the case of the United States Rubber Co., just to give one further example, the increase has been from 0.8 percent to 100 percent, has it not?

Mr. HOWE. That is correct.

Mr. GESELL. Now, Mr. Howe, in further reference to this same topic, will you turn to table 125 contained in "Exhibit No. 2250" and tell the committee what that table shows?

Mr. HOWE. Table 125, appearing on page 125. In this case, Senator, we have adopted the page numbers for the table numbers in order to simplify reference. On page 125 there is a table which is entitled "New Corporate Bonds and Notes Issued." These figures have been assembled by the research and statistics section of the Securities and Exchange Commission over a period of years. That is the total amount of rails, public utilities, industrial, and miscellaneous bonds which have been issued by all American corporations during the period from 1934 to 1938, inclusive. During this period, there were $11,241,000,000 of corporate securities, new corporate issues, put out. And during this period, the new corporate bonds purchased by these 26 companies alone accounted for $3,683,000,000 of all of these securities which were issued, and I must emphasize the fact that of these corporate securities, only a portion are eligible for life insurance investment because the $11,000,000,000 includes corporate securities, good, bad, and indifferent.

Mr. HENDERSON. You mean a different rate?

Mr. HOWE. That is right, different qualities.

The CHAIRMAN. All these life insurance companies—I assume the States in which they were incorporated provide qualifications for securities?

Mr. HOWE. Yes, sir, Senator. We have made an analysis of the investment laws of the various States and schedules will be provided you.

During this period it is interesting to note the increasing relative importance of the purchases by these companies. In 1936 the companies purchased only 24 percent of all new issues. In 1937, however, they purchased 48.9 percent, and in 1938, 47.7 percent of all new corporate issues.

It is interesting to note that if these 26 companies invested the increase in their cash account and the increase in their Government account in corporate securities, these corporate securities over this period, they would have had to purchase 68 percent of all the securities issued by American corporations. That is, I mean bonds and notes.

The CHAIRMAN. When you speak about securities, when you speak about loans which have been made by corporations, do you include only the long-term loans, because corporations frequently loan at par for 30 days or 60 days?

Mr. HOWE. Yes, Senator, only the long-term notes; not the bank notes in any sense.

The CHAIRMAN. Will you repeat that statement, please, Mr. Howe?

Mr. HOWE. If the increase in the cash account of these 26 companies, plus the increase in their holdings of United States Government bonds, had been invested in corporate bonds and notes, in these new issues, they would have had to absorb 68 percent of the new issues in order to provide a vehicle for the investment of those funds.

Dr. LUBIN. Which, of course, would have been impossible under the laws which restrict the type of investments they make.

Mr. HOWE. I have no exact analysis of the amount of these securities eligible for purchase. It is a very complicated problem; but it probably is that it is an utter impossibility.

The CHAIRMAN. But when you are talking of 68 percent, the fund of which you are speaking includes all manner of securities, so that it necessarily would include securities which, under the various State laws, would be ineligible?

Mr. HOWE. That is correct. There is no question about it. There is a large element of ineligible securities, especially in the year 1936, which is the largest year of issue.

The CHAIRMAN. So that actually the percentage does not represent a correct picture?

Mr. HOWE. No; it is an understatement of the difficulty, I should say, of finding corporate investments for life-insurance funds.

The CHAIRMAN. It would be probable that the companies are unable to find suitable investments in corporate securities in which to place the savings of their policies, those transmitted to them by way of premiums?

Mr. HOWE. That is correct.

Senator KING. And nothing in your testimony would indicate that they had accepted ineligible securities?

Mr. HOWE. No, sir; not the slightest, Senator; no such implication. I am talking about the shortage of available investments.

Mr. HENDERSON. This means, Mr. Howe, that in this period of increasing investment difficulty, to use the quotation of the Wall Street Journal I referred to in my statement,[1] as far as holding the mortgage on America is concerned, the insurance companies have about a 10-percent mortgage on all the indebtedness of—they have about 11½ percent of the Federal debt and 6½ on the States; they have a 17-percent mortgage on the railroads. They have increased to the extent that they hold over 1 out of every 10 of the industrial long-term debt pieces, they have almost doubled on the mortgage which they hold on the utility industry so they have almost $1 out of every $5 indebtedness. They have stayed about the same as far as the urban mortgage is concerned, and they have cut in half the amount of mortgage which they hold on the farmers. That does not take into account the amount of actual property which they have taken by way of foreclosure, which has gone up also.

Senator KING. That sort of indicates they have the very best securities?

Mr. HOWE. I don't think there is any question about that fact, Senator.

Mr. HENDERSON. If this trend should keep up so far as the oil companies are concerned, there is nothing to prevent, and in fact there is a likelihood that you would have almost complete ownership of a number of the outstanding companies.

Mr. HOWE. A complete ownership for senior obligations.

Mr. HENDERSON. Do you know anything at all about the ratio of equity ownership to the total capital of these corporations? Did you make any studies on that?

Mr. HOWE. I have no figures on that.

Mr. HENDERSON. I think it would be interesting to review, in order to find out just what the percentage of ownership is. This increase in debt, I think it should be pointed out, Mr. Howe, does not carry with it an increasing amount of responsibility or voting power in these corporations. As far as you know, none of these oil or rubber companies' bonds and debentures and notes carry with them any voting privileges?

Mr. HOWE. No. I am very sure they do not.

Mr. GESELL. One further point in this same connection, Mr. Howe. Have you any studies which will show the relationship between the

[1] Supra, p. 14698.

increase in assets of the insurance companies and the assets of the principal savings institutions during this same period?

Mr. HOWE. I have. From December 31, 1929, to December 31, 1938, the total assets of principal savings institutions, including life-insurance companies and fraternal associations, time deposits of commercial banks, assets of mutual savings banks, building and loan associations, governmental pension funds and trust funds, Postal Savings deposits, and baby bonds, rose from $58,033,000,000, that is of December 31, 1929, to $69,077,000,000 on December 31, 1938, or an increase of $11,044,000,000.

Of this increase, 94.7 percent is accounted for by the increase in the assets of life-insurance companies and life-insurance fraternal associations; and $9,398,000,000, or 85 percent of the increase, is accounted for by the increase in the assets of the 26 life-insurance companies whose figures are included in "Exhibit No. 2250."[1]

Mr. HENDERSON. So it is the outstanding dynamic savings institution in this period?

Mr. HOWE. It is unquestionably the outstanding dynamic institution so far as the increase in assets, which means an increase in receipts of the savings of the people.

Senator KING. That would indicate, if we are to draw deductions, that perhaps the banks, investment companies, and private individuals have not been alive, if I can use that expression, to the acquisition of the securities issued by various corporations, as a result of which the insurance companies have been resorting to perhaps in a larger degree than they otherwise would have been. Isn't that a fair deduction?

Mr. HOWE. Now, let's see. I can give you a few more figures on that, Senator. During this period from the end of 1929 to 1938, for instance, the time deposits in commercial banks declined from $19,187,000,000 to $14,359,000,000. That is the type of thing you have in mind, is it not?

Senator KING. Yes; and generally the failure of the investment companies and the banks and private persons to extend credit to these corporations and to absorb the various bond issues. As a result, the insurance companies became larger purchasers of these securities by the corporations than would have been the case if the banks and the investment companies and private persons had been more generous, if I may use that expression, in extending credit.

Mr. HOWE. Senator, I think a careful study of the more recent years of this period will show that with respect to the type of securities which life-insurance companies may buy there has been the greatest competition to acquire them not only among the companies themselves but by commercial banks, trust funds, and other institutional and private concerns.

Senator KING. But in that competition——

Mr. HOWE (interposing). The life-insurance companies have gotten the most bonds. Right.

Mr. GESELL. I have no further questions of Mr. Howe at this time.

The CHAIRMAN. It is now 10 minutes after 12. Would it be convenient to recess until 2 o'clock?

---

[1] See Hearings, Part 10–A.

Mr. GESELL. As the committee wishes.

The CHAIRMAN. If there are no objections, the committee stands recessed until 2 o'clock.

(Whereupon, at 12:10 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:50 p. m., on the expiration of the recess.

The CHAIRMAN. The committee will please come to order.

Are you ready, Mr. Gesell?

Mr. GESELL. The first witness this afternoon is Mr. Thomas A. Buckner, chairman of the board of the New York Life Insurance Co. Mr. Buckner has already appeared before this committee in connection with the insurance study,[1] and I have asked him to return today to discuss major developments in the field of life-insurance investments during the last 30 years.

The CHAIRMAN. You may be seated, Mr. Buckner. You have already been sworn.

TESTIMONY OF THOMAS A. BUCKNER, CHAIRMAN OF THE BOARD, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. Mr. Buckner, I would like you, first, to tell the committee how the investments which are made by your company are supervised and handled by its board of directors.

Mr. BUCKNER. Mr. Chairman, I would like to preface my testimony with a statement which I previously made to Mr. Gesell, that I am not an economist nor a financial expert. It was a comfort to me to note Mr. Feller's statement at a recent hearing that Justice Holmes once said that a page of history was worth a volume of logic. My knowledge of investment problems grows out of the history of our company and my experience connected therewith.

I am very glad, Mr. Chairman, to respond to Mr. Gesell's suggestion that I say a word concerning the make-up of the finance committee and the mechanics connected with its operations. I mean the finance committee of the New York Life.

The finance committee consists at the present time of eight directors, in addition to the president and the chairman of the board, who are ex officio members, and the treasurer who keeps the records but has no vote. A unanimous vote is required to purchase or sell any security, to make any loan, and to sell any property.

All offerings of bonds or stocks which qualify under the New York State law as investments for a life-insurance company and which have passed all the tests of our treasurer and his statistical and experienced bond department, are submitted to the committee for its consideration. Each offering is accompanied with complete details as to the issuing corporation, its financial set-up, its fixed charges, and its management. A copy of these details is placed in the hands of each committeeman. The assistant treasurer in charge of the bond department points out and comments upon the strong points and the weak ones, if any, of the security, the probable price

[1] See Hearings, Part 4, pp. 1417 to 1441.

at which it can be bought, and the interest yield. The committee discusses the offering and votes on the question of the purchase, and, if favorable, the amount to be so invested. The finance committee meets regularly twice a week. A full and complete report of the actions of the committee are presented to the board each month.

A mortgage loan application after appraisal, is considered by experienced men in our mortgage loan department and then if it qualifies as a good and sound loan is reported to our real estate and mortgage loan committee, which is a subcommittee appointed by the finance committee, and if there approved it is then presented to the finance committee with a complete statement of facts concerning the property, for final action.

All real-estate sale proposals with recommendations of our appraisers and field men, and our real-estate department, take a similar course up to the finance committee.

Mr. Gesell. Now, Mr. Buckner, there are several questions I would like to ask you to fill out that statement a little. First of all, can you tell us who the members of the finance committee are?

Mr. Buckner. Oh, yes; there is Mr. M. N. Buckner.

Mr. Gesell. Mr. Buckner is a banker?

Mr. Buckner. Chairman of the board of the New York Trust Co.

Mr. George B. Cortelyou, ex-Secretary of the Treasury of the United States and formerly the head of the Consolidated Gas Co. of New York; Mr. Henry Bruére, the President of the Bowery Savings Bank; Mr. Robert Dowling, an outstanding realtor in New York City of lifelong experience; Mr. Hale Holden, formerly the head of the Southern Pacific Railway Co.; Mr. Percy Johnston, chairman of the board of the Chemical Bank & Trust Co.; Mr. Charles E. Hilles, in the insurance business, employers' liability; and Mr. Arthur A. Ballantine, a lawyer.

Mr. Gesell. Can you tell me this, Mr. Buckner: How does the New York Life find out about investments? How do propositions come to it for it to put its money in?

Mr. Buckner. Of course we seek through our field representatives, salaried men, and also correspondents throughout the country, real-estate loans in that way, and they come to us from every section of the United States.

Mr. Gesell. You have either salaried representatives or correspondents located all over?

Mr. Buckner. We have representatives stationed around the principal centers of the United States, and we have correspondents in every city, in every community.

As to bonds, well, they are offered to us usually by bond salesmen, by the bond people who have the distribution of the bonds, or else our treasurer seeks them, as he sees issues coming out or issues for sale.

Mr. Gesell. Would it be correct to say that by and large your bond investments come to you?

Mr. Buckner. In the larger measure, yes; they do, except Government bonds.

Mr. Gesell. Can you give us some idea of what proportion of the bond offers that come to you your company takes?

Mr. Buckner. Well, that I think our treasurer would be better able to answer. I don't think we have ever kept any records.

Mr. GESELL. I assume there are all kinds of propositions turned down?

Mr. BUCKNER. Yes, there are many propositions turned down, as a rule. Broadly speaking, bonds are not offered to the company or sought by the company which do not meet our standards. The question then becomes one of price, and that is a matter that is negotiated and if the price at which they can be obtained is not satisfactory they are turned down by the committee.

Mr. GESELL. Would you say that the vast proportion of the bonds which come to you, that meet the legal requirements for investment, are taken by your company? In other words, you are usually able to work out the agreement as to price?

Mr. BUCKNER. I would say that we do not even get as many as we want.

Mr. GESELL. But of those that come to you? You take most of those?

Mr. BUCKNER. We take most we can get if they are favorable as to standard and as to price.

Mr. GESELL. When the committee meets, I assume the staff members bring up to it these proposals for their decision. Are many of those proposals turned down?

Mr. BUCKNER. Yes; quite a few are turned down, principally on the basis of the yield, price yield, and sometimes on the basis of the question as to the security.

Mr. GESELL. The finance committee then does, fairly frequently, turn down offerings?

Mr. BUCKNER. Very often in the bond field.

Mr. GESELL. What is the average length of meeting of the finance committee? How long do they sit?

Mr. BUCKNER. I should say that the average is something between—about an hour, I would say, is the average—although frequently a full afternoon.

Mr. GESELL. And you said they meet twice a week?

Mr. BUCKNER. Twice a week, Mondays and Thursdays.

Mr. GESELL. Now, do the members of the committee get material in advance to study with respect to the investments that are coming before them or decisions made around the table?

Mr. BUCKNER. The treasurer frequently advises the committee that there will be coming up offerings of such-and-such bonds, and members of the committee therefore have advance notice so that they are able if they desire to do so, to make some little investigation on their own account.

Mr. GESELL. So at least on the important investments the members of the committee are familiar with the general problem they are going to have to decide in advance.

Mr. BUCKNER. Frequently so. But in every case the members of the committee, each member has a written statement concerning the issue and everything about it, and they enter into quite some discussions over the offering.

Mr. GESELL. What would you say are the principal reasons that you turn down bond offerings that come to you?

Mr. BUCKNER. Well, one of the principal reasons is the yield is too low, below our levels.

Mr. GESELL. Do you set from time to time a level below which you will not go?

Mr. BUCKNER. I think the treasurer keeps a very accurate account of what a bond of a certain standard should yield and what it can be bought at, other bonds, I mean of the same standard.

Mr. GESELL. So one reason you turn them down is that the yield is too low?

Mr. BUCKNER. The yield is too low.

Mr. GESELL. What are some of the other reasons?

Mr. BUCKNER. Sometimes we think we have enough of them.

Mr. GESELL. That would be a problem of diversification; you already have enough of that investment and you don't want more.

Mr. BUCKNER. Occasionally there are questions about franchises and the length of franchises.

Mr. GESELL. Matters there of legal sufficiency of the security?

Mr. BUCKNER. That is right, and also as to whether or not the bond is really of the quality that the price would warrant buying.

Mr. GESELL. So it is yield, price——

Mr. BUCKNER (interposing). Quality.

Mr. GESELL (continuing). Legal sufficiency?

Mr. BUCKNER. And quality.

Mr. GESELL. And whether or not you are going to have too little diversification if you buy into it?

Mr. BUCKNER. They may think we have enough of that particular bond.

Mr. GESELL. Now, what is the procedure in the committee when investment is proposed into the securities of a concern which may interlock with the company through a member of the finance committee who is present at the meeting?

Mr. BUCKNER. That member never enters into the discussion and never votes.

Mr. GESELL. He has no participation whatsoever?

Mr. BUCKNER. No participation whatever.

Mr. GESELL. Do opportunities to invest frequently come to you through your directors?

Mr. BUCKNER. I would think not. So far as I know, it is very, very rarely that they do.

Mr. GESELL. They don't serve to let you know that such and such a concern may be offering a new issue?

Mr. BUCKNER. There might be occasionally something of that kind, but I don't know about it.

Mr. GESELL. By and large that isn't true?

Mr. BUCKNER. By and large that isn't true.

Mr. GESELL. I didn't mean to interrupt you, sir. Could you tell the committee something of the developments that have taken place in your company over the last years, the various channels of investment which you pursued, and the reasons why your company has gone or has not gone into certain types of securities?

Mr. BUCKNER. You mean over the period that you asked me to cover?

Mr. GESELL. That I asked you to cover; yes.

Mr. BUCKNER. I will start out by saying that Mr. Gesell has asked me to testify concerning our investment problems since 1906. First, I would like to say that there exists a close tie-up between the life-insurance company's investment policy, its policy as to adequacy of reserve, and its dividend policy. Its investments should be sound, well diversified, and yield an income amply sufficient to meet the reserve requirements. All our reserves for insurance and annuities are calculated upon the assumption of 3-percent interest, except recent annuities which are on a 2½-percent basis.

We began in 1898 raising our reserves to a 3-percent basis from previous assumptions of 4 percent and completed the job as to all life-insurance contracts in 1912, and as to annuities at a later date. This action in my opinion was one of the wisest moves ever taken by our company.

Following the financial panic of 1897 interest rates began to fall. In December 1898 the New York Sun announced that the Bowery Savings Bank could no longer maintain the 4-percent interest rate and would drop the rate to 3½, "there being so much money in the bank that it was difficult to invest it all safely at 4 percent."

During the year 1899 one of the principal New York insurance companies—not the New York Life—sent a letter to the leading financiers of the day asking their opinion as to what rate of interest a life-insurance company could safely count upon realizing upon such securities and mortgages of the kind such an institution should hold, during the next 20 years. This company received 57 replies from leading financiers. With few exceptions their answer was 3 percent. Thus the wisdom of our plan of the previous year to strengthen our reserves until we reached an over-all basis of 3 percent, was confirmed.

Mr. Chairman, I may appear to be far removed from the question Mr. Gesell has asked but I assure you I am approaching it, and hope you will pardon the length of the approach. There is, as I have intimated, the closest connection between our investment portfolio, carefully chosen, the interest yield to be relied upon for a long period of time, and the reserve requirements calculated upon an assumed rate of interest over a long period of time low enough to be reasonably sure of realization. Upon the strength and safety of the bridge between these two major factors largely rests the security of the policyholders and the dividends that may be safely paid.

Before going into the investment problems and trends since 1906, I should like briefly to sketch life-insurance conditions during a few decades prior to 1900 which were a lesson to life-insurance management and which justify the conservative position taken by our company in matters of safety and security in investment policy, adequate reserves, surplus for general and unknown contingencies, and dividend declarations.

My information as to these earlier years of history of life insurance is based upon my own research and information gained from my father who began the life-insurance business in 1862. During the sixties the competition between companies and agents in procuring new business was based almost, if not entirely, upon dividends or net cost. All companies were comparatively young. Some were considered little, some big. At the end of 1860 the assets of the Mutual

Life were about $7,000,000; Mutual Benefit, $4,000,000; Connecticut Mutual, $3,750,000; and New York Life, $2,000,000; Equitable just born.

Interest rates were high and statutory limitations upon the kind of investments a life-insurance company could make, if any, were mild and broad.

So all other matters back in those early days, safety, security, and so forth, having no play in the minds of the insurance public, dividends or net cost was the all-in-all. Result: Companies entered into competition as to dividends with great zeal. When bank balances and surplus margins were too low to declare dividends payable in cash, companies, including our own, declared dividends payable in scrip to be redeemed with 6-percent interest in future years if and when the financial situation permitted. It took our company many years later—long after the mad dividend race subsided—to redeem these scrip dividends.

Well, what slowed down the race? What was the final result?

The 1870's brought the answer. During the terrible panic and financial debacle of 1873, a sizable proportion of all the life-insurance companies of the United States folded up; many failed outright; other merged or reinsured one another, and in many cases again folded up.

The CHAIRMAN. What was that proportion, Mr. Buckner; do you recall?

Mr. BUCKNER. I am inclined to think it was about half or all the life-insurance companies. I was not able to find a definite percentage so I placed it this way.

From an address by the Honorable Charles R. Detrick, then commissioner of insurance and banking of the State of California, delivered at the annual convention of the Association of Life Insurance Presidents. December 14, 1928, I quote [reading]:

> The 9 years, 1871 to 1875, were the most trying period in the history of American Life Insurance. Forty-six life companies, of which 27 were New York's own companies, ceased doing business. Thirty-two failed outright with total losses of $35,000,000 to policyholders.

All companies did not fail. The New York Life did not fail. Why? A more conservative investment management is the answer.

The mad dividend competition ceased and safety and security of company and policy obligations began to be stressed in competition for new business.

The CHAIRMAN. Do you know what type of investment these other companies purchased at that time?

Mr. BUCKNER. I could have found that out, Senator, but I didn't because I didn't think that was of any material point. They are in almost everything. They are seeking high interest returns and of course all investments in those days yielded high interest returns.

The CHAIRMAN. I wondered if you knew from your study of that development whether the companies at that time took more risk?

Mr. BUCKNER. They did.

The CHAIRMAN. In their investments?

Mr. BUCKNER. They did. Those that failed did; that is one of the reasons they failed.

The CHAIRMAN. In other words they weren't seeking so much security of capital and low interest rate as they were seeking a high return?

Mr. BUCKNER. They were seeking a high return in order to pay a high dividend.

Mr. GESELL. There were very few laws governing investments of any kind?

Mr. BUCKNER. I stated that there were few laws governing investments. Safety and security thereafter began to be stressed in competition for new business after the seventies.

The year 1880 was the beginning of the renaissance of the life-insurance business and of economic and financial conditions throughout the country.

Foremost in this epoch of expansion were the railroads, all calling for capital. Prior to 1906, railroad underlying bonds were considered on all sides as prime investments for life-insurance companies and all kinds of trust funds. Due to the expansion of industry, supply as well as quality were available. By the end of 1906 more than 50 percent of our assets consisted of railroad bonds.

The CHAIRMAN. What was that percentage?

Mr. BUCKNER. Fifty percent. To be exact, it was 54 percent that was invested at the end of 1906 in railroad bonds.

This large investment probably reflected the ideas then prevailing that railroad bonds were, in point of security and yield, the finest investment for trust funds available. That opinion is confirmed by subsequent experiences, for with an investment for many years of never less than $300,000,000, we practically had no defaults on our railroad bonds as to principal or interest until 1931.

Senator KING. You didn't have many investments in the New Haven Railroad then, did you?

Mr. BUCKNER. I presume so, prior to 1931. I think we are in most good roads.

Senator KING. Proceed.

Mr. BUCKNER. After 1906, our finance committee concluded that our increasing assets required greater diversification. Demands for capital came from many other directions. Our holdings of railroad bonds dropped to 20 percent of our assets by the end of 1932, and to 10 percent at the end of 1939.

In 1912 the company set up a municipal bond department and secured the services of Mr. Charles F. Cushman, since deceased, a man of wide experience in this form of investment, to organize and seek an outlet through this form of security. Thus through municipal bonds we responded to the call for capital to aid in the building of highways, bridges, school buildings, street paving, sewerage, and all other kinds of improvements needed by people in towns, cities, counties, and States. Our investment in municipal bonds had increased by 1932 to $130,000,000 and at the close of 1939 to $240,000,000.

The CHAIRMAN. May I interrupt, Mr. Buckner, to ask whether that form of security, the issuance of that form of security, was stimulated by the companies at that time?

Mr. BUCKNER. I don't think so, Senator. I think that is probably stimulated by the people at home.

The CHAIRMAN. I was wondering whether the companies went after the bonds or merely took the bonds that were offered.

Mr. BUCKNER. I think the latter is true.

Thus was a portion of our investment problem being solved.

In 1913 we entered the farm mortgage investment field and by 1924 we had invested over $68,000,000 in farm mortgages. Somewhere around 1926 we decided to withdraw gradually from this type of investment. During the war the high prices obtained for farm products started a speculative boom in farm lands which, together with great increase in available credit, particularly through the Federal Farm Loan and joint stock land banks, created a situation which we thought no longer made this type of investment desirable. We knew that if we wished to successfully compete in the farm-mortgage field we would have to follow this high valuation and it was decided better not to continue an active participant with such competition. Since 1926 we have made a few farm loans but so few as to be almost negligible, and our farm-mortgage investment for one reason or another has dwindled to something in the neighborhood of $6,000,000.

During the Great War practically all our investments were made in Government bonds. We responded with all available funds to the needs of the Government. We even borrowed money to enable us to buy more than our available funds permitted. Prior to 1917 no Government bonds appear in our assets. By 1921 our holdings exceeded $119,000,000. Our holdings declined thereafter to the low point of $14,000,000, but subsequently new purchases were made until at the end of 1932 we held $56,000,000.

Mr. GESELL. You now hold something like $627,000,000, don't you?

Mr. BUCKNER. I think a little over $700,000,000.

Mr. GESELL. I can't keep up with you. Does that tremendous holding represent what the company believes is the desirable amount that should be placed in Government bonds, or is it more a measure of the company's inability to invest its funds elsewhere?

Mr. BUCKNER. I would say, Mr. Counsel, that by and large throughout the whole history of investment of life-insurance funds, a life-insurance company must follow the trends of the demand for capital, and just now the demand for capital seems to come largely from the United States Government.

Mr. GESELL. Do I understand from that statement that if there were bond offerings available of good quality which you could take, of industrial, railroads, and public utilities, and so forth, that you would still be putting this much money, $700,000,000, into Government bonds?

Mr. BUCKNER. No; if we had gilt-edged securities offered to us of private enterprises, of higher yield than Government bonds, of absolute security, naturally we would take the higher yield.

Mr. GESELL. So that the holdings of the Government bonds are to some extent a measure of your inability to invest at the yields you require in bonds of private institutions?

Mr. BUCKNER. I should say that it is due to the slowing down of demand for capital by industry as a whole. When the demand for capital returns, as it surely will, the Government needs will probably quiet down and there will be plenty of investments available for all trust funds.

Senator KING. As long as the Government is expending approximately $7,500,000,000 or eight or nine billion and issuing bonds for three or four billions of that amount, do you feel that those bonds issues are perhaps more advantageous and certainly more secure than some of the less desirable issues of private corporations?

Mr. BUCKNER. That is true. There is not such a very wide difference in the yield on long-time Government bonds from the yield on some of the highest rate industrial bonds. There is not a very wide difference today.

Senator KING. Would it not be desirable—and probably I am injecting an element into this that ought not to be considered—if that could be the case, to have less Government securities and more private securities issued?

Mr. BUCKNER. I would say that both are desirable. I don't see why the needs of the Government should be shunned. It is the duty of all corporations to support the Government needs. We wouldn't do it at great sacrifice, but I don't think we made any great sacrifice. As I said, there is a slowing down of the demand for capital by private industries at this particular period, but that is a passing phase.

I am an optimist, and I can't for a minute believe that anybody should think that America has reached a standstill and that it has reached its zenith and from this time on it is going to be nothing doing in the way of progress in industry and development.

Pardon my getting away from the subject.

The CHAIRMAN. That is not getting away from the subject. It is the subject, Mr. Buckner.

Mr. BUCKNER. After the war there developed a great demand for capital for new construction of income-producing city property. We responded to this demand thereby increasing our mortgage loans, exclusive of residential loans, from $138,000,000 in 1922 to $420,000,000 at the end of 1932. The total was reduced to $330,000,000 at the close of 1939. Part of this reduction was due to foreclosures.

Along in the early twenties the demand for capital by public-utility corporations to expand their facilities to meet the ever-increasing needs of the public for electricity for use in all phases of life resulted in our responding by increasing our investments in this field. In 1922 our utility bondholdings amounted to something over $20,000,000. At the end of 1932 the amount had increased to $147,000,000 and to $298,000,000 at the end of 1939.

I am going a little beyond the years that you asked me to speak about.

In 1922 the company decided to respond to the call for capital to meet the housing needs. In that year we set up a residential-loan section in our mortgage-loan department. Prior to this our loans on real estate had been confined almost exclusively to business or income-producing properties and to large cities. In this new field of residential loans at the end of 1932 we had an investment of $110,000,000, but at the end of 1939 the amount so invested, exclusive of F. H. A. insured loans, was reduced to $62,000,000. A part of this reduction doubtless reflected the refinancing of distress loans by the H. O. L. C. organized for that purpose. The decrease was offset by our prompt entry into financing F. H. A. insured residential loans.

Mr. GESELL. Your company has been one of the most active in the purchase of F. H. A.?

Mr. BUCKNER. We entered immediately upon their making their announcement and advised the head of F. H. A. we were ready to take all they could offer us.

Mr. GESELL. In view of the fact that some of the companies shown in this schedule haven't any F. H. A.'s in their portfolio at all, Mr. Buckner, I think it would be interesting to know whether you went into F. H. A. because you thought there was a need there or because you felt that it was a desirable and sound investment for a life insurance company to make.

Mr. BUCKNER. Both reasons. We felt there was a real need there, and we knew that it was a sound proposition for the company.

Senator KING. May I ask, could you break down the loans which you made for building purposes, housing purposes, between the residential houses and the apartment houses?

Mr. BUCKNER. We have in F. H. A.—you mean F. H. A. insured loans?

Senator KING. No; those that——

Mr. BUCKNER (interposing). We have all that data. We furnished everything you can think of almost. If we left out anything at all about life insurance, I haven't discovered it.

Mr. GESELL. Senator King, we have placed in "Exhibit No. 2250" [1] an analysis of the loans of each of these companies by classifications and properties and types of business.

Senator KING. That meets the inquiry.

Mr. GESELL. And another representative of New York Life, we understand, is going to discuss that later.[2]

Senator KING. The reason I made the inquiry was that some complaint was made to me a couple of years ago about the great loss sustained by the builders of apartment houses in New York and some of the large cities. I was wondering if you had had any losses by reason of your apartment-house investments?

Mr. BUCKNER. Yes; we have had losses; not only real-estate losses but on the other end of the line. I don't know that any man has yet been born who can handle two or three billions of dollars and not have some losses. I think most everybody had losses along about 1929, and thereafter.

Prior to 1906 there were no legal restrictions against life-insurance companies investing in stocks. However, several years before 1906 our company decided to discontinue investing in this form of security, and gradually disposed of the limited amount of stocks it owned, so when the laws of 1906 were adopted prohibiting stock investments we had none such in our portfolio. In the year 1928, the New York law was amended to permit life-insurance companies to invest in preferred stocks, under certain limitations and restrictions. At the end of 1939 the market value of our preferred or guaranteed stock holdings was $86,000,000.

The CHAIRMAN. And you took advantage of that change of the law?

Mr. BUCKNER. We did, Senator. We took advantage, and are still taking advantage to the extent of $86,000,000.

The CHAIRMAN. You stated "preferred and guaranteed?"

---

[1] See Hearings, Part 10–A.
[2] See testimony of Mr. George Van Schaick, infra, p. 15105.

Mr. BUCKNER. Yes; guaranteed stocks is also included as preferred stocks. They mean the same thing, practically speaking.

Real-estate holdings resulting from foreclosures appearing in our portfolio are, so to speak, involuntary investments to be disposed of as favorable opportunities arise. At the end of 1932 this item of real estate acquired under foreclosure, was carried on our books at $22,000,000, and at the close of 1939 at about $104,000,000.

Mr. GESELL. Life-insurance companies in New York cannot purchase real estate outright, can they, except for purposes of conducting their business?

Mr. BUCKNER. No; that is true; except under special law they may build up multiple dwelling houses for people of low income.

Mr. GESELL. You say that this real estate is to be disposed of as favorable opportunities arise. The law provides, does it not, that special steps must be taken by a company in the event its real estate is held more than 5 years?

Mr. BUCKNER. Yes; it requires that we get the approval of the superintendent of insurance in holding for more than 5 years.

Mr. GESELL. You are more or less, in the general run of conditions, required to sell within 5 years?

Mr. BUCKNER. We are under pressure to sell within 5 years after acquisition.

Policy loans absorb a substantial part of the funds of the company which would otherwise be invested. Policy loans are in reality advances against policy claims such as surrender values, death claims, and matured endowment claims. The policyholder as provided in his policy contract, has the right to call for a policy loan at any time, and may repay in whole or in part at any time, but the company cannot call for repayment prior to maturity of the policy no matter what its needs may be.

The rate of interest charged for funds advanced on policy loans springs from the nature of the contract. Under the law, the rate to be charged must be specified in the policy; the policy may, and presumably will, remain in force for many years. The advance may be called for at a time when money is scarce and dear, the policyholder having the right to call for an advance at any time to suit his own convenience. The funds so advanced deplete the funds left for investment for the benefit of all the policyholders and that depletion must be made good by charging an interest rate sufficient to insure a return equal to that which might have been expected to be earned on those funds over a period of years. The rate of interest which the company thus contracts long in advance to charge cannot possibly be compared to current money rates.

It is an error to assume that a life-insurance management is glad to have policy loans increased when interest rates obtainable on investments are low. On the contrary, in good or bad financial weather we do all we can to encourage those who do borrow to pay off in order to maintain the purposes for which the insurance was taken.

The average policy loan is very small—with us approximately $400.[1] The interest rate is the same for a $50 or $100 loan, of which there are a great many, as for a $1,000 loan. The expense connected

[1] Mr. Buckner subsequently stated this figure should be approximately $433. See "Exhibit No. 2302," appendix, p. 15524, 15525.

with the making of these loans, collecting interest, changing amounts up or down at will of the insured from time to time, reduces the net to a figure fairly comparable, from a long range view, to average yields on investments. Life insurance contracts are long-time obligations, and long-time investments with their better yield are therefore suitable and desirable. But to be prepared to meet sudden or abnormal demands for policy loans, the company must maintain a reasonable degree of liquidity in short-term investments and bank balances.

Senator WHITE. May I interrupt to ask what percentage of policy loans are repaid, other than through a final settlement?

Mr. BUCKNER. That figure I haven't got, Senator. I don't think the repayment percentage is very large. They may have it in there. If not, let's hold the thing for a while.

Senator WHITE. It is not important. I was just curious.

The CHAIRMAN. It is an interesting phase of this business.

Mr. Gesell, may I ask if you have analyzed the figures on that?

Mr. GESELL. That is one of those figures, Senator, that we wanted to get and were told by most of the companies that they didn't have it, and as a result we have not got such figures If they are available I think they would be very helpful for the record. We found in checking around that type of figure was not generally available.

Mr. BUCKNER. It is a daily occurrence, the repayment of policy loans. Sometimes they pay a little and pay a little more the next time he pays the premium or whenever he has his money. It occurs all over the United States.

The CHAIRMAN. The question of Senator White, as I understood it, was what proportion of these policy loans are paid off only by the settlement of the insurance liability itself, that is to say, upon the death.

Mr. BUCKNER. That, of course, balances; everything outstanding is paid off by the maturity of the premium.

Senator WHITE. Everything is paid off on the final adjustment with the insured or with the insured's estate, but I wondered what percentage of the loans were paid in cash by the borrower during the life of the policy?

Mr. BUCKNER. That I couldn't answer.

Mr. GESELL. Is it true that policy loans frequently lead to a cancelation of the policy?

Mr. BUCKNER. I would think so. That is one of the great objections.

Mr. GESELL. In other words, a man with a policy in force, with the surrender value on that policy, can see it eating up more and more, and is liable to surrender or cancel out his loan?

Mr. BUCKNER. That is true. Many men borrow on their insurance for no real good purpose whatsoever, to buy a car, to buy something they are interested in at the time, expecting to repay.

The CHAIRMAN. What is your opinion of the value of the policy-loan provision of the statute?

Mr. BUCKNER. There are a great many objections but there is a great deal to be said in its favor. There are cases, many cases, where the need to borrow is an absolute need, to prevent the foreclosure of a home, in case of sickness, to pay a school bill for a child in college or at school. There are a great many frivolous borrowings. I am inclined to think, and this is my own theory, the majority of policy loans are for frivolous purposes, and men say "Oh, well, I have got a loan; I will take the balance of the cash value, I will take another policy the next time the agent comes around, or the next time I have some cash."

Mr. GESELL. I suppose you mean by "frivolous purposes" luxuries?

Mr. BUCKNER. Luxuries, exactly.

Mr. GESELL. Isn't it true that a lot of people borrow on policies in order to pay premiums?

Mr. BUCKNER. Yes; that is an advantage. We don't include that in policy loans, incidentally.

Mr. GESELL. That is not included in your policy loans?

Mr. BUCKNER. No; that is included in loans of premiums. We keep a separate item. I think you will find we do it that way.

Senator KING. I presume this matter which you are immediately discussing was the subject of consideration by the New York Legislature when they have dealt with legislation with respect to insurance companies?

Mr. BUCKNER. Definitely so.

Senator KING. And the failure to prohibit loans upon policies was the result, I presume, of the investigation which was made and it was considered not wise to prohibit loans on policies?

Mr. BUCKNER. Senator, that is just the fact of the case. As I have just said, life-insurance contracts are long-time obligations and long-time investments, but to meet abnormal demands for policy loans the company must maintain a reasonable degree of liquidity in short-term investments and bank balances. The loss in yield due to the needed liquidity is a further offset to any advantage which some may assume exists from policy loans.

At the end of 1906, policy loans of this company amounted to $54,000,000, or 11.5 percent of our ledger assets. During the single year 1907—the money panic year—the loans increased about 25 percent, causing a great drain on company funds. At the end of 1932 our policy loans stood at $390,000,000 or 20.5 percent of assets. However, the demands for such loans during and subsequent to 1934, began to subside. At the end of 1939 policy loans amounted to $300,000,000, or 11 percent of ledger assets.

Mr. GESELL. Now, before we go to the next topic, Mr. Buckner, I have a few questions on these policy loans.

First of all, the loans are entirely riskless, aren't they?

Mr. BUCKNER. First of all, I rather object to the term "loan" being applied to them.

Mr. GESELL. I was simply using the term we have been discussing.

Mr. BUCKNER. It is on the policy called a loan.

Mr. GESELL. With the understanding it is really an advance against the final proceeds of the policy, using the word "policy loan." Such loans are entirely riskless, are they not?

Mr. BUCKNER. Yes.

Mr. GESELL. The company ultimately is always certain of getting back what is lent?

Mr. BUCKNER. It comes out of the proceeds of the policy.

Mr. GESELL. Now, can you tell me—you refer to the expense on policy loans, of handling these loans—what is the interest you charge at the present time?

Mr. BUCKNER. Well, that is different in different classes of policies. On policies prior to a certain date, the rate of interest is 5 percent. On policies in the last 25 or 30 years the rate has been 6 percent, until just about 2 years ago, I think it was, the rate was reduced to 5 percent.

Mr. GESELL. What is the net amount of interest that you earned on your policies? How much of that expressed in terms of percentages to the handling of the loan?

Mr. BUCKNER. We had some figures on that several years ago when the superintendent of insurance got us down to discuss this question, and my recollection is that we figured close to about 1 percent.[1]

Mr. GESELL. One percent for handling loans?

Mr. BUCKNER. Some companies have more, according to the average size of the loans.

Mr. GESELL. Then the amount of interest you are getting on your policy loans at the present time, even taking this question of expense into account, is greater than that that you are earning on your other assets, is it not?

Mr. BUCKNER. Yes. Four percent is greater than we are earning today on average assets, a little, not much. It is not greater over a long range.

Mr. GESELL. According to these figures we have in "Exhibit No. 2250," table 102, shows that policy loans in your company account for about 13.19 percent of the assets? [2]

Mr. BUCKNER. That is right.

Mr. GESELL. And table 9,[3] which analyzes the investment income, indicates you get 20.75 percent of your income from these assets, which accounts for about 13 percent of your portfolio?

Mr. BUCKNER. I didn't get it.

Mr. GESELL. Our figures would indicate that you get 20.75 percent of your investment income from policy loans, which account for only 13.19 percent of the assets. In other words, they are paying a disproportionate amount in that sense, are they not?

Mr. BUCKNER. I think you have the figures a little wrong but I am not going to dipuste it because I haven't got them here.

Mr. GESELL. Let's decide that, Mr. Buckner, first of all, because I don't want to have them wrong.

Table 102 [2] indicates 13.19 percent, the figure I stated, of your assets for policy loans as of December 31, 1938.

Mr. BUCKNER. That is no doubt correct. You are speaking of '38. That is right.

Mr. GESELL. According to our figures, 20.75 percent of the invested income comes from policy loans. That is shown on table 9,[3] "Sources of income on investment."

Mr. BUCKNER. If you will leave out the question of the extra expense, that is right at the present time.

The CHAIRMAN. What is this item of expense?

Mr. BUCKNER. There is a great deal of expense necessary in connection with these policy loans, the making of loans itself and all the papers connected with it, and then collecting of the interest, and then the changes.

---

[1] Mr. Buckner subsequently stated this figure should be approximately ½ of 1 percent. See "Exhibit No. 2302," appendix, pp. 15524, 15525.

[2] See Hearings, Part 10-A, p. 102.

[3] Ibid., p. 9.

The CHAIRMAN. You estimated that a moment ago as 1 percent?

Mr. BUCKNER. Yes; that is right

The CHAIRMAN. So that the net return would be at what rate?

Mr. BUCKNER. Well, I think the net return would be 1 percent less than the gross.[1]

The CHAIRMAN. That is 4, is it not?

Mr. BUCKNER. That is 4 for the present policy.

The CHAIRMAN. The present rate is 5 so your net would be 4?

Mr. BUCKNER. That is right.

Mr. GESELL. But there are expenses on all your other investments?

Mr. BUCKNER. But very slight, a quarter of 1 percent on our investments.

The CHAIRMAN. You mean then policy loans are the most expensive to the company of all the funded investments?

Mr. BUCKNER. Oh, yes; in handling details, because there are intricate details connected with it. A man may borrow $50 and pay back $25, and borrow $100 or more the next year.

Senator KING. Loans are smaller and the bookkeeping and details are very much greater?

Mr. BUCKNER. Yes.

Mr. GESELL. It would seem to me, however, that that expense would be somewhat offset by the fact that you have a riskless loan in this case.

Mr. BUCKNER. Well, it hasn't been so very long ago when we had what we called a riskless loan, consisting of United States Government bonds, which we bought on 6-percent basis—not a great while ago, in my lifetime.

Mr. GESELL. Is there any similarity between policy loans and Government bonds?

Mr. BUCKNER. No; I am just showing that over a long range policy loans may be on the books for. 50 years. A man can leave it there during his lifetime as long as the policy is kept in force, so I say over a long range period, I think it is a break, about an even break between our average yield. The last 10 years' average yield of nvestmens has been pretty low.

The CHAIRMAN. This table[2] would indicate, Mr. Buckner (table 102), that policy loans constitute 13.19 percent of all your assets. Now there is no question about that?

Mr. BUCKNER. Not at all.

The CHAIRMAN. And table 9[3] would indicate that the interest on policy loans constitutes 20.75 percent of your total income?

Mr. BUCKNER. That is true.

The CHAIRMAN. No allowance made for the expense in that item?

Mr. BUCKNER. No, I think not.

The CHAIRMAN. If that expense allowance were made, what difference would it make in that percent?

Mr. BUCKNER. Well, I would have to see the figures on that. I don't know. That would be calculation for me.

The CHAIRMAN. Would it make any substantial change?

Mr. BUCKNER. I should think it would.

---

[1] See "Exhibit No. 2302," appendix, pp. 15524, 15525.
[2] See Hearings, Part 10–A, p. 102.
[3] Ibid., p. 9.

The CHAIRMAN. More than a fourth of this?

Mr. BUCKNER. Well, not more than a fourth. I think that is about where it would head up, 1 percent, it would be less than a fourth, about a fifth.

The CHAIRMAN. If that allowance were made, the interest on your policy loans would constitute more than 15 percent of your entire income?

Mr. BUCKNER. That is right.

I rather want to stress this point, that policy loans may be and should be—if a man doesn't surrender; and we hope he doesn't—on the books for a long time, and you can't compare the yield on policy loans to the yield during 4 or 5 years of great depression, when money rates are exceedingly and exceptionally low, but if you go back over the past 20 years, the returns from policy loans are not so favorable.

Mr. GESELL. Let's take it this way. What rate of interest do you guarantee the policy holders when you take their money and hold it for them?

Mr. BUCKNER. We don't make any guarantees about expense.

Mr. GESELL. I beg your pardon. Don't you guarantee the policyholder?

Mr. BUCKNER. Oh, yes, on the policy we did guarantee 3 percent. We make it 2 now.

Mr. GESELL. But you guarantee them 2 or 3 percent on their funds and are charging them, when you loan money, 6 percent, so I don't understand.

Mr. BUCKNER. I don't think you have it just exactly right. We don't loan them their money. But I don't want to take too much time in going into a difference of opinion as to what a policy loan is.

Mr. GESELL. It is their money, it is an advance of their money?

Mr. BUCKNER. No; it is an advance from the coffers of the company, from the fund belonging to all the policyholders, as the advance to this particular policyholder. It isn't his particular—it isn't like a savings bank where he has a particular amount of money in the till for his purposes.

The CHAIRMAN. Mr. Buckner, isn't the amount which a policyholder may borrow measured exactly by what he has paid?

Mr. BUCKNER. It is measured by his policy contract. It is stipulated by dollars in his policy. It is the price at which the other policyholders will buy him out.

The CHAIRMAN. That is right.

Mr. BUCKNER. Now, that is the cash value, and he can borrow up to the cash value.

The CHAIRMAN. Therefore you never loan to a policyholder more than he has paid in, do you?

Mr. BUCKNER. I don't think we ever lend him as much as he has paid in because he is buying a life-insurance policy.

The CHAIRMAN. What is the limit on the cash value of a policy?

Mr. BUCKNER. The reserve is the limit of the cash value.

The CHAIRMAN. Do you loan to a policyholder more than he has actually contributed in premiums?

Mr. BUCKNER. No; we don't lend him as much. Some of the money he has paid is to carry the risk.

The CHAIRMAN. That is right, so that actually what he borrows or can borrow is limited by what he has paid in?

Mr. BUCKNER. Yes; it is limited by the figures in his policy, as a matter of fact.

Mr. GESELL. Then isn't it true, Mr. Buckner, that a great percentage of your policyholders borrow money on their policies, a substantial percentage?

Mr. BUCKNER. Yes; a substantial percentage. I should say one-third.

Mr. GESELL. How many loans have you got out now?

Mr. BUCKNER. You have the figures, I haven't, but I should say around one-third, $329,000,000, that is, including premium lien notes. You have the premium lien notes in there.

Mr. GESSEL. So you have $329,000,000 loaned out, and the average loan is $400. It would appear that there are around eight or nine hundred thousand policyholders who borrow from your company.

Mr. BUCKNER. Policies. Yes.

Mr. GESELL. Or almost 50 percent of your policyholders.

Mr. BUCKNER. We have 2,700,000, I think, of policies.

Mr. GESELL. Between a third and a half.

Mr. BUCKNER. Yes; I would say about a third,[1] but I may be wrong. That is my recollection.

Mr. GESELL. These policyholders are borrowing from an interest that they have in the company, aren't they?

Mr. BUCKNER. They are borrowing against their policy contract, that is right.

Mr. GESELL. And in that sense is it their own money they are borrowing?

Mr. BUCKNER. In no sense are they borrowing their own money.

Mr. GESELL. Whose money is it?

Mr. BUCKNER. The money belongs to the corporation.

Mr. GESELL. Who owns the corporation, the policyholders?

Mr. BUCKNER. The policyholders, annuitants, and beneficiaries, and so on.

The CHAIRMAN. I think the facts are pretty clear, the matter of terminology may not be particularly important.

Mr. GESELL. I am trying to find out why you charge him 5 or 6½ percent, and yet, when you take his money, guarantee to pay him only 2 or 3. It seems to me there is a contradiction there.

Mr. BUCKNER. It may be. Of course, so far as the management is concerned, it doesn't make any difference at all. We are doing what we believe to be in the interest of all the policyholders. He participated, this very man, but I don't want to get into that. The borrower participates, however, in fact——

The CHAIRMAN (interposing). It occurs to the chairman, Mr. Buckner, that the policyholder, to borrow against his policy in most cases, probably is able to get it at a lower interest rate from his company than he could get it elsewhere, isn't that true?

Mr. BUCKNER. Not at the present time.

The CHAIRMAN. Not at the present time?

Mr. BUCKNER. I should say that, by and large, over a period of years, that would be true.

---

[1] Mr. Buckner subsequently submitted additional information on this point. See "Exhibit No. 2302," appendix, pp. 15524, 15525.

The CHAIRMAN. You don't know what the banks charge for loans out in our country, then.

Senator KING. If a person wanted to borrow $50 on his policy, and that was probably as much as the policy would warrant, if he had to go to a pawnbroker or to the small investment banker he would pay more than that.

Mr. BUCKNER. Eighteen or twenty percent.

Senator KING. In Washington and elsewhere they have to pay that amount.

I want to ask this one question. This whole subject was thrashed out, was it not, before the legislature of the State of New York, from which State you obtained your charter?

Mr. BUCKNER. That is right.

Senator KING. And you make your annual report?

Mr. BUCKNER. We do.

Senator KING. Have they made any particular complaint about this particular action?

Mr. BUCKNER. There has occasionally been some bill introduced to lower the rate and it has been done on new insurance in the past 2 years, lowered to 5 percent.

Now, Mr. Chairman, during the years 1906 to 1932 our board of directors and finance committee have responded to the trends of capital demands of various industries and political divisions of our country, meeting these calls for capital so far as our resources permitted. We have sought diversity of investments both geographically and in classes, kinds, and duration.

In conclusion, I wish to emphasize that in the diversification of our investments, we followed, within the framework of the law limiting the scope of our investments, the capital needs of the country as a whole.

Our railroad bonds, many of them bought years ago, helped the railroads in their expanding period. Our investment in municipals helped construct school houses, roads, and other municipal services.

The company, in its mortgage loans, helped the farmer and also helped satisfy the housing needs of those who live in towns and cities.

Our investment in utilities and industrial issues helped private enterprise obtain capital possibly on more favorable terms by reason of our ability to invest in large amounts.

Our company along with other similar institutions certainly did its bit and performed a distinct service to our country in providing an immediate and larger outlet for Government financing during and since the late war.

To sum up, in this period from 1906 to 1932, this company played its part in capital enterprise, both public and private, in responding to the investment needs of the country as they presented themselves, the first consideration being the security of the investment.

Mr. GESELL. Now, Mr. Buckner, I want to go back over this a little on several points. First of all, can you tell the committee who decides what general avenues of investment your company shall follow? What I am trying to get at is whether it is done as something apart from the decisions which are made from day to day on the individual mortgage loans or bonds which come up for approval before the committee.

Mr. BUCKNER. The general policy, of course, is to follow the trend of the demands, within the framework, of course, of what we may legally do.

Mr. GESELL. There is a demand for money out in the farm country today, isn't there?

Mr. BUCKNER. There may be, but the supply is greater than the demand.

Mr. GESELL. Your company is not loaning in the farm field today, and you say there is a demand that exists. Is the decision of the company not to go into that field based upon the fact that they think enough money is there from other sources?

Mr. BUCKNER. Our decision to withdraw was as I stated in 1926 because of the expanding credits and the high price of land due to the speculation in farm properties, and the high price of products. We then decided to retire. Now we have gone back. We have farm-mortgage loans out now, but the amount we get is rather negligible.

The CHAIRMAN. What are the standards by which you judge whether or not to take a new farm loan?

Mr. BUCKNER. We lend on about 50 percent of the value, according to our own appraisal of the property, of the land.

The CHAIRMAN. And are you finding opportunities now to take such loans?

Mr. BUCKNER. Yes, sir; we are out to lend all we can get hold of, but we haven't reorganized in the field since we gradually withdrew due to the reasons I explained.

The CHAIRMAN. You misunderstand my question, Mr. Buckner. In 1926 for what seemed to be perfectly adequate reasons you decided to withdraw from the field of farm-mortgage investment?

Mr. BUCKNER. That is right.

The CHAIRMAN. Now you have gone back to that field?

Mr. BUCKNER. Yes, sir.

The CHAIRMAN. Now, of course, there are more opportunities to make loans than you are willing to take, but I am curious to know what sort of loans you are finding. What has happened to make this seem to you now a desirable field again?

Mr. BUCKNER. I think it is because the values have come down to a reasonable basis and farm products are now more reasonable than they were; they are approaching normal, whereas they were at fabulous prices back in the era of the twenties.

The CHAIRMAN. In other words, back in 1926 you thought farm values had gone too high?

Mr. BUCKNER. That is right.

The CHAIRMAN. And you were not willing to make the loans which the farmers asked at the values that they asked?

Mr. BUCKNER. That is right.

The CHAIRMAN. But now that farm values have dropped down you find opportunity to go in there?

Mr. BUCKNER. And I think that the company should expand their activities in the farm field, unless we find there are so many in the field that it just can't be done; I mean we wouldn't get enough business to pay.

The CHAIRMAN. Is there much activity now among the insurance companies in farm mortgages?

Mr. BUCKNER. Yes; indeed.

The CHAIRMAN. Mr. Gesell, I am sorry; I didn't mean to interrupt the continuity of your own examination.

Mr. GESELL. That is all right.

Mr. Buckner, how many times from the period from 1926 to the present time would you say the board of the New York Life gave consideration as to whether or not they should go back into the farm field?

Mr. BUCKNER. I think that really has depended upon the officers of the company bringing to the attention of the committee the policy of going back in the field. The committee have never objected to our resuming farm loans.

Mr. GESELL. So that if the officers of the company brought farm loans to the committee, they would approve them?

Mr. BUCKNER. Oh, yes.

Mr. GESELL. And if the officers of the company felt that farm loans were not desirable or that values were too high, the committee would raise no question as to why it was not having farm loans brought to it?

Mr. BUCKNER. I think that is true. We have a farm-loan department and they advise us in regard to that matter.

Mr. GESELL. Then it would appear to me that the rather crucial question of policy is determined by the staff and not by the board of directors.

Mr. BUCKNER. Quite naturally, the staff must bring to the board of directors their information and their recommendations.

Mr. GESELL. But that is a pretty big matter of major-investment policy, isn't it, Mr. Buckner, whether or not the company shall loan in the farm field?

Mr. BUCKNER. Yes.

Mr. GESELL. I mean, looking at it in the terms of the country and all the money you have to invest, it seems to me it is quite an important policy determination.

Mr. BUCKNER. It certainly is, if there is any field there that will support the expense.

Mr. GESELL. And in the case of your company it has been left to the staff rather than to the board to determine that question?

Mr. BUCKNER. I wouldn't say altogether that. I think the finance committee have several times spoken about, "Can't we get more farm loans?" and matters of that kind, but we would have to go to a very large expense reorganizing in the farm-loan field if we got any considerable amount of loans.

Mr. GESELL. I wondered, for example, whether the board ever considered this question as to whether or not it wouldn't be appropriate for the company to loan in the farm field in view of the fact that there are so many farmers who are policyholders of your company?

Mr. BUCKNER. That is an argument, there is no doubt about that.

Mr. GESELL. I am not making the argument. I am wondering whether or not it was ever considered by the board as to one of the factors that would determine whether or not money should go into that particular avenue?

Mr. BUCKNER. That was especially one of the factors when we went into its originally.

Mr. GESELL. It certainly couldn't have been a factor when you withdrew?

Mr. BUCKNER. No; we withdrew because we were getting to a point where it looked as though we probably owned the farms, if we kept on at the high values that the farms were selling at, or appraised at.

Mr. GESELL. You see what I am trying to get at; I am trying to get at why it is the New York Life doesn't loan in the farm field today. I gather that as far as the directors are concerned, it is mostly because these loans haven't been brought up to them for their attention?

Mr. BUCKNER. Very largely that.

Mr. GESELL. And the staff has felt it is not a good kind of loan?

Mr. BUCKNER. No; the staff has felt we can't get them in sufficient quantities to justify the overhead that we would have to pay in farm loan agencies throughout the United States.

Mr. GESELL. And the reason you can't get them to a large extent is because of the type of field organization you have, is it not?

Mr. BUCKNER. It is due largely to the competition in the field.

Mr. GESELL. Wouldn't it be for the board to determine whether or not as a matter of policy it wouldn't be desirable to set up an organization which would bring farm loans to the company?

Mr. BUCKNER. I doubt if the board of directors would know just of their own accord the worthwhileness of such a program. You have to demonstrate it.

Mr. GESELL. So that the board is in the position here of an umpire rather than to determine this matter of policy?

Mr. BUCKNER. I would say that is largely so in regard to farm loans.

Senator WHITE. The competition you speak of is largely Government competition; isn't it?

Mr. BUCKNER. It is Government agencies, plus several large companies which have specialized in farm loans for a great many years and have their organization. The field is carefully cultivated by them, and, of course, we wouldn't want to go into competition on rates and underbidding, and so forth.

Mr. GESELL. Why not?

Mr. BUCKNER. Do you think that would be a good thing?

Mr. GESELL. I just want to know why you don't want to get into competition on farm loans?

Mr. BUCKNER. We would soon get down to the point where we were lending at ridiculous figures on loans that are full of risks.

Mr. HENDERSON. Does that happen with other kinds of loans?

Mr. BUCKNER. No; that isn't applicable. When you are playing with the farmers, you have to play the farmers' game—let him have practically what he wants, pay off when he wants, and at such rates of interest as he thinks he ought to have.

Mr. HENDERSON. I gather you don't have to do that with utilities?

Mr. BUCKNER. No, sir.

Mr. GESELL. You don't have to play the railroad man's game?

Mr. BUCKNER. Well, we are playing our own games with railroads now. I don't know how successfully.

The CHAIRMAN. Do the railroads know it?

Mr. BUCKNER. I think they have some ideas along those lines.

Mr. GESELL. Now, this matter of what the board of directors does in the field of investment is one that is very interesting. Let me see if I can get at another phase of it this way. Does the board at the beginning of a period or the beginning of a particular year sit down and decide what it wishes the composition of its portfolio to be at the end of the year?

Mr. BUCKNER. No; I think not.

Mr. GESELL. It doesn't say, "We would like to have so much utilities, so many railroads, so many city loans, so many farm loans"?

Mr. BUCKNER. No. We have got plenty of money to go into each one of them, each of those pockets, and we have to follow the demand, the trend of the demand.

Mr. GESELL. And you do not try to plan in advance what diversified portfolio you want, what avenues you want to follow?

Mr. BUCKNER. They want diversification, but you can't pick out and say you are going to apportion so much money this year for this purpose and so much for that and so much for that.

Mr. GESELL. Why can't you?

Mr. BUCKNER. We would be left with a whole lot of the money still in our pocket because we wouldn't have the demand.

Mr. GESELL. It is because you have so much to get out, isn't it?

Mr. BUCKNER. We think the United States Government can absorb all we need to get out.

Mr. GESELL. That really isn't an answer to my question, is it? You have said here, already, that you would put your money elsewhere if you could get a proper yield.

Mr. BUCKNER. Right.

Mr. GESELL. Now, isn't the reason that the board does not determine how it will diversify its portfolio primarily the result of the vast amount of money that it must invest? I have heard of many smaller companies which sit down and say, "We will have so much of this and so much of this and so much of this, and that will make a diversified portfolio," and they will put their money there.

Mr. BUCKNER. They might be able to do it by apportioning 200 million for this purpose and 200 million for that purpose and 200 million for this purpose, but when you got through you would find that you had one pocket that nothing went out of.

Mr. GESELL. That is one of the problems of size, isn't it?

Mr. BUCKNER. No; because you could use that 500 million that you haven't been able to get out of the pocket, over here.

Mr. GESELL. In terms of management of this portfolio?

Mr. BUCKNER. I don't think you can manage an investment program in the method you have in mind.

Mr. GESELL. Not within straight-jacket limitations; I don't mean the difference between 1 and 2 percent, but you can say the same way a man does who is an investment counsel for his clients, we will diversify this man's holdings in this area so that a particular economic stress or change of events in one field of activity won't injure the over-all standard.

Mr. BUCKNER. That is about what we do.

Mr. GESELL. But you make no allocations?

Mr. Buckner. No; no definite allocations.

Mr. Gesell. Even in broad limits I understand you make none?

Mr. Buckner. That is probably true.

Mr. Gesell. So it is really up to the staff to get the good loans as they are offered to them and put them up to the board to approve?

Mr. Buckner. That is practically the case, since 1906.

Mr. Gesell. The failure of the board to take specific allocations or to make specific determinations in advance of where it is going to put the money, is not then the result of any depression experience; it has been generally the way the insurance companies have handled it, at least your company?

Mr. Buckner. I think the board has at all times insisted on diversification, and that diversification has come about largely through the trend of the demands.

Mr. Gesell. Not because of some set program?

Mr. Buckner. Not because of any set formula.

Senator King. You have various staffs, do you, one looking after agricultural investments and one after Government bonds and railroads, and so on?

Mr. Buckner. Right.

Senator King. So that in practically every field of industry, there would be somebody in your organization who was more or less familiar with that field of industry?

Mr. Buckner. It must be so.

Senator King. Whether railroads or utilities or what not?

Mr. Buckner. Yes, sir.

Senator King. And those staffs are expected, are they not, to search the market and keep in touch with the trends of economic and industrial development and make recommendations to the board with a view to determining what policy they should pursue?

Mr. Buckner. That is right, but when you say board, of course you mean the finance committee.

Senator King. Yes. I suppose your purpose is to loan as much as you can where you can find good loans at a reasonable rate of interest?

Mr. Buckner. Yes, sir.

Senator King. You have no purpose in hoarding your money?

Mr. Buckner. Absolutely not.

Senator King. You have loaned so extensively, have you not, in some instances you have lost money?

Mr. Buckner. Yes; that has been true in times of great expansion.

Senator White. Could it fairly be said that these units of your general staff are competitive, one with the other?

Mr. Buckner. Oh, no; not at all. They all harmonize, they come together.

Senator White. If you had a staff dealing with responsibility with respect to farm loans, for instance, and it brought no farm loans to you for a continued period of time, would you keep that staff?

Mr. Buckner. Well, if their duty was to get farm loans and they didn't get them, we would simply think they are no good.

Senator White. Then if that is true, if these different units of your staff are constantly presenting to you opportunities for investment, it occurred to me that you might fairly say that they were competitive one with another in bringing matters to the attention of the board.

Mr. BUCKNER. They all know, all our lending divisions in the home office, or departments, know that we are seeking loans and investments of the character that New York Life should make in every direction.

Senator WHITE. And are all recommending loans within their respective spheres, aren't they?

Mr. BUCKNER. That is right.

Senator KING. Has your field of investment widened with the technological developments in various fields of human activity during the past 5 or 6 or 10 years?

Mr. BUCKNER. I gave you the sequence of our branching out here and there into the various fields in what I have submitted already. Yes; the field widens.

Senator KING. If the market indicated by reason of technological developments, for instance in the oil industry, that there would be a good field for investment, though you may not have made investments in that field, would that lead you to make an investment in that field?

Mr. BUCKNER. Yes, indeed; it would lead us to seek it.

Senator KING. I suppose primarily you feel that you are trustees for the stockholdlers and that it is your duty to make the investment wherever you can at a profit, but at the same time to keep in mind the fact that you are guardians of the trust funds, that you are not to squander them or throw them away or gamble with them in venturesome matters where experience might demonstrate, or has demonstrated, that they are unwise investments?

Mr. BUCKNER. You are quite right, Senator, but instead of stockholders we may say policyholders.

Senator KING. Yes; I beg your pardon.

Mr. GESELL. Now, on Senator King's point, wouldn't one of the things that a board of trustees would want to consider be the desirability of placing money back in territories and back into lines of endeavor or occupations which represented a cross section of your policyholders?

Mr. BUCKNER. Yes.

Mr. GESELL. You have a lot of farmers who are policyholders, haven't you?

Mr. BUCKNER. Oh, yes; a large number of them.

Mr. GESELL. Do the trustees feel that part of their exercise of their trusteeship and their function is the placing of money in farming communities in order to put the policyholder's money back to aid him, so to speak?

Mr. BUCKNER. We would be glad to.

Mr. GESELL. I am sure you would be glad to. You haven't since 1926. Now, I wondered whether the trustees considered that phase of the situation in making the determination not to loan?

Mr. BUCKNER. Well, they never made a determination not to loan.

Mr. GESELL. Loans just weren't given to them to make?

Mr. BUCKNER. They simply couldn't dig them up. I may be wrong about this farm business, although my father was a farmer and I was more or less raised in my boyhood days in the farm business. I think practically every farmer has a loan already on his property. All we can do is go and lift that loan from another book to ours.

The CHAIRMAN. I understood the testimony of Mr. Buckner to be substantially that the farm values got out of line and that was the primary reason for withdrawing.

Mr. BUCKNER. That is right.

The CHAIRMAN. And you are going back into the field to some extent as farm values go down?

Mr. BUCKNER. And as opportunity presents itself.

The CHAIRMAN. It is not a question so much of wanting to invest in farm mortgages as such, as it is to invest in a sound security which will pay a return, a secure return?

Mr. BUCKNER. Quite right, Senator.

Mr. GESELL. May I direct——

The CHAIRMAN (interposing). Pardon me; I just wanted to get both pictures. That is my understanding of what you wanted to say. Now, Mr. Gesell, what were the views that you were seeking to bring out?

Mr. GESELL. I simply wanted to direct a line of questions prompted by table 161.[1] There the New York Life Insurance Co. is shown to be in between the Prudential and the Equitable of New York in the period there of 10 years that is covered; both of those companies have loaned millions more of money in the farming area than the New York. I was about to ask some questions as to the difference in the policy represented by that table which is extremely substantial and quite apparent.

The CHAIRMAN. Yes; it is quite interesting.

Senator KING. Perhaps your company has loaned millions of dollars in certain activities where other companies have not?

Mr. BUCKNER. Absolutely.

Mr. GESELL. What, for example?

Mr. BUCHNER. Particularly United States Government bonds.

Mr. GESELL. Other than Governments, what?

Mr. BUCKNER. I don't recall right now. I think probably on a percentage basis, we hold more municipals in proportion to our assets than any of the leading companies?

Mr. GESELL. What about lines of business?

Mr. BUCKNER. I think we would about break even on that.

Mr. GESELL. You are about even with the other companies on that, aren't you?

Mr. BUCKNER. I would hope so.

Mr. GESELL. Let me ask you another series of questions that may help bring this out. Has the increasing size of your company over this period made any differences in your investment policy or problem?

Mr. BUCKNER. I think not.

Mr. GESELL. You find it equally easy to invest the increasing amount of money that your company is called upon to invest from year to year?

---

[1] See Hearings, Part 10-A, p. 161.

Mr. BUCKNER. I wouldn't claim that it is altogether easy to invest money in either large amounts or even small amounts at the present time.

Mr. GESELL. Oh, I understand that. It is quite difficult to invest.

Mr. BUCKNER. It is difficult to invest wisely and with a fair yield.

Mr. GESELL. Let's take the period up to 1929, the period from 1906 to 1929. Did you find it more difficult to invest as you had more money to get out?

Mr. BUCKNER. No; I don't think so.

Mr. GESELL. It made no difference in the problem?

Mr. BUCKNER. Not at all.

Mr. GESELL. Do you think the degree to which you find it difficult now to invest is partly the result of your size and the amount of money you have to put out?

Mr. BUCKNER. I wouldn't say so. I would think if we were one-tenth the size we would have the problem just the same. We would simply take smaller doses of what did come along.

Mr. GESELL. I should think that would help substantially. I should think it would help a great deal if you might even be able to go out in the market and buy up a few bonds.

Mr. BUCKNER. Well, yes; you might buy an occasional one but you would put the price up on the bonds if you went there very strong.

Mr. GESELL. And you really feel there is no difference because of the amount of money you have to get out?

Mr. BUCKNER. I don't think it would make any difference in the long run. It might at some particular juncture.

The CHAIRMAN. Mr. Buckner, let me ask you, what was your minimum loan 10 years ago?

Mr. BUCKNER. Ten years ago? The amount that we had?

The CHAIRMAN. No; I don't mean the total amount out. Maybe you haven't gathered these figures.

Mr. BUCKNER. No; I haven't. I know what you mean. The minimum amount we would take from one corporation?

The CHAIRMAN. That is right.

Mr. BUCKNER. No; I haven't those figures, Senator.

The CHAIRMAN. Have you any idea in mind?

Mr. BUCKNER. I don't believe we had any.

The CHAIRMAN. Say over 20 years has there been any change?

Mr. BUCKNER. I don't think there has been any change. I think we took about our proportion.

The CHAIRMAN. Yes; of course you would take your proportion but do you, with your present magnitude, take as small offerings as you did 20 years ago?

Mr. BUCKNER. I am not so sure about that. Possibly not. We would be glad to take small offerings but we are looking, of course, for larger offerings.

The CHAIRMAN. That is what I understood Mr. Gesell was trying to develop.

Mr. GESELL. The bulk of your city real estate owned, for example, classified by size, is in the five to ten thousand dollar area, and I think it is apparent from these figures that your loans are, on the average, fairly large, in the field of city mortgages.

Mr. Buckner. They were large at the time of great expansion, new construction in New York City particularly, but at the present time our average loans that we make are small.

Mr. Gesell. The F. H. A. has brought them down.

Mr. Buckner. We have two kinds, as you know. We are taking all we can get of either one.

Mr. Gesell. Do you believe that the territorial expansion of your company—the fact that it has gone into more and more States so that now it sells everywhere in the United States—has made any difference in your investment problem?

Mr. Buckner. We haven't had any territorial change in the last 40 years. We have been in every State.

Mr. Gesell. You have been much more active, as time has gone on, in far away States, haven't you, agencywise?

Mr. Buckner. I doubt that. I think we have relatively been as active in one place as another. We were doing business on the Pacific coast way back in the seventies.

Mr. Gesell. Then that has made no difference at all?

Mr. Buckner. No.

Mr. Gesell. What about the development of new lines of business, Mr. Buckner? I have in mind things such as the increasing emphasis on cash values which has taken place over the period, the development of annuities, the development in the field of supplementary contracts, settlement options, the development of more premiums being paid in advance, more dividends being left with the company. Have things of that sort made a difference in your investment policy?

Mr. Buckner. Things of that kind, of course, resulted in a great deal more money to invest. That was my testimony a year ago.

Mr. Gesell. They put an increasing emphasis on liquidity too, do they not?

Mr. Buckner. Well, somewhat.

Mr. Gesell. And they brought to you bigger lump sums to handle sometimes?

Mr. Buckner. Yes; that is true.

Mr. Gesell. Now, what has been the effect of that on your investment problem?

Mr. Buckner. I wouldn't say it has very much effect. Annuities, for example, brought in a large amount of money and Government bonds are very adaptable to annuities; it is a very simple proposition to handle annuities at the rates at which we sell them, with Government bonds as securities.

Mr. Gesell. This change of reserve basis has also obliged you to invest more money, has it not? As you lowered the guaranteed interest rate you have to invest more to get the same amount?

Mr. Buckner. We have to invest all the money that comes in. What we have to invest is the excess of income over disbursements.

Mr. Gesell. So that the lowering of that guarantee has increased your investment problem. As you build up your reserve you have more of an investment problem; as you build up your assets you have more of an investment problem; and as you put reserves on a more conservative basis that extends it?

Mr. Buckner. That lessens it. If we carry reserves on a 3 percent basis our problem is simplified because you can take gilt-edged investments that yield a lower rate.

Mr. Gesell. But you have more money to invest.

Mr. Buckner. Not because of the reserve. We have more money to invest because of the income, the excess income is the amount we have to invest.

Mr. Gesell. What about investing in common stocks, Mr. Buckner? Does your company want to invest in common stocks?

Mr. Buckner. No; that hasn't been discussed in the board, but in my old age I would certainly—if they take any further advice from me, I would say no.

Senator King. I understood there had been some prohibition in the law?

Mr. Buckner. It is not permitted in law, but he is thinking of the question of amending the law.

Mr. Gesell. Are there any changes in the investment laws to which you are now subject which you think would give you greater outlet that you would want to follow?

Mr. Buckner. No material changes. I think the law could be loosened up a bit. On preferred stocks the restriction is now quite stiff. The limitation is on how much we can buy in one corporation. The provisions under which we may buy must be over-all yield for capital for three consecutive years of a certain percent. I think a little lightening of those limitations would widen the field somewhat, not materially.

Mr. Gesell. And you have no real quarrel then with the restrictions that the investment law places on you?

Mr. Buckner. Not at all. I think they are wise, by and large

Mr. Gesell. It is pretty difficult for a small business man or somebody setting up a new venture to come to the New York Life and get funds, isn't it?

Mr. Buckner. Well, you mean on a mortgage loan?

Mr. Gesell. No; I mean in terms of a security.

Mr. Buckner. No; we don't make that kind of a commercial loan. They have to have a security.

Mr. Gesell. You want a going concern to loan to, too, don't you?

Mr. Buckner. Their corporate bonds. I think if they came around and wanted to borrow $25,000, we wouldn't think it worth while. It would be more or less speculation.

Mr. Gesell. And you don't make that type of loan?

Mr. Buckner. No; we do not.

Mr. Gesell. Your loans are almost entirely to established going concerns?

Mr. Buckner. That is right.

Mr. Gesell. What you might call venture capital hasn't much——

Mr. Buckner (interposing). Not much appeal. Common stocks haven't much appeal to me. I don't know how it would be with other insurance men.

The Chairman. What latitude would you have under the New York law to invest funds in adventure capital?

Mr. Buckner. Really none. We are supposed to have ample security for any investment we make. The law is very strict and prescribes just what that security is to be in various directions.

The Chairman. And if you were to make a loan to a small corporation or to an individual, you would require ample security, would you not?

Mr. BUCKNER. We would require ample security and we would have to have a background of experience; a going concern, in business for a reasonable length of time, a success, with a wise management, and with a product that is going to be permanent.

The CHAIRMAN. So what you want by way of industry loans is that which is represented by either preferred or guaranteed stocks within the character described by the law, or bonds which are well supported?

Mr. BUCKNER. That is right.

The CHAIRMAN. Would you make a loan to an individual at all upon any other security than real estate?

Mr. BUCKNER. We could make a collateral loan, but there isn't very much in that business, not very much opportunity.

The CHAIRMAN. That would be the banking field?

Mr. BUCKNER. The banks would do that.

The CHAIRMAN. That would be banking business and you don't do much of that?

Mr. BUCKNER. That is right.

The CHAIRMAN. So, actually, the opportunity for those who need adventure funds is not to be found with insurance companies?

Mr. BUCKNER. No; nor any other kind of trust funds.

Mr. GESELL. What is the smallest bond issue you will buy, generally speaking?

Mr. BUCKNER. I don't know as to that.

Mr. GESELL. You usually want something above $100,000?

Mr. BUCKNER. Yes; I should think so. I would say $100,000 about——

Mr. GESELL (interposing). About the rock bottom?

Mr. BUCKNER. Well, not rock bottom, but about the limit.

Senator KING. Has it been your experience that persons would not take policies from you, who wanted protection for their families, if you were a mere banking firm and had venture capital in any industry or any enterprise that a good salesman or bad salesman might suggest?

Mr. BUCKNER. That is right, and we shouldn't place his money with a company like that.

Mr. GESELL. I have no further questions.

The CHAIRMAN. In response to Mr. Gesell, you said just now that $100,000 would be about as small a loan as you would consider?

Mr. BUCKNER. That would interest us. We have no fixed limit below that, but I was taking that as an illustration.

The CHAIRMAN. Could you say how many loans as small as that you have?

Mr. BUCKNER. No; I couldn't offhand. Of course, mortgage loans or real estate——

The CHAIRMAN (interposing). No. I am speaking of industrial loans or corporations. The reason I am asking the question, Mr. Buckner, is simply this: Congress is always besieged by little business men, so-called, for legislation to put the Government into the business of loaning money to them for adventure purposes, and that is one of the problems before the National Legislature—what to do to provide a source of capital to those who desire to enter into business. Now, they don't have that source with the life-insurance companies.

Mr. BUCKNER. That is true.

The CHAIRMAN. And that, of course, is because of the fact that you must seek, primarily, security in your investment.

Mr. BUCKNER. Yes, sir.

The CHAIRMAN. So I was trying to determine as a corollary just what type of small loans you do have. That is why I asked you how many at $100,000 you might have. What would you say was your average industrial loan?

Mr. BUCKNER. The treasurer just advises me that we don't have a part of small industrial loan outputs. We are confined largely to large offerings, the large loans.

The CHAIRMAN. That is to say, your industrial investments are practically confined to the offerings of the large corporations?

Mr. BUCKNER. The large corporations.

The CHAIRMAN. In other words, the big business corporations are the ones who are your clients and whom you supply with bond capital?

Mr. BUCKNER. That is true. I would think that the small borrower should find his money in his own community, the banks and the capital that is in his own community, because they know him, they know his product, they know his credit.

Mr. GESELL. But life insurance——

The CHAIRMAN (interposing). But unfortunately it doesn't work that way. What were you going to say, Mr. Gesell?

Mr. GESELL. But life insurance is taking much money away from those small communities. It isn't available.

Mr. BUCKNER. It trickles back, the mortgage loan business, the residential mortgage loans.

Mr. GESELL. But it doesn't trickle back to the small-business man.

Mr. BUCKNER. It gets back to the small community.

The CHAIRMAN. When you invest in State bonds and municipal and school bonds, and if you do invest in farm mortgages, the money has a tendency to go back, but what is the proportion of your investment that goes to these big business corporations? That would appear on table 9,[1] would it not? It is broken down in that table, is it?

Mr. GESELL. Table 102[2] shows what percentage of their money is in Government bonds, what percentage is in real estate, but there is no break-down there as to the size of the loan. We have breakdowns as to the size of loans only in the mortgage sections of the tables.

The CHAIRMAN. This table groups together under one heading other bonds?

Mr. GESELL. Table 103[3] breaks them down. You will find railroads, utilities, industrials, preferred stocks, common stocks, all the principal classifications.

The CHAIRMAN. This table 103, Mr. Buckner, shows that with the New York Life only 1.31 percent of your assets are in industrial and miscellaneous bonds. I would take it that is the business we have been talking about?

Mr. BUCKNER. Yes.

The CHAIRMAN. Now, other life insurance companies run very much higher than that. Of the first five companies in size, you are by far the lowest?

[1] See Hearings, Part 10-A, p. 9.
[2] Ibid., p. 102.
[3] Ibid., p. 103.

Mr. BUCKNER. Yes, sir.

The CHAIRMAN. Is there any special reason for that?

Mr. BUCKNER. No special reason. We have not sought very much of an outlet through the industrials. When we have been talking about industrials, I have had in mind utilities as well.

The CHAIRMAN. All right. There again, in utilities, you are the lowest but one in that amount.

I am impressed by the fact that these tables[1] would indicate, and discussion brought out, that of these larger companies the New York Life invested the smallest amount in farm mortgages, by far the smallest amount.

Mr. BUCKNER. That is true.

The CHAIRMAN. And now it would appear that the New York Life invested the smallest amount of these five large companies in industrials. Is there any special reason for that?

Mr. BUCKNER. No; I wouldn't say so.

The CHAIRMAN. Are there considerations that occur to you now, for example, with respect to the farms, that might appear to another company as indicating that farm mortgages are desirable?

Mr. BUCKNER. Oh, I think, beyond a doubt, they are desirable.

The CHAIRMAN. But they are not desirable enough for you to take as large a proportion as some others?

Mr. BUCKNER. We would have to reorganize. That has been our problem, whether we should and whether there is an opportunity. As I say, I think the farms are pretty well plastered. Those that borrow at all are pretty well covered. It is just a question of taking from one book to another.

The CHAIRMAN. I was wondering if you could throw any light on the reason for this variation in the importance?

Mr. BUCKNER. It is simply a matter of judgment by the finance committee of our company, compared with theirs.

Senator KING. I suppose you had in mind the fact that we passed the so-called Lemke bill a few years ago to grant moratorium, and then we renewed it again recently, and the appeal was made by a large number of farmers who had availed themselves of that law, that there were great losses, or had been very great losses, in farm mortgages.

Mr. BUCKNER. There is no doubt of it.

Senator KING. And you had that in mind in determining your policy with respect to farm mortgages?

Mr. BUCKNER. That is right.

Senator KING. Do you know the number of farms in the United States which are now under mortgage?

Mr. BUCKNER. No; I do not, Senator.

Senator KING. Or upon which foreclosure proceedings have taken place?

Mr. BUCKNER. Well, I do not know that.

Mr. GESELL. We will have complete testimony on that Wednesday morning, sir.

Senator WHITE. The farmers are not only under mortgage, but the stocks are under mortgage, the equipment is under mortgage, and their hopes of the future are under mortgage,

[1] Ibid., pp. 103 and 104.

Mr. GESELL. There you disagree with the witness, do you not, sir? The witness said the hopes for the future are not.

Mr. BUCKNER. I part with the future.

The CHAIRMAN. The table on page 161[1] shows, for example, for 1938, that New York Life had $6,336,000, in farm mortgages, whereas Metropolitan had $70,986,000; Equitable had $71,593,000, and Prudential had $167,298,000. You see, that is quite a variation.

Mr. BUCKNER. Yes, sir.

The CHAIRMAN. And my questions were designed to develop whether or not there were any special reasons for that variation except those which you have already given.

Mr. BUCKNER. I think not.

The CHAIRMAN. Just a matter of judgment, in your opinion, and of choice upon the part of the directors as to the line to pursue?

Mr. BUCKNER. Right. I hope the Lord is good to those farms and that the rains may come and the crop prices be good and so forth.

The CHAIRMAN. Those of us who come from the agricultural States feel the same way, Mr. Buckner.

Dr. LUBIN. Mr. Buckner, it has always been the policy, has it not, however, of your company to invest relatively little in farm mortgages? I note even in 1929 when the question of the inherent value of farm mortgages had not been raised yet, you were still the smallest of the five companies, in terms of farm investments.

Mr. BUCKNER. That is true, we entered the field long after these other companies were in the field, and with great experience in that line of investment.

The CHAIRMAN. Are there any other questions to be addressed to Mr. Buckner by a member of the committee?

Mr. PIKE. I have one or two. Reverting to this matter of policy loans and cash surrender values, it does seem to me—I think you brought it out—that in those two items the companies have no option as to when they will make the loans or when they will pay off the policyholder.

Mr. BUCKNER. That is right.

Mr. PIKE. The policyholder has a continuing option as a fixed rate during the life of his policy so that he can take that sum as a loan or a payment, at his choice. I think the figures show—you mentioned the 1907 figures and we have in here the figures following 1929—that the policyholder will, in general, call that option when other investments are apt to be quite available; in other words, at times of stress, when securities are for sale at low prices. It seems to me that that is a contradiction in terms, really, where the investment policies of an insurance company, being based on actuarial figures—you have there one set of obligations which are absolutely nonactuarial, which cannot be gaged in advance so that you must make excess provision, and furthermore, you are most likely to have demands when you would really like to be buying some bonds.

Mr. BUCKNER. Quite right; it has happened often.

Mr. PIKE. You mentioned that briefly. What would be your preference? Would you prefer to leave the cash surrender and the

[1] See Hearings, Part 10-A.

loan legal, the ability of the policyholder to demand one of those things, leave the law as it is; or should there be some modification of that?

Mr. Buckner. I think the law should be left as it is, even though on the whole, it is a very objectionable part of the life insurance policy. There is no question about that, it is destructive, really, of the purposes for which life insurance was taken.

Mr. Pike. It is a contradiction in terms.

Mr. Buckner. It is a contradiction in itself, but on the other hand, it is a feature of the contract which is, to many people, of very great advantage and very necessary for them to have.

Mr. Pike. But it is very disturbing from the investment point of view; if all the insurance business were an investment of funds, from that point of view you would like to have it out, possibly.

The Chairman. I observe from table 106,[1] Mr. Buckner, the table on cash, that New York Life's cash balance, or the item which is reported as cash, has increased from $8,657,000 in 1929, to $50,466,000 in 1938, but this figure for 1938 is, however, less than the comparable figure for 1935, 1936, and 1937. Can you say anything to explain this upward trend of cash?

Mr. Buckner. Well, I think that in 1929 cash was pretty scarce everywhere.

The Chairman. Yes, but I am talking about the increase. Your cash on hand is increasing, apparently?

Mr. Buckner. Yes; it is higher now than it has ever been before.

The Chairman. With respect to the New York Life, it was lower in 1938 than it was in the three previous years, but considerably higher than it was at any time before that, apparently, in its history, and the same is true with respect to the total cash on hand of all of these companies. The total appears to have increased from $102,000,000 in 1929 to $665,000,000 in 1938, and in response to one of Mr. Gesell's questions, I think you indicated that for 1939 your own cash was greater than it was in 1938.

Mr. Buckner. Yes, sir.

The Chairman. What has governed this trend? Why should there be this increasing amount of cash which you haven't been able to invest, apparently?

Mr. Buckner. I think there has been a slackening, as I said, of the demand for capital. Business isn't exactly at a standstill, but there is rather a cessation of expenditures.

Mr. Gesell. This is more cash than you need for the day-to-day operations of your business?

Mr. Buckner. Yes; I think so. We could have put it in Government bonds if we had been so disposed during the year, but we waited for something a little better.

The Chairman. You see, the importance of this item to me arises from the fact that your income, the income of any insurance company, is primarily from the savings of the people.

Mr. Buckner. Yes, sir.

The Chairman. It is not represented by borrowings. Bank deposits, on the other hand, are sometimes indistinguishable from borrowings when a note is signed by an individual, or a bond is issued

[1] See Hearings, Part 10-A, p. 106.

by a corporation or by the Government. That debt and deposits mean exactly the same thing, but with respect to a life-insurance company, your cash does not in any sense at all represent debt, it represents the savings of the people, and when the savings of the people are not invested, that, it would seem to me, is one of the primary reasons for the bogging down or the halting of the economic machine.

Mr. Buckner. There might be something in that. Of course, it is there to be invested just as soon as we can find an outlet.

The Chairman. But you haven't been able to find satisfactory outlets for cash, and at the same time your investments in Government bonds are increased out of all proportion to investments in industrial loans.

Mr. Buckner. Yes, sir; that is true.

Senator King. What would be the amount of cash you ought to retain in your till to meet the contingencies that arise?

Mr. Buckner. I should think with the contingencies we have, and in order to be in position to take advantage of any good opportunities that come along—these things will come along—I should think from 2 or 3 percent of the assets would be a reasonable figure.

Mr. Gesell. You have now less than 2 percent.

Mr. Buckner. Well, I think we have enough.

Mr. Gesell. Then your answer to my previous question was wrong, was it not, when I asked you whether or not this amount represented more than you needed for it?

Mr. Buckner. Just for the day, just for the time being that is true.

Mr. Gesell. Well, given a situation where you can put all your funds out, how much would you want to keep in cash?

Mr. Buckner. I should think it would be safe for a corporation of our size to be not far away from 2 percent in cash, with our exposure and also with the opportunities for investment.

Mr. Gesell. There seems to be a big divergence in cash balance. Table 102[1] shows the Metropolitan with 2.2 of assets in cash; Prudential, 2.5; New York Life, 1.9; Equitable, 4.9; Mutual, 4.4.

Mr. Buckner. Are we on the favorable side or unfavorable?

Mr. Gesell. That is what I am trying to find out. I had taken it for granted you were on the favorable side.

Mr. Buckner. We must never lose sight of the fact that we are in a great storm right now in this country, with wars on all sides, and nobody knows what the future is going to bring forth. We must be in a fairly liquid position to maintain every obligation of the corporation and take advantage of opportunities that come along.

Mr. Gesell. And you think somewhere around 2 percent is the proper amount?

Mr. Buckner. I would say not far from 2 percent, one side or the other.

The Chairman. Any other questions?

We are very much indebted to you, Mr. Buckner.

Mr. Buckner. Mr. Chairman, may I take this opportunity of expressing my thanks and great appreciation for your courteous treatment and eminently fair treatment, not only this time but a year ago.

---

[1] See Hearings, Part 10-A, p. 102.

The CHAIRMAN. We very much appreciate that comment, sir.

Do you want to call another witness this evening?

Mr. GESELL. We have another witness but we could not finish this evening. I am sure the witness doesn't mind waiting over, so it awaits the pleasure of the committee whether you wish to continue now or start tomorrow. The witness is Mr. John Stevenson of the Penn Mutual Life Insurance Co. I know we cannot finish with him in another hour.

The CHAIRMAN. Suppose we begin in the morning.

The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 4:05 p. m., a recess was taken until 10:30 a. m. the following day, Tuesday, February 13, 1940.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, FEBRUARY 13, 1940

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:38 a. m., pursuant to adjournment on Monday, February 12, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman) and White; Representative Williams; Messrs. Henderson, Lubin, Pike, Kades, and Brackett.

Present also: Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; Helmer Johnson, attorney; and Donald Davenport, special economics consultant, Securities and Exchange Commission.

The CHAIRMAN. The committee will please come to order.

The chairman is in receipt today of a letter from the Honorable Edward J. Noble, Under Secretary of Commerce, notifying the committee that Mr. Clarence Avildsen, who has heretofore been representing the Department of Commerce on the committee, has been obliged to leave Washington at least temporarily. Mr. Summer T. Pike has been appointed to act in his place. Mr. Pike was with us yesterday and is here again today.

There are also several letters which have been handed to the chairman for publication in the record, in connection with the hearing upon steel.[1] These letters include one which was addressed to the chairman by Mr. Benjamin F. Fairless, president of the United States Steel Corporation, commenting upon the significance of showing made to the committee by the United States Steel Corporation.

(The letters referred to were marked "Exhibits Nos. 2243 to 2249, 2249–1 to 5" and "Exhibits Nos. 2243 to 2249" and appear in Hearings, Part 31A.)

The CHAIRMAN. These letters are all presented for inclusion at the proper places in the record, except for the last five which are to be filed with the committee.

These letters have all been submitted to the agencies which were conducting the hearing.

(The letters referred to were marked "Exhibits Nos. 2249–1 to 2249–5" and are on file with the committee.)

The CHAIRMAN. Mr. Gesell, are you ready to proceed?

Mr. GESELL. Yes; I am, Senator.

First, I would like to offer three documents for the record in connection with the hearings which have been held previously before the committee.

---

[1] See Hearings, Part 31A.

"Exhibit No. 1348–67" contains the schedule of fees paid by the American Conservation Co. of the law firm of Henning & Baker.[1] That law firm did not continue during the entire period, and Mr. Henning has had an interest in only certain fees paid to that firm. He has, therefore, requested that this schedule which I now hand to the chairman be substituted in lieu of "Exhibit No. 1348–67," if there is no objection to that.

The CHAIRMAN. Without objection, it may be so ordered.

(The document referred to was marked "Exhibit No. 2261" and appears in Hearings, Part 13, appendix, p. 7093.)

Mr. GESELL. Also, I have a letter from Mr. Henning, of the Illinois Bankers Life Assurance Co., giving information as to certain officers of the Illinois Bankers who converted their policies from the assessment to legal-reserve basis, and certain officers who failed to do so.[2] This information was obtained at the request of one of the members of the committee, and is offered for inclusion in the record. Mr. Henning has no objection to its being submitted.

The CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 2262" and appears in Hearings, Part 13, appendix, p. 7095.)

Mr. GESELL. I should like it printed in the record.

Similarly, I have here an affidavit from Mr. R. R. Haffner, actuary of the department of insurance, whose name was mentioned in the course of the hearings. Mr. Haffner's affidavit is submitted for the record.[3] It has no new information, but since Mr. Haffner was not here he wished his position to be made clear.

The CHAIRMAN. In other words, he is denying, is he not, certain implications that may have arisen from the testimony of another witness?

Mr. GESELL. That is correct; yes.

(The affidavit referred to was marked "Exhibit No. 2263" and appears in Hearings, Part 13, appendix, p. 7096.)

Senator WHITE. May I ask a question, Mr. Chairman?

Just for my information, I am curious to know to what extent you are including in the record letters or statements by persons who are not present as witnesses. Of course, when you embark on this policy of allowing anyone to prepare statements, and include them in the record, you don't know where you end.

The CHAIRMAN. We haven't embarked on that policy. As a matter of fact, nothing is admitted to the record unless it deals directly with a question which has been raised at one of the hearings and is in response to a question by some member of the committee, or is submitted by a witness to amplify or clarify his statement. The one exception of that is the exhibit which has just now been offered. During the previous hearing upon insurance there was testimony to the effect that upon the check stubs of a witness who was before the committee there appeared the name of an official of the insurance department of the State of Illinois. This official denies that he ever received, directly or indirectly, any money from the person who testified. And the Chair felt, and the Securities and Exchange Commission in presenting the affidavit felt that it was only fair to the absent witness to allow his affidavit to be entered.

---

[1] See Hearings, Part 13, p. 6943.
[2] See Hearings, Part 13, p. 6829.
[3] [illegible]

Mr. HENDERSON. Mr. Chairman, I think I know about most of the material that has been introduced into the record. I think if we follow carefully a procedure we laid down early we will obviate the difficulty Senator White contemplates. I suggest that the executive secretary let him have a memorandum on the procedure which we do follow.

The CHAIRMAN. Yes.

Senator WHITE. I won't at this late date presume to critcize the practice of the committee, but I do know as a general proposition that statements by a witness who is not subject to any examination at all ought to be accepted with great hesitation.

The CHAIRMAN. The committee feels exactly as you do, Senator White, in that matter.

Mr. GESELL. The first witness this morniing is Mr. John Stevenson, president of the Penn Mutual Life Insurance Co. I might say to the committee Mr. Stevenson's testimony will trace for the committee some of the recent operating problems in the past few years and his testimony will complete what I have been calling the background testimony. Mr. Howe will follow Mr. Stevenson and analyze "Exhibit No. 2250"[1] in some detail.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. STEVENSON. I do.

TESTIMONY OF JOHN A. STEVENSON, PRESIDENT, PENN MUTUAL LIFE INSURANCE CO., PHILADELPHIA, PA.

The CHAIRMAN. Thank you. You may be seated.

Mr. GESELL. Will you state your full name, occupation, and residence for the record, sir?

Mr. STEVENSON. John A. Stevenson, president, Penn Mutual Life Insurance Co., Philadelphia.

Mr. GESELL. Mr. Stevenson, can you tell the committee briefly what your experience has been in the insurance business, how long you have been with the Penn Mutual, and what you did before that?

Mr. STEVENSON. Since 1928 I have been associated with the Penn Mutual in one capacity or another. Beginning in 1928, I came to Philadelphia to manage their large Philadelphia agency. I took that position and held it until 1931. At that time, there was a vacancy in the agency department, the agency vice president having resigned and I temporarily filled in as agency vice president. It was contemplated that I should do that for a period of 8 months to a year in anticipation of bringing in another vice president. I finally was relieved of that in the summer or spring of 1933 when they brought another vice president in.

Then I returned to my agency in Philadelphia and was there until 1936. I think in June 1936, I was called to the executive vice presidency of the Penn Mutual, due to the death of the president and a vice president. I was executive vice president from the spring of 1936 until January 11, 1939, when I was elected president. That is my experience in the Penn Mutual.

[1] See Hearings, Part 10–A.

Do you wish me to go into my experience before?

Mr. Gesell. Prior to that, you had been interested in developing training courses for life-insurance agents, had you not?

Mr. Stevenson. Correct. In 1919 I left the University of Illinois to go to Carnegie Institute of Technology, where was established, I would say, the first school of life-insurance salesmanship in a higher institution of learning in the United States. I was called to that position in 1919 as director. The specific purpose of that school was to develop a short, intensive professional training course for agents.

Mr. Gesell. Coming to the Penn Mutual, Mr. Stevenson, can you tell us a little about the company, how large it is, in how many States it operates, the types of insurance it sells?

Mr. Stevenson. According to your outline as you find it on there, the statistical evidence, our business falls under four classifications. We do ordinary life business; second, individual annuities; third, disability coverage; fourth, accidental-death coverage known as double indemnity. The size of the company now is, insurance in force, $1,969,568,000. The Penn Mutual does business in 47 States, Texas only being excluded.

Mr. Gesell. How many policyholders does the company have?

Mr. Stevenson. Four hundred twenty-eight thousand, approximately.

Mr. Gesell. Now, one of the matters I would like to discuss this morning with you, Mr. Stevenson, is how new policy forms and new policy services are determined upon, what brings them into use and what have been some of the types of policy forms developed in recent years.

Mr. Stevenson. I should say to extend our life-insurance service in meeting the financial needs of prospective insurance buyers, when it appears that the adoption of a plan will be to the advantage or will be advantageous to our policyholders and also to our representatives. First, there must be a definite need, as we see it, for the new policy. The new policy must serve a new need or a combination of needs in one policy.

Two, it must appear advantageous to the policyholders as a group. If it doesn't appear to be of sound practice, or if it is a policy that might be criticizable in any way by our actuarial department, we don't issue it.

And third, as I said, it must be of aid to our representatives. I mean specifically by that, if it doesn't help our representatives to meet the needs of policyholders, the fundamental needs of policyholders, obviously it couldn't be sold or wouldn't be sold easily.

Mr. Gesell. Now, Mr. Stevenson, how do you determine that there is a need for a new policy form? Do you look at it from the point of view of a new service which you can sell, or do you try to ascertain what the specific needs of a group of policyholders may be?

Mr. Stevenson. The latter is the dominant motivating principle which causes us to stress the possibilities of a new policy.

Mr. Gesell. You mean letters from policyholders or statements from agents or how do you find out that need exists?

Mr. Stevenson. First, we have frequent requests from policyholders direct, or we have suggestions from policyholders to the agents. They frequently say, "Why don't you get out this type of policy?" Of course, in many instances, it is wholly impossible to get out the type of policy that they suggest because not infrequently the suggestion is made for a type of policy that isn't actuarially sound or would be impossible to issue. The general feeling is that they want something to serve oftentimes an individual purpose that is too individual, it doesn't meet a class of policyholders.

Now, that is one. I might give as an illustration of that—I had the responsibility of placing some annuities for a minisiters' and missionaries' board, the Baptist Ministers and Missionaries Board. The purpose there was to find members of the Baptist Church who would buy an annuity and then if there is anything left of the annuity, to pass it on to this Ministers' and Missionaries' Board, which is really an insurance company for pensioning Baptist ministers. Obviously the board couldn't count on any definite amount, so a policy was originated which would be half straight annuity and another half which added to this annuity would make it possible always for the Baptist denomination, on the death of the annuitant, to receive one-half of the amount orginally put in the annuity.

Mr. GESELL. I suppose, too, the home office makes studies of the insurance market?

Mr. STEVENSON. Yes. I would say that that is true.

Mr. GESELL. What about the competitive factor, the marketing factor, Mr. Stevenson? Do you develop policy forms sometimes because one of your competitor companies has come out with a form and you want or your agents want to keep up with them?

Mr. STEVENSON. Yes.

Mr. GESELL. Is that fairly frequent in occurrence?

Mr. STEVENSON. I should say that most companies are alert to bringing out policies to meet the competition of a popular policy. I think that is rather a common procedure.

Mr. GESELL. When you say popular policy, you mean a policy that is popular with the agents or popular with the policyholders.

Mr. STEVENSON. Largely with the policyholders; that is, meaning by that that it seemed to have fitted a specific need. An illustration: There is a policy that is gotten out by a number of companies called the modified life, which is a combination of term insurance for the first 2 or 3 years (the rate is a little above term insurance), and then after the period of 3 years, the rate increases. That has as its purpose the idea of bringing the gross amount of premium to a lower figure than would be the case if a straight ordinary life policy had been taken.

Mr. GESELL. That is the kind of policy where they come to a young person and say, "Well, you are only making so much this year, you can get a broader coverage and as you start to earn more and more, you can pay more."?

Mr. STEVENSON. That is right.

Mr. GESELL. Is that one of the newer forms that has been developed in the last 20 years?

Mr. STEVENSON. Yes; it has been developed—my guess is that that was developed on or about 1926, and it is very popular; it fills a specific need. The Penn Mutual competitively, not issuing that type of policy, we have a policy that we call a term automatic conversion. Instead of having two policies—a term policy and then converting that—we have the term automatic part written right in the policies, so that you actually go for 1, 2, 3, 4, or 5 years, whichever you elect, and then at a certain period it goes into the higher rate and that higher rate is the ordinary life rate at that period. But it is in one policy.

Mr. GESELL. Do I understand you to say that one of the factors in the determination of new policy forms is the desire of any company to offer the same lines of service and the same type of coverage as his competitors?

Mr. STEVENSON. In general; but there is, of course, wide variation. There is wide variation. The general tendency would be toward the same type of coverage.

The CHAIRMAN. How frequently do these suggestions for new forms of policy come to the executive officers?

Mr. STEVENSON. We are having them constantly. I should say that there are always in the offing suggestions for new types of coverage.

The CHAIRMAN. Do these suggestions cover a wide range or do they fall into certain well-known categories?

Mr. STEVENSON. In general, within a rather narrow range, because there are limitations to what can be accomplished through life insurance.

The CHAIRMAN. Could you give us an instance of one or two of the suggestions which have been made but which have been rejected?

Mr. STEVENSON. Well, I recall a few years ago the suggestion that companies ought to incorporate in one policy varied types of needs, so that one policy, the package, would do the whole job rather than having three or four policies. For example, this was the general broad suggestion: First, when a man is a very young man, he needs more coverage, he needs all the coverage he can get, actual insurance protection without much of the savings feature, so the suggestion was to have a certain period in the beginning of term insurance; then the second period of the operation of the policy to have it on the basis of permanent insurance—that is, ordinary life—until the responsibilities of the family might have been met; and then provide for some sort of a rider to attach to the policy so that on or about the time when his family responsibilities are over, he could probably increase his premium in order to make it a retirement income for himself and for his wife, or a retirement income for either, no matter which one survived. That is about as complicated a one, I think, as I could mention and yet the arguments for it are sound. We are able to do all but that last part. That, I might say, Senator, is today under active consideration to see if we could originate or develop that sort of policy.

Mr. GESELL. Now, perhaps it would help if you would tell the committee what some of the principal new policy forms have been that have been developed in recent years. You mentioned the modified life form. Now, there has been the form of family income and family maintenance, has there not?

Mr. STEVENSON. Yes, sir.

Mr. GESELL. What kind of a policy form is that?

Mr. STEVENSON. There is an illustration, I presume, where a policy was originated by the president of a company. This original family income policy was originated by the late Philip Burnett, of the Continental American Life Insurance Co. of Wilmington, Delaware. He recognized the fact that men with a family needed more coverage in the period in which the family was growing up. Therefore, he would purchase, for example, a policy for $10,000 on the ordinary life plan—that is the cheapest form of permanent protection insurance that can be purchased.

In addition to that they would tack on an amount of term insurance. Many times that term insurance would be a sufficient amount, such that it would provide $100 a month for a period of years, and presumably the period of years in which the family was growing up, and in addition to that at the end of that period the $10,000 would be available. So that it is a double policy, the term to provide for the family in case of premature death of the breadwinner, and at the end of that time, there would be the $10,000 available for the wife.

Mr. Gesell. Then there has been a retirement annuity or optional deferred income policy, has there not?

Mr. Stevenson. Yes.

Mr. Gesell. What kind of a policy is that, Mr. Stevenson?

Mr. Stevenson. That is not a life insurance policy. That is a deferred annuity usually paid for on an annual basis. May I explain? The original deferred annuities were unsatisfactory because you paid a certain sum down, a lump sum, say you are age 35, you paid a lump sum, and if you lived to the period that the deferred annuity called for, say 60 or 65, beginning at that period, you received a substantial return on your investment, very large, but there is all that intervening period in which, if anything happened by death or an emergency, no return of the money could be made. But it is a very desirable policy if one can afford the luxury of the loss of borrowing ability on the policy or it isn't necessary on his part to pass any of the investment to the family.

Now, to get around that, the new policies were issued. They have the same idea of deferred annuity, but you can pay for them on the annual basis. For example, if I wanted an annuity, say I am 35 and I want an annuity at 65, I pay so much a year for 30 years and along with that I have cash and loan values, and if I die the whole amount, practically, that I have paid after some period of years goes to my family—or to me if I wish to borrow on it.

But when I get my annuity at 65 on this annual premium basis, I obviously do not get as large a monthly income for the total investment as I would on the other old single deferred income annuity plan because of the hazard of the loss that would come through the surrender in case of premature death on the single premium deferred income.

Now, that is a very popular policy.

Mr. Gesell. How many policy forms does your company have, Mr. Stevenson?

Mr. Stevenson. Well, this is really in the range of almost a guess. I would say certainly over 100 different types, because in working out our endowment plans, we have an endowment at every age. You can buy an endowment with us beginning with an endowment at 50, endowment maturing at 51, and right on up.

The Chairman. What standards do you follow in determining, in such a policy as you have just described, the premium that the policyholder is to pay?

Mr. Stevenson. That is an actuarial matter, but before a policy of this type is issued, a definite attempt is made to figure out, calculate what is the exact liability of a policy of this type.

The CHAIRMAN. What are the factors which you used in determining what the limit is?

Mr. STEVENSON. Two big factors, and even with retirement annuity, the factors would be the same, but the three main things would be, first, our interest return, what we could calculate over a long range would be the return, and secondly——

The CHAIRMAN. (interposing). You mean the return to the company?

Mr. STEVENSON. That is right.

The CHAIRMAN. The return to the company on the accumulating premium?

Mr. STEVENSON. That is right, on the total accumulations from our total premiums. That is where our earnings come from.

The CHAIRMAN. Now, then, you must determine in advance what interest you want on that accumulated premium?

Mr. STEVENSON. Yes. We attempt to arrive at what is the minimum, and that is what we frequently hear of as our guaranteed rate, minimum rate, and that in most cases is 3 percent; that is, if we have more than that, the policyholders participate in that through what is known as the dividends.

The CHAIRMAN. In other words, is it your experience that a 3-percent rate would in ordinary circumstances be sufficient to enable you to sustain and meet your liability?

Mr. STEVENSON. Yes; that is correct.

The CHAIRMAN. But what is the average return that you get?

Mr. STEVENSON. Our average return for '38, which is I think part of the record of our statistics here, is 3.40.

The CHAIRMAN. Now, what are the other factors? That is the first.

Mr. STEVENSON. That is one. The next is the mortality factor. That is, in understandable language, the death rate, and in an annuity, when we speak of a loss from mortality, it is not because people die prematurely but they live beyond the period of normal calculation, so that we mustn't get confused when we speak of the mortality gains or losses. The mortality losses in annuities arise because individuals live longer than they should according to the tables.

The CHAIRMAN. In other words, from the point of view of the insurance man, the longer they live, the worse it is?

Mr. STEVENSON. In an annuity that is correct, but if your general coverage is balanced through life insurance, you have the compensation there by their dying sooner than calculated, or if they live longer in life insurance they pay in more premiums.

Mr. GESELL. You mean that life-insurance policyholders carry the annuities?

Mr. STEVENSON. No.

Mr. GESELL. That is about what it comes down to, isn't it, Mr. Stevenson? You make up the losses from the annuities by the savings on the mortality of the regular life-insurance policyholders.

Mr. STEVENSON. No; I would say that we have to look at this whole matter with a long-range view. Life insurance is a long-range business. It is entirely possible that in a period of 4 or 5 years, we might have a loss in our annuities, due to the fact that the annuitants would live longer than the calculation indicated, or our earnings weren't as great as we might have expected.

Mr. GESELL. How do you make those losses up as they do take place?

Mr. STEVENSON. The losses come from our complete income.

Mr. GESELL. From the other policyholders.

Mr. STEVENSON. That would be correct. Now may I say that would be the case in a period of years. Then there are times when the annuitants have made a substantial contribution to life-insurance holders in other times. It is variable. Over a long range, they balance off. It is true that in a given period, there may be some losses in annuities and gains in insurance.

The CHAIRMAN. Well, the two types of business are absolutely different, are they not?

Mr. STEVENSON. That is right.

The CHAIRMAN. Life insurance requires the payment to the insured of a certain sum of money in case of premature death.

Mr. STEVENSON. That is right.

The CHAIRMAN. And the insurer sustains or tends to sustain a loss if the insured dies at an early age.

Mr. STEVENSON. That is correct.

The CHAIRMAN. But the contrary is true with respect to annuities.

Mr. STEVENSON. That is right.

The CHAIRMAN. The earlier the annuitant dies the more profit for the insurer, and the longer the annuitant lives the more danger of loss by the insurer.

Mr. STEVENSON. Correct.

The CHAIRMAN. So that ultimately the annuity business is not life insurance.

Mr. STEVENSON. It is not.

The CHAIRMAN. Now to go back to this second factor of mortality, how do you determine mortality?

Mr. HENDERSON. Mr. Chairman, may I ask a question before you get into that second point, or do you want me to wait?

The CHAIRMAN. As a matter of fact, we were diverted from this question by the other, but it is all right.

Mr. HENDERSON. I will come back.

The CHAIRMAN. How do you determine the mortality? The second factor was the rate of mortality. How do you determine that?

Mr. STEVENSON. The mortality table is the result of the statistics that have been calculated or made available from experience.

The CHAIRMAN. In other words, this is what we call the experience table of mortality, is it not?

Mr. STEVENSON. That is right. That is the result of the statistical information that we have, not only in relation to our own company, but statistics of all companies are made available.

The CHAIRMAN. Now, then, does each company follow its own experience or the experience of all companies?

Mr. STEVENSON. In relation to the table, the companies use in general the same mortality table.

The CHAIRMAN. When was this table prepared?

Mr. STEVENSON. Our own table was prepared many, many years ago. The American Experience Table was prepared at least 60 years ago, maybe longer.

The CHAIRMAN. Is that still the basis?

Mr. STEVENSON. That is still the basis.

The CHAIRMAN. The expectancy of life is much greater now than it was when that table was prepared, is it not?

Mr. STEVENSON. Yes, sir.

The CHAIRMAN. Has that increasing longevity of the average person been taken into consideration now in determining this factor, this second important factor?

Mr. STEVENSON. No; the reason being that the return or net cost or the final cost to the policyholder is the gross premium minus the dividend, and any savings that would accrue as the result of increased longevity would be reflected in the net cost to the policyholder, so it wouldn't have any material difference.

The CHAIRMAN. I don't understand that. What you are testifying amounts to this statement as I understand it. The table of mortality upon which your rates are based was prepared 60 years ago upon the basis of conditions that existed at that time.

Mr. STEVENSON. Yes.

The CHAIRMAN. In the intervening 60 years, life expectancy has greatly increased, so that the mortality table of 60 years ago no longer accurately represents the conditions as they exist today.

Mr. STEVENSON. That is right.

The CHAIRMAN. But nevertheless, although an experience table prepared today would show a much greater life expectancy, it is not desirable to use that table, but it is desirable to use the table of 60 years ago, is that correct?

Mr. STEVENSON. I would say it is used. I wouldn't say that we would consider that would be necessarily a permanent conclusion. It is used at the present time.

The CHAIRMAN. Which is used at the present time?

Mr. STEVENSON. The old one.

The CHAIRMAN. Now, why should not that table be modified to harmonize with present-day conditions?

Mr. STEVENSON. The final test of this, sir, is what the cost to the policyholder is after the experience of doing business and the mortality rate, and the excess interest. Those are the three factors that go to determine the dividend.

If our mortality is high, that is reflected in the dividend. If it is low, it is reflected in the dividend, so that——

The CHAIRMAN (interposing). So that if your mortality is high, your dividend is low?

Mr. STEVENSON. That is right.

The CHAIRMAN. And if your mortality is low your dividend is higher?

Mr. STEVENSON. That is correct, sir.

The CHAIRMAN. But now, that is with respect to life insurance?

Mr. STEVENSON. That is correct.

The CHAIRMAN. Now, how about annuities, the reverse is true with respect to annuities, is it not?

Mr. STEVENSON. Yes.

The CHAIRMAN. Now, do you use the same table of mortality in your annuity business as you do in your life-insurance business?

Mr. STEVENSON. No, there is a different table that is used for that.

The CHAIRMAN. What is the table you use for that?

Mr. STEVENSON. Special annuitant table.

The CHAIRMAN. And what is that based upon?

Mr. STEVENSON. That is based upon the experience that was then available from all sources from which any experience could be collected.

The CHAIRMAN. In other words, for the business of life insurance you use the 60-year-old table, but for the business of annuities you use the modern table?

Mr. STEVENSON. Yes.

The CHAIRMAN. And the difference is with respect to life insurance you use the old table because the sooner they die, the more profit for the insurer, but with respect to annuities, the longer they live, the greater the loss for the insurer, is that correct?

Mr. STEVENSON. Yes, sir.

The CHAIRMAN. So that from the point of view of the insurance company, it is beneficial to use the 60-year-old table on life insurance, but it is beneficial to use the 1940 table for annuitants?

Mr. STEVENSON. There is no benefit to the company. We want to distinguish there. No matter what mortality table we use in the life insurance, the net cost would be the same because the cost to the policyholder is——

The CHAIRMAN (interposing). Now, that is the answer which I don't quite understand. Why do you say that the net cost would be the same, no matter which table is used? Let's discuss first, insurance, and then annuities.

Mr. STEVENSON. All right. In the case of insurance, let's assume that we have the present mortality table. Let's assume that the mortality is very much less now in experience than is indicated by that mortality table; that will give a greater fund to use in giving a dividend, so the greater the saving, the more dividend will be returned. Is that first statement clear?

The CHAIRMAN. That is true of a mutual company?

Mr. STEVENSON. That is correct.

The CHAIRMAN. When you speak of the dividend, you mean the return of the policyholder?

Mr. STEVENSON. That is correct.

The CHAIRMAN. But that dividend, of course, is fixed by the company?

Mr. STEVENSON. That is correct.

The CHAIRMAN. By the company in its discretion?

Mr. STEVENSON. That is correct.

The CHAIRMAN. You have complete control of the savings of the policyholder, and it is for you to determine what the expenses are and what the dividend may be?

Mr. STEVENSON. That is right.

Now, let's assume that we used a mortality table that was more in line with experience. The amount of savings in that case would have been a little less because in calculating the premium on the basis of this mortality, we might have had a little smaller premium, but we would likewise have had a little smaller dividend, and a smaller premium with a small dividend would match the little larger premium minus the little larger dividend.

The CHAIRMAN. But obviously if a smaller premium is charged, then the policyholder has control of his own savings and he doesn't have to pay for insurance as large an amount as he would if the modern table were used, and your statement that the net cost is the same depends wholly, does it not, upon your contention that the policyholder gets it back by way of dividends eventually?

Mr. STEVENSON. That is right.

Mr. GESELL. It is true, Mr. Stevenson, is it not, that using the old table increases your gross premium?

Mr. STEVENSON. Yes.

Mr. GESELL. And therefore with a larger gross premium, the agent gets a higher commission?

Mr. STEVENSON. There would be a small increase.

Mr. GESELL. But it is a higher commission?

Mr. STEVENSON. Yes; it is a higher commission.

Mr. GESELL. And it is also true, is it not, that in the case of policyholders who lapse, in other words who drop out of the company before they have any opportunity to participate in dividends, they have had to pay more for their insurance than they would have had to pay had the company used the other mortality table?

Mr. STEVENSON. That is correct.

The CHAIRMAN. The consideration that appeals to me, Mr. Stevenson, is this, and it seems to me that it is worth study: The premiums which an insurance company receives, whether for the payment of life insurance or the purchase of annuities, are almost exclusively savings of the people.

Mr. STEVENSON. Yes.

The CHAIRMAN. And those savings flow into these central reservoirs, as it were. The testimony which has been developed here upon the statistical situation shows that the savings of the people flow into these 26 companies from all over the United States. Your own company does business in 47 States. You have, I think you said, 428,000 policyholders. They are contributing their savings to you. Now, one of the great problems which the country is struggling with is how to get savings invested out in these 47 States. Would it not be true that if you used the modern mortality table a large proportion of the savings would remain at home instead of being sluiced down into the central reservoir and then have to be sluiced out again.

Mr. STEVENSON. Well, I should say when the dividend is returned, the net effect is the same.

The CHAIRMAN. You have to wait until the dividend is returned?

Mr. STEVENSON. Oh, yes.

Mr. HENDERSON. One other thing, Mr. Stevenson, when you have a high gross premium, you are collecting a larger amount, and then when you are determining what the dividend or rebate shall be, you calculate the status of the surpluses and reserves, isn't that correct?

Mr. STEVENSON. Yes.

Mr. HENDERSON. Now, your company is one of four, as I recall it, in this 10-year period, that finished up on net balance, it really gained on annuities. The other 22 lost in this 10-year period we have under consideration. Now, leaving out the long-term adjustment, the balancing as between the annuities and the life insurance is the current adjustment that is made through a surplus account, is it not?

Mr. STEVENSON. Yes, sir.

Mr. HENDERSON. Now, if there should be a loss in any one year from the annuities, that adjustment would take place in the surplus account, and that would withdraw inevitably some of the accumulation from the insurance, would it not?

Mr. STEVENSON. That is right.

Mr. HENDERSON. And therefore it would reduce the dividend payments that year?

Mr. STEVENSON. I think that is correct.

Mr. HENDERSON. Let me ask you this: In this 10-year period we have under review, if somebody was smart enough to guess the trend, he would have taken the annuity rather than the life insurance, would he not?

Mr. STEVENSON. If we look back 10 years?

Mr. HENDERSON. No; I said, if he were smart enough to guess ahead.

Mr. STEVENSON. That is right. He would guess ahead. I would say he would have bought more wisely 10 years ago if he had looked ahead and at that time 10 years ago knew what the situation would be today.

Mr. HENDERSON. And, of course, in order to know that, he would have to know more than the insurance companies all put together, wouldn't he?

Mr. STEVENSON. That is correct.

Mr. HENDERSON. It just happens that you are one of the four companies that guessed right on the 10-year period. How did you happen to guess right on that 10-year period? [1]

Mr. STEVENSON. May I suggest, sir, that I am not an actuary, and a large number of these figures——

Mr. HENDERSON (interposing). I know you are not an actuary. That is one reason you and I can do business. Most of the time when we had actuaries here and got right down to the question of policy they ran behind the American Experience Table or higher mathematics, and it was just like pulling teeth to get them out from behind that. The actuaries we had here were testifying that they were sitting together, making up what the accommodations of rates should be. Every time we got into the question of policy, we found them way off somewhere back of mathematical calculation.

I am just interested to know: Are your rates higher for annuities in this period than the others?

Mr. STEVENSON. I can't give you a definite answer to that. I assume that they were relatively comparable.

Mr. HENDERSON. Did you guess better? Did you have a selectivity?

Mr. STEVENSON. The only answer could be, that wouldn't be any question of selection because——

Mr. HENDERSON (interposing). It might be in the cost.

Mr. GESELL. There you would be selecting people who are going to die early.

Mr. STEVENSON. What happens in annuities is this: If you have only a few people that select annuities, the curious circumstance is that those people live probably a little longer. If we have a few selected, you get the people that somewhat select against the company, but if we go out and push annuities as a sale we might get people to take annuities that didn't select annuities themselves and, therefore,

[1] See Hearings, Part 10–A, p. 59.

we would get some whose mortality would be a little greater and thereby would get a little better experience.

Mr. HENDERSON. I think that you put it on the basis of your selection.

Mr. STEVENSON. Yes. It is somewhat, but I would say it is probably due to the fact that we eliminated, by pushing the sale, the antiselection that would come because only a few purchased annuities, and with the few who purchased annuities on their own will, the potential losses are greater; or to put it in other words, the general rule is that is the trend.

Mr. GESELL. Is that a matter of conscious management policy to offset the antiselection present in the type of policy—to go out and sell more of it?

Mr. STEVENSON. It was not. It was a good policy Our annuities or our retirement income served a specific need, as indicated here when we discussed that policy, and our agents recognized that it served a specific need and sold in rather large quantities.

The CHAIRMAN. Did I understand you to say the person who voluntarily seeks annuities is likely to be more long-lived than the one who doesn't, Mr. Stevenson?

Mr. STEVENSON. In general.

Dr. LUBIN. Mr. Stevenson, why do you continue to use the old actuarial table, other than the reasons Mr. Gesell mentioned—namely, the figure returns to your agents and the advantages of savings due to lapses which do not inure until the policy lapses? What is the real reason behind it?

Mr. STEVENSON. You are asking about the use of the old mortality table? The reasons I have given you are all that I know. There are additional reasons that are not necessarily insurance reasons.

Now, I will go to some reasons that are not insurance reasons. The laws of many of the States, including Pennsylvania, still require the use of the older table.

Dr. LUBIN. Has your organization ever attempted to have that law amended?

Mr. STEVENSON. Today the companies and various State insurance departments, I think it is fair to say, are studying the whole problem, with a view to the possible use of a new table.

I might call attention to the fact that, of course, 1918 was a rather difficult year, but in the year 1918 the mortality exceeded 100 percent then, due to the influenza ravages.

The CHAIRMAN. Do your actuaries report any difference in the death rate for different regions in the country?

Mr. STEVENSON. We have knowledge of various territories that return——

The CHAIRMAN (interposing). The mortality table, of course, is the experience of the country as a whole, and that is true with respect to the mortality table you use on annuities also.

Mr. STEVENSON. That is right.

The CHAIRMAN. Do you know whether there is any substantial variation in the rate with respect to regions in the country?

Mr. STEVENSON. There is no variation in insurance rates. You mean the rate of mortality?

The CHAIRMAN. That is right.

Mr. STEVENSON. Not very large. There are certain sections. I can't answer that, because I am neither the medical director or the underwriting officer, but my information is that there are certain territories that we do not care to be very active in developing.

The CHAIRMAN. For which type of business? [Laughter.]

Mr. STEVENSON. Of course, primarily we are in the insurance business.

The CHAIRMAN. But those areas in which life insurance would be a poor risk would be areas in which annuities would be a good risk.

Mr. STEVENSON. Exactly. No question about that.

Dr. LUBIN. I am still interested in the question I asked. In other words, granted that as far as the policyholder is concerned there is no difference whether he pay a high rate and get a big dividend or lower rate and get a small dividend, why do you continue to do it that way? There are two reasons cited here, namely, that you would make more money. At least, the agent would make more money that way and the company can make more money because of these lapses. Are those the sole reasons you maintain the old table?

Mr. STEVENSON. No; I can't give you any reasons beyond what I have indicated. I don't know whether there are any fundamental reasons beyond that. I can't answer that.

Dr. LUBIN. May I ask one other question? If an applicant comes to you and asks for a life-insurance policy and after he is examined by one of your physicians he is turned down and he should reappear the next day and ask for annuity, would you sell him annuity?

Mr. STEVENSON. Yes. It doesn't necessarily follow that because we turn him down it might not be desirable for him to have annuities. Sometimes when an individual is turned down he might live at a different tempo and the very fact that he is interested in purchasing annuities might lead to that, or might more or less substantiate that attitude.

Dr. LUBIN. In other words, he has added reason for taking care of himself?

Mr. STEVENSON. Correct.

Mr. GESELL. Now, I think we had best, if there are no questions from the committee, get back to the outline here. We are a little behind time.

Mr. HENDERSON. It is a temptation, when you get a witness like Mr. Stevenson, to ask everything that has been kicking around in your mind during these hearings.

Mr. GESELL. I wanted to ask you today, Mr. Stevenson, a little about the specific purposes of life insurance.

You sell insurance for inheritance-tax purposes, to enable a man to pay off a mortgage that he may have coming due at some future date, to enable him to make a bequest to some individual for business purposes of one sort or another, for educational purposes, for the purpose of cleaning up his estate, for arranging to continue his salary, should his salary no longer be paid, and for other purposes of that character. Is that correct?

Mr. STEVENSON. That is correct.

Mr. GESELL. Are any of those eight purposes which I mentioned of particular emphasis in your company, or are they all more or less considered in terms of needs of the particular policyholder?

Mr. STEVENSON. It would depend, of course, on what we found, after making a contact with a client, the needs of that client were. If there is a mortgage on the home, the tendency would be to sell insurance to take care of the mortgage. If there are children, the agent would undoubtedly make some suggestions in connection with policies to guarantee the education. Salary continuance is a phrase that is used to highspot the need for an income following the death of the breadwinner.

Now, you ask, are any of these particularly emphasized? No; I would say each of the eight that you have just mentioned would be in the agent's kit, so that if those individual needs, following his analysis of the prospect's general need for insurance, any one or a number of them, should present themselves, he would sell insurance on that basis. Probably the educational policy and the mortgage policy insurance would be the two most popular, with the salary continuance a close runner-up.

Mr. GESELL. Now, having in mind that you said some while back why new policy forms are developed, I am interested in the development of the juvenile insurance that you mentioned. Was there a crying need on the part of juveniles for insurance?

Mr. STEVENSON. No.

Mr. GESELL. That was developed, I take it, as a sales proposition?

Mr. STEVENSON. No.

Mr. GESELL. What were the factors that led to selling insurance to juveniles?

Mr. STEVENSON. In many instances, I suspect, if what I get from our field representatives is an indication of it, that parents frequently say, "Well, I would like the idea of starting my child on a program," sometimes at a very early age, sometimes as early as 2 or 3 or 4 or 5, with the idea of a thrift purpose in mind. I would say that it has come about as a result of parents interested in insuring their children; and secondly, of course, the desirability on the part of our agents to get the children as clients of theirs rather early.

Mr. GESELL. You mean that if an agent sold someone a policy that early, he would have more opportunity of following him through these various forms?

Mr. STEVENSON. Yes.

Mr. GESELL. Now, I wanted to ask you some questions about this problem of whether or not there is any saturation in the insurance market at the present time.

Senator WHITE. Before you get to that, I want to ask one question about the agents. Are there any general rules among insurance companies as to the control of the agents in undertaking to sell to a prospective purchaser? Is it the policy of companies that the agent shall sell what the prospective purchaser wants, or do you encourage the agent to advise the purchaser and to sell to the purchaser what he thinks the purchaser ought to have? Is there any general rule among insurance companies about that?

Mr. STEVENSON. There is no general rule. I should say that the competent, well-trained agent, is in a better position to specify what insurance would best fit the needs of the client than probably the client himself. It is the duty then of the agent to present what he considers is as near a perfect service for that need as possible. It is finally the policy-holder's right to determine whether he wants that suggestion coming from the agents or whether he has in mind to purchase some other policy.

Senator WHITE. Of course, if insurance companies encourage their agents to educate the purchasers, it furnishes the opportunity for the insurance company to push out the particular lines of insurance to the exclusion of others. If that policy is followed, of course, the insurance company has some degree of responsibility for the results as to the different kinds of insurance that are written.

Of course, if your agents, by and large, are instructed to meet the requirements of the purchaser as the purchaser sees them, there isn't any great responsibility on the insurance company as to what is actually written. That must be so.

Mr. STEVENSON. Yes.

Mr. GESELL. On this question of the saturation of the market, we saw yesterday's table[1] showed that there was less and less new business being shown. Does your experience point toward the fact that there is any degree of increasing saturation in the market, and have you made any studies of that general problem?

Mr. STEVENSON. No.

Mr. HENDERSON. What is "no" the answer to? He asked two questions.

Mr. STEVENSON. The first one there—Have we made any studies? Have we made any definite studies? You are asking the possibility of saturation?

Mr. GESELL. That is correct.

Mr. STEVENSON. Well, first, let me indicate that if we view the needs of individuals for insurance there is no question but that there is still a great opportunity for selling more insurance. The needs are very much greater than the companies have been able to cover, or have been able to persuade individuals to purchase. The needs for life insurance are much greater than the coverage.

Mr. HENDERSON. That is, if all the unemployed people were drawing annuities it would be very nice?

Mr. STEVENSON. If they had the facilities for making the purchase of annuities or the purchase of insurance; but you might be interested in a rough and ready measuring rod of how much insurance an individual might need; that is, when you say it is an average measuring rod, it is probably no good except for the mid-point, as we well recognize.

Generally, it used to be considered that if a man owned 5 times his annual income that was a fair coverage for life insurance. If his income was $10,000 and he owned $50,000 of insurance, that was fair coverage. Now, in those days, we used to say, however, that if you owned 5 times your annual income in insurance your family would have to get on with one-fourth of your income, provided you are able to invest the insurance at 5 percent. Fifty thousand dollars at 5 percent is $2,500 a year to the family. That used to be considered the minimum coverage.

The unfortunate thing about that is, those of the lower brackets are often unable to have that amount of coverage.

Mr. GESELL. Then what you say on the first point is that a lot of people should be holding more insurance than they are holding if you could only persuade them to buy it?

[1] See Hearings, Part 10–A, p. 27.

Mr. STEVENSON. Yes.

Mr. GESELL. Now, what about the capacity of the people to buy more insurance, looking at the saturation of the market from that point of view? Is it about sold?

Mr. STEVENSON. At the present time the amount of life insurance in force is not quite double the annual income. The annual income in 1938 was $64,000,000,000. The amount of insurance in force was $110,000,000,000. Had the insurance been $128,000,000,000 instead of $110,000,000,000, that would have meant on the average that America was insured for double the annual income.

Now, life insurance is in competition with a lot of other expenditures. The first is the need. Mr. Gesell has asked about the capacity. That is a second point. We know that the need for insurance is far greater than the insurance companies have been able to place.

The CHAIRMAN. You have made the comparison for the year 1938. Do you have that for other years?

Mr. STEVENSON. I can give it to you, sir, for any year that——

The CHAIRMAN (interposing). Do you have a complete table showing the national income and the amount of insurance in force for a number of years?

Mr. STEVENSON. I haven't it in force, but my table is related to the national income for each year with the total premium income for each year. That is the same thing. That can be translated into the same thing.

The CHAIRMAN. Yes; I think it could. Do you have that, Mr. Gesell, this compilation?

Mr. GESELL. We have not. That is along the lines of what you suggested yesterday. We are preparing a study along that line to put into the record. We will take advantage of Mr. Stevenson's statistics.

The CHAIRMAN. I won't ask that it be put in now, but if you will be good enough to furnish that to the committee, it can be worked into the study later.[1] I am sorry to have to interrupt you, Mr. Stevenson. You were about to make additional remarks.

Mr. STEVENSON. We finally have to recognize that we in insurance are in competition for the dollar, and we have got to recognize what other expenditures are, and in 1937 the total of all premiums paid in life insurance was $3,761,000,000. That is the premium income of the companies. During that same period, just as a matter of record, it would be interesting to know that food and soft drinks were $17,000,000,000 plus; alcoholic beverages, $3,600,000,000, on a par with the amount paid for life insurance premiums; tobacco, $1,674,000,000; clothing, $7,095,000,000; transportation, $7,803,000,000; home maintenance, $19,000,000,000; and personal appearance, $1,383,000,000; recreation, $3,465,000,000.

The CHAIRMAN. Almost as much as for alcoholic beverages. [Laughter.]

Mr. STEVENSON. Social cultural activities, $3,884,000,000, which is $100,000,000 greater than the premiums for life insurance paid.

Mr. GESELL. What conclusions do you draw from those figures as to whether or not the people can buy more life insurance, which is the question?

---

[1] This information will be found in Hearings, Part 4, "Exhibits Nos. 217 and 220," appendix, pp. 1512 and 1513.

Mr. STEVENSON. Now I come to the third point, when you said the possibilities of saturation. The need is greater than the supply. The capacity of the public is limited, but it isn't sufficiently limited but that they are able to make large expenditures in some of these other fields, where we in life insurance feel that we have a right to compete actively to get more dollars maybe from some two or three of those fields than the dollars already there. That is the third point then, sir. The building of the companies to purchase our product, to sell it better and even more actively.

Mr. GESELL. Well, now, let me see if I can get at this a little differently. Do you look forward to the Penn Mutual growing in the next 10 years, the next 15 years?

Mr. STEVENSON. Yes.

Mr. GESELL. Do you expect your present management policies will result in the growth of the company?

Mr. STEVENSON. I hope so.

The CHAIRMAN. Do you expect to grow at the expense of other companies or in the expansion of the field of insurance?

Mr. STEVENSON. In the expansion of the field of insurance.

Mr. GESELL. Have you not at the Penn Mutual placed considerable emphasis in recent years upon more careful selection of risks, different types of training methods for your agents? You have many fewer agents than you used to have. I noticed that in the figures you gave us. Do you believe, in spite of all those facts, your company will grow?

Mr. STEVENSON. Yes.

Mr. GESELL. At the rate it grew in the past?

Mr. STEVENSON. No.

Mr. HENDERSON. Will it grow from the standpoint of new sales or just the accumulations from the reinvestment of dividends, the investment of income from present admitted assets?

Mr. STEVENSON. We anticipate it will grow as a result of the sale of new business.

Mr. GESELL. Now, how much do you like to grow a year?

Mr. STEVENSON. The minimum—we should have sufficient new business to replace at least that which matured or was lapsed or surrendered.

Mr. GESELL. You want certainly to sweeten up the risk so-called, keep bringing in new life to take the place of the old?

Mr. STEVENSON. Yes.

Mr. GESELL. How much more do you want to write above that?

Mr. STEVENSON. It is very difficult to state a definite amount. I would prefer to say that that amount is probably a range above that, roughly any place from 10 to 25 percent above that would be agreeable from my point of view.

Mr. GESELL. You mean an increase from 10 to 25 percent of the insurance in force?

Mr. STEVENSON. No.

Mr. GESELL. Or in assets?

Mr. STEVENSON. No, over the amount that was——

(The hearing was interrupted at this point by off-the-record discussion.)

Dr. LUBIN. May I ask one question on the last subject so that we don't have to come back to it later? Mr. Stevenson, in terms of the statistics you have given us, it appears that the American people are turning over to the insurance companies something between 4½ and 5 percent of their gross national income. In other words, that amount of money is being saved and turned over, as the chairman has suggested, to a group to put it in sort of a sluice and then put it back into the investment field.

On the assumption that we continue to increase this amount that is being saved and turned over to insurance companies, will we not ultimately find ourselves in the position where the insurance companies become the investment organizations of the country? In other words, people are saving for investment purposes in addition to insurance. If they are going to buy more insurance and pay more premiums, there is only one of two ways in which the pay for it, namely; save still more than they have, or, which means less is available for the channels of trade, shift their investment from normal channels that they usually use through the investment bankers, let's say, to the insurance companies to reinvest for them.

Doesn't one largely have to come to the conclusion that the insurance companies will be taking over the functions of investment in this country if they keep going at a rate that you suggest?

Mr. STEVENSON. I couldn't answer that, sir. I haven't any particular opinion on that. I don't know.

Mr. GESELL. What do you think is an optimum size of the Penn Mutual Life Insurance Co.? Let's get at it that way, Mr. Stevenson. What is the biggest it should be to operate efficiently?

Mr. STEVENSON. I cannot give any figure. My feeling is that there is probably a range for the total amount of insurance in force that would represent a range which would give to the policyholders the maximum of service for dollars expended. There has been very little of the theory of the optimum developed in this country. One man who has made a study of the Penn Mutual with nine other companies has stated to me that there is an optimum range of each of those 10 companies, a range which would represent the amount in force which would return the most service to the individual.

Now, that would vary from year to year because it would be established at some one time through statistical information and an optimum for the total insurance in force would be set. Obviously, if that were set at the one time as an optimum range, new circumstances might change that possible optimum.

Mr. GESELL. Now, may I interrupt a moment? Is the business studying from year to year the question of optimum of size and trying to determine whether or not individual companies are growing too fast or too slow?

Mr. STEVENSON. I presume that each company has given consideration to the question of size and from their own facts, as they view it, regard that there isn't much of a problem of optimum size with them.

Mr. GESELL. Yes, I am sure that is the case in some. We had the president of one company here a little while ago who said he looked forward to the time when his company would be twenty-five billions in size. But I am trying to get down to specific studies or real determinations of the problem. What have you done in the Penn Mutual to study it, for example?

Mr. STEVENSON. Very little has been done, for the reason that over the period of the last 6 or 7 years, at the rate at which we were growing, which was a very modest rate, it didn't look to us as if the question of optimum, the determination of that, was a very immediate problem, sir.

Mr. GESSELL. You said in reply to the sales questionnaires that for a number of years the Penn Mutual's new business has ranged between 2 and 3 percent of the total ordinary new business in the United States, and it is its immediate objective to maintain this relative position.

M. STEVENSON. That is what we are doing now, relatively. We are in that same position now, relatively.

Mr. GESELL. Then you are in the position where if some of your fellow companies make a big drive for business, you are going to want to make that same drive to maintain your position, are you not, instead of looking to the particular requirements in your own company?

Mr. STEVENSON. If by "drive," sir, you mean that we will attempt to encourage our agents to work harder and more systematically, and yet give us the same quality of business that they are now giving us at a satisfactory expense ratio, then we would make a drive for the business.

Mr. GESELL. From this discussion, then, am I correct in gathering that you have no determinations at the Penn Mutual as to what its largest efficient size would be?

Mr. STEVENSON. No.

Mr. HENDERSON. Mr. Stevenson, assume that you didn't grow—assume what you did was, in your own terms, get just about the number each year to compensate for the losses through maturities and lapses and other sources—would that affect the stability of your company?

Mr. STEVENSON. No. If we would replace—that was your assumption, wasn't it, sir?

Mr. HENDERSON. Yes.

Mr. STEVENSON. It shouldn't affect the stability of the company.

Mr. HENDERSON. Do you see problems generally in the management of companies larger than yours which you do not have? Is your problem of investment, do you think, as onerous and pressing a burden as that of some of the other companies?

Mr. STEVENSON. Not knowing in detail their problems, I could not appropriately make any comment on that other than to say my general observation is that companies usually have an organization commensurate with the size of their investment job, and it shouldn't be any more difficult with their larger organization to make their necessary investments than for a company of medium size with our smaller organization, to make ours. It is a question of organization and manpower in relation to the specific problem, sir.

Mr. HENDERSON. Do you think that a company smaller than yours, if it stayed about the same size, would still remain healthy and strong?

Mr. STEVENSON. Assuming that they would get sufficient new business to replace the business terminating. I should like a little more new business each year than that which was lapsed in order to provide a reserve of new business over lapse for the dips in the general market condition. If you would allow that modification of the assumption, I would say that it could be healthy.

Mr. HENDERSON. Now we have a declining rate of population growth, as you insurance companies probably know. Now, assume that you get to a place where new lines of business cannot be invented to compensate for the decline in the new business written; and assume that you either stayed static, or even had a moderate decline over a period of years. Would the security of the holders of policies be threatened?

Mr. STEVENSON. If I were president of a company when the trend dipped downward, with probably an average drop each year for a period until I determined whether it was a variation or a real trend, and if it is a real trend downward, sir, then I would say the next step would be to reduce expenses definitely in accordance with the drop, and that would be absolutely necessary if the security of the policyholders was preserved in a company with the declining insurance-in-force trend.

Mr. HENDERSON. Let me make another assumption. I think I get that you say you could meet the terms if you knew definitely that you were on a declining scale; you could meet it and you could pay all your claims and all your obligations at the time they matured?

Mr. STEVENSON. Yes, sir.

Mr. HENDERSON. Now, assume a situation where you got no new business and you had, in effect, to go ahead with a policy of each year maneuvering your investment account so that you could meet your maturities, and so forth; could that be done?

Mr. STEVENSON. That to be done would require the elimination of almost the entire company and organization overnight. That would be a much severer cut of personnel than the other.

Mr. HENDERSON. Yes; but I am looking now at the fundamental question of the integrity of what is back of the insurance company policy. I gather you say you don't need to grow in order to maintain the integrity of policies now in effect, isn't that a fact?

Mr. STEVENSON. Yes.

Mr. HENDERSON. You say the integrity may be maintained if you stay level. You can maintain the integrity if you have a declining rate of new business. Assume you gage management to meet that, and I believe that you said if you had no new business, you would have to make an adjustment by cutting down those expenses which go toward the getting of new business and keeping up of certain kinds of services in force, you could meet all your obligations?

Mr. STEVENSON. Yes, sir

Mr. HENDERSON. I think that, Mr. Stevenson, is the most constructive statement, so far as the guaranty of the stability of insurance policies is concerned, that has been made in all the course of these hearings.

Mr. GESELL. Though we have tried many times to have it said.

Mr. STEVENSON. You have caught me up on the phrase "Drive for new business."

Mr. GESELL. Have you had any experience with what might be called a real drive for new business?

Mr. STEVENSON. Yes.

Mr. GESELL. Will you tell us a little about it?

Mr. STEVENSON. As related to my own specific operations of an agency, or in relation to the company?

Mr. GESELL. Either way—in relation to the company, preferably.

Mr. STEVENSON. We have had drives at different times to honor some special officer, and I haven't any objection to that.

Mr. GESELL. I am talking about a sustained drive.

Mr. STEVENSON. You mean——

Mr. GESELL (interp ing). One where increase in size of the company through the aaition of new business is more important than the questions of risk, selection, perhaps and distribution of policies among classes of policyholders, and matters of that sort.

Mr. STEVENSON. Yes; I think that we have had. As I look in retrospect from '20 to probably '31, I suspect that in that period we had a number of drives. Our eye was on increasing our new business each year. We constantly had the quality of insurance, the kind of insurance we were putting on the books in mind, but I suspect that our company was sort of in the spirit of the time, and entered into competition for substantial increases.

Mr. GESELL. Now such competition has serious dangers, does it not?

Mr. STEVENSON. It is probable. Let me confine any criticism that I may have to my own company.

Mr. GESELL. I certainly think that it is fair.

Mr. STEVENSON. When our objective seemed to be for increase of new business in force, our underwriting departments selected individual cases just as well as they do today, but in order to encourage a larger volume we did increase our limits of insurance that we would permit on a single life, we did encourage the bringing in of larger policies, and we likewise encouraged agents other than our full-time agents to bring us business. Those are three things that in retrospect I might criticize our company for doing.

Mr. GESELL. Now, that was because you were really out after putting business on the books, is that right?

Mr. STEVENSON. Yes; that is right.

Mr. GESELL. What are the results of such emphasis in terms of company management? It results first of all, does it not, in the selection of a poorer grade of risk? You couldn't be as careful about the type of risk you are going to take when you are trying to put business on the books. Is that true?

Mr. STEVENSON. That, sir, cannot be answered by yes or no. I would say, if the energies of the company are directed toward increase in business, we have all kinds of, probably all varieties of risk submitted to us, and no matter how well an underwriting department that selects the risks operates, if it has a variety or a lot of business of a borderline type, it doesn't select the risk as well as if it were having submitted to it from the field a little higher type of risk.

Mr. GESELL. In other words, the more the emphasis upon growth for growth's sake, the more apt the company is to fall into errors in the selection of cases?

Mr. STEVENSON. If we mean by growth for growth's sake that you do not exercise the same kind of control in getting a quality business that you did before, that would be the logical assumption, sir.

Mr. GESELL. It is the inevitable result, wouldn't it be, of too great emphasis of growth for growth's sake that you would have to abandon standards?

Mr. STEVENSON. That is, if you mean growth for growth's sake, that it is the motivating purpose of management.

Mr. GESELL. Other than in the case of mortality, where else does the company suffer? Can it give as good service? I don't mean by that, meeting claims; I am talking about the services incidental to the holding of the policyholder company.

Mr. STEVENSON. I believe that the company would be always mindful of giving good service. My observation of my own company would be that there is no diminution of the service, whether we are terrifically active for new business or not.

Mr. GESELL. What else would be the effect of emphasis upon growth for growth's sake? Would there be any other place where the management of the company might suffer?

Mr. STEVENSON. No; there may be others. I have tried to speculate on some of those things. I am not so sure but what we haven't mentioned most of them, sir.

Mr. HENDERSON. I have one more collateral question in the series I was asking you. Is there any difficulty that a smaller company, one of the small companies, has in maintaining just as sound an insurance service as the big ones?

Mr. STEVENSON. I would say it is just as important for small companies to render as excellent service as the large companies. I presume there might be a very small size that might be a little difficult, but my observation has been that the question of size has little to do with service. The main factor is the quality of management, whether big or small.

Mr. HENDERSON. When you say "service," you include protection? You mean the integrity of the policy commitment?

Mr. STEVENSON. Yes.

Mr. HENDERSON. I think that this exhibit [1] will support you in that. I think by the time this committee has got through——

Mr. STEVENSON (interposing). There is one theory always. It is not my own, but it is a theory that a company should be sufficiently large that the operation of averages can take place in relation to all of its activities, mortality, investments, and probably management in the home office.

Mr. GESELL. You feel you have reached that certainly now, don't you? You are big enough for the law of averages to work in your favor, aren't you?

Mr. STEVENSON. Yes; what we are interested in is for the law of averages to operate. We feel that a company of our size is sufficiently large to operate on the basis of averages.

Mr. HENDERSON. Let me ask you this: You have had quite a bit to do with the junior personnel, junior executives, over a long period of time, as I recall you by reputation. That was one of your special emphases. Are there many men in the junior-executive positions now of life-insurance companies who are qualified to run insurance companies?

Mr. STEVENSON. There are in the Penn Mutual, and that is all that I would know enough about to comment on.

The CHAIRMAN. You have a pretty good notion, do you not, that the men who are in the life-insurance business throughout the country are all of pretty high standard?

Mr. STEVENSON. I do, sir.

The CHAIRMAN. And that it is probably just as easy to get good executives out of this army, I might say, of insurance agents and executives now as it ever was, if not more, possibly.

[1] Hearings, Part. 10–A.

Mr. STEVENSON. I would have to answer that the standard and the abilities are far greater. It has been increasing materially in my experience of 20 years, and, not to sidetrack or evade your answer, my guess is that in every single large life-insurance company in America there are a number of junior executives that are perfectly capable. I do not know that; I think it. I know it in the Penn Mutual.

The CHAIRMAN. Most of those executives come up from the bottom, do they not?

Mr. STEVENSON. The general trend today in selection of management for life-insurance companies is to select those who have had experience in running or managing certain phases of life insurance. The trend is toward picking for management people thoroughly sophisticated in all branches or in some special branch of life insurance.

The CHAIRMAN. When you say that is the trend, do you mean to imply that it was not the practice in the past?

Mr. STEVENSON. I think in the past there may have been instances where it seemed probably very advisable from the company's point of view at that particular period to place in the headship of the company someone other than one who came up through the organization, and it was perfectly proper to do it in those days. In my judgment, the demand today is for people who know life insurance because the insurance problems are much greater today.

The CHAIRMAN. The management of life insurance companies is becoming more and more the job of an expert and the experts are to be found among those who have been trained in the business?

Mr. STEVENSON. The job of running a life-insurance company today is the job of an expert in insurance operations. That is fundamental in my way of thinking, sir.

The CHAIRMAN. Are there any other questions?

Mr. GESELL. I have no further questions. If the committee will permit my arranging for Mr. Stevenson to submit a memorandum [1] on one or two technical matters we were going to cover, I think we can excuse him at this time.

The CHAIRMAN. Will you indicate what the technical matters are?

Mr. GESELL. The question of proper pricing of policies which is a matter we were going to discuss at some length would be covered by the memorandum [1] and also reference to some of the technics which have been used in the case of Penn Mutual in recent years to bring some check against over-expansion of business.

The CHAIRMAN. You will recall the suggestion that was made by Senator White this morning, that we should be very cautious about admitting statements for the record which are not to be covered by examination on behalf of the committee.

Mr. GESELL. Those are two matters which are in the outline here. We can proceed with them after luncheon.

The CHAIRMAN. Before ruling on the matter, I should like to have you, if you will, outline the type of memorandum to Senator White.

Mr. GESELL. I will.

The memorandum can be submitted subject to the approval of the committee.

---

[1] Mr. Stevenson, under date of February 29, 1940, submitted the information requested. It is included in the appendix on p. 15626.

The CHAIRMAN. And we will talk it over with Senator White this afternoon.

Are there any other questions to be asked of Mr. Stevenson by any members of the committee?

Mr. Stevenson is not to come back then?

Mr. GESELL. No.

The CHAIRMAN. Mr. Stevenson, may I, on behalf of the committee, tell you how much we appreciate your generous cooperation and the frankness with which you have answered all our questions.

Mr. STEVENSON. I thank you, sir.

The CHAIRMAN. The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:35 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:15 p. m. on the expiration of the recess.

The CHAIRMAN. The committee will please come to order. You may proceed.

Mr. GESELL. The witness this afternoon is Mr. Howe. I might say, if the committee please, that Mr. Howe will devote the afternoon to an explanation and discussion of "Exhibit No. 2250,"[1] that is the big blue statistical analysis, and since some of the matters are somewhat technical, and we have a great deal of ground to cover, Mr. Howe will make his own presentation without questions from me, and the committee can interrupt whenever there is some point that they would like to have illuminated.

The CHAIRMAN. Without objection, that will be quite satisfactory.

The Chair will say it will probably be necessary for him to leave very shortly because the Senate is now discussing the increased capitalization of the Export-Import Bank, frequently called the Finnish loan, and we are under limitation of debate beginning at 3 o'clock, and there will be a vote at 5, so it will probably be necessary for me to be there.

TESTIMONY OF ERNEST HOWE, CHIEF, FINANCIAL ADVISER TO THE INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION—Resumed

Mr. GESELL. I believe your discussion starts, Mr. Howe, with a discussion of certain accounting practices in the insurance business, and an explanation of some of the terms that are used in these tables?

Mr. HOWE. That is correct, Mr. Gesell. This set of tables, it should be remarked, is a very great condensation, perhaps even an over-condensation, of the figures which insurance companies report in their annual statements. An understanding of what is in here may be gained from the fact that really there are only about 275 figures in this book, multiplied by 10 years, multiplied by 26 companies. That comes to something over 70,000 figures in all, but it shows the extent to which this may be regarded as an oversimplification. Just by comparison, in size [displaying document] is the annual statement of the Metropolitan Life Insurance Co. for 1938, which I estimate, roughly, without trying to count them, contains something like 50,000

[1] Hearings, Part 10–A.

figures for that one year. So that the committee will understand that this is a great condensation, and that a complete qualification of every figure which is in here is impossible.

Mr. HENDERSON. Is that the Convention Form?

Mr. HOWE. Yes; this is the Convention Form of annual statement which is filled by the companies in the several States in which they do business. This happens to be the one which I believe the Metropolitan files with the State of New York. I simply show the size of these reports in order to emphasize the complications of the problem.

Now, in order to avoid misinterpretation of some of this information, it seemed desirable to start with a very brief and oversimplified statement with respect to insurance accounting, because after all, most of these figures tie into insurance accounts.

It should be emphasized that accounting methods in annual statements of life insurance companies as prepared in the United States are entirely different from those employed by commercial enterprises in the United States and vary, even, from statements of life insurance companies elsewhere in the world. Full double-entry bookkeeping, for instance, has not yet come into fashion for life insurance companies and the great bulk of the liabilities of the companies do not come into the books of account at all.

Mr. HENDERSON. Mr. Howe, do you want this committee to understand that the great bulk of the liabilities for which the companies are responsible do not come into the books at all?

Mr. HOWE. That is, not into the books of account. They are naturally matters of record but do not come into the books of account and are not subject to accounting control--into the control accounts in the extent and manner that they do in an ordinary commercial enterprise.

Mr. GESELL. You mean they are computed at the end of the year or at various intervals? You cannot tell as you go along what the various liabilities are?

Mr. HOWE. That is right. They are not posted as they go along. They are inventoried at whatever period the company wishes to prepare statements for their internal or external use.

Double-entry is used for the major portion of the assets, but for the remainder of the assets and for the liabilities, single-entry bookkeeping is usual. The basic principles of the accounting system or the annual statement were adopted about 1875, and have not been fundamentally changed since that time. It is perhaps easiest to understand the method employed by starting with the Statement of Assets and Liabilities, Surplus, and Other Funds, which is the life insurance substitute for a balance sheet. The asset side of the statement is divided into three parts. The first of these is Ledger Assets; the second, Non-Ledger Assets; and the third is headed "Deduct Assets Not Admitted."

Ledger assets, generally speaking, represent the cash and investments on hand at the date of the statement. The investment assets are stated at book values which are not necessarily actual values or values which the companies will use in arriving at the final balance sheet values.

Among the investment assets are included policy loans which, of course, are technically not assets at all but merely a deduction from the liabilities.

Non-ledger assets are those assets not taken into the accounts of the insurance companies but simply inventoried at the end of the period and added to ledger assets. Non-ledger assets are principally due and deferred net premiums (which would be more properly treated as a deduction from liabilities) due and accrued interest on bonds, mortgages, premium notes and bank deposits, accrued rents, and so forth. In other words, they are the accrued items on the balance sheet which are added all in a lump instead of being allocated to the particular account to which they apply, as they would be in ordinary commercial accounting.

However, to these accrued items is added any unrealized appreciation of which the company may wish to take account among its assets. This unrealized appreciation is designated principally as market value of real estate over book value, and market value of stocks over book value.

Mr. Henderson. Do they get into the books of account?

Mr. Howe. No; they don't get into the books of account.

Mr. Henderson. If this unrealized appreciation does not get into the books of account, it doesn't get into the balance sheet?

Mr. Howe. Oh, it gets into the balance sheet if there is such an item with respect to the company, but it is added to the ledger assets in this arrangement where they add the ledger assets, the nonledger assets, and then deduct the not admitted assets. It doesn't get into the books of account. It gets into the balance sheet. You have to distinguish all the time between what gets into the balance sheet and what gets into the books of account.

Assets not admitted: These are the assets which are deducted from the total of the ledger and nonledger assets, that is, in arriving at the total on the balance sheet. They included principally any of the company's stock owned or loaned on, supplies, stationery, printed matter, furniture and fixtures, agents' balances—that is, any money which is owed by agents to the company—and cash in suspended banks. In terms of amounts involved, however, the principal items classified as assets not admitted are valuation accounts by means of which insurance companies show the excess of book or ledger value of bonds over investment value, the excess of the book value of stocks over market, and overdue interest considered uncollectible, so by the process of starting out with the book values, adding the accruals and then deducting the unrealized depreciation to oversimplify the process, you arrive at a statement of a total admitted asset figure which represents the total assets of the corporation.

Mr. Henderson. What is the custom with other financial institutions, Mr. Howe, in the treatment of those items?

Mr. Howe. In ordinary institutions the net value is put right into the accounts and when you see "accounts receivable" that figure is the amount which the corporation expects to collect on its accounts receivable. It may be less than the total amount owing to the corporation, but the portion of the amount owing to the corporation which they expect to collect will be designated as accounts receivable.

In this case the gross amount would first be stated and later, lower down in the balance sheet, a deduction would be made.

Mr. Henderson. Now, take an investment trust—I don't know whether or not you are familiar with this—take an investment trust or an investment banking corporation, or any other type of financial institutions which have securities, is it customary to treat their appreciations in value annually and take them into the books of account, and thence into the balance sheet?

Mr. HOWE. There is very little standardization of accounting there, but the statements which I have examined for the most part show securities at cost and the balance sheet carries a supplementary line which shows the market value of the securities at the end of the year.

Mr. HENDERSON. Is that in a footnote?

Mr. HOWE. Frequently it is; yes.

Mr. HENDERSON. So that it doesn't come into the assets vis-a-vis the liability statement?

Mr. HOWE. That is right.

It is interesting to note that under the present system of accounts used by life-insurance companies, there are eight different ledger and nonledger accounts which affect the valuation of assets.

The sum of the ledger assets, plus the nonledger assets, less the assets not admitted, gives the figure of the so-called admitted assets of the company. Therefore, when we speak of the admitted asset value of a given bond, mortgage, or piece of real estate, we mean that value at which such bond, mortgage, or piece of real estate is ultimately stated in the total assets of that company computed as stated above.

The liabilities of life-insurance companies are mostly policy reserves. These are computed whenever a statement is to be made up by the actuarial department. They reflect, within an important latitude, the opinions of management. Other liabilities, for the most part, are also inventoried at annual statement time and are not necessarily subjected, as are the liabilities of commercial enterprises, to accounting control. After the liabilities have been thus computed, the balance which remains is surplus, or may be characterized in whole or in part as general or special contingency reserves.

Mr. HENDERSON. Let me see if I understand that. Computing the liabilities, the actuary presumably would either take all the policies and undertake to compute the reserve necessary for that?

Mr. HOWE. Yes.

Mr. HENDERSON. Did I understand you to say that an element of managerial judgment other than the actuary comes into that?

Mr. HOWE. Well, there is a degree of managerial judgment involved in the actuarial determination of the amount of the reserves. Now, whether there is a degree of other managerial judgment brought to bear on that fact is something I am not in position to say. Certainly there is an element of judgment involved.

Mr. HENDERSON. After that liability has been computed, then the difference between that liability and the value of the admitted assets is the surplus account?

Mr. HOWE. That is right. That is true in the case of a mutual company. Of course, in a stock company it would be capital.

The second important statement issued by life insurance companies is designated "Income and Disbursements." We had a schedule for that, or rather a chart for that, yesterday.[1] This statement is not a commercial income statement in any sense of the word. The income statements of commercial businesses take into account all changes in assets and all changes in liabilities which affect net worth.

[1] See "Exhibit No. 2257," supra, p. 14714.

The income and disbursement statement of life insurance companies takes into account only the changes in the accounts which are handled by double-entry bookkeeping, that is, the so-called ledger assets, and takes no account whatsoever of nonledger assets, not admitted assets, or the most important liabilities. It is not a full statement of cash receipts and cash disbursements. Funds expended for the purchase of other ledger assets (such for instance as the purchase of a million dollars of bonds) are not accounted for in this statement in any way, and funds received from the sale of ledger assets are accounted for in the schedule of income and disbursements only to the extent of the difference between the book value of ledger assets sold and the consideration received.

The CHAIRMAN. What accounting is there of such items?

Mr. HOWE. Senator, when a million dollars is spent for a million dollars of bonds, it does not change the total of the investment assets of the company, and on that theory, I suppose, those items are not included in any way in the schedule of income and disbursements.

Mr. GESELL. They do appear in other schedules contained in the Convention Form statement, do they not?

Mr. HOWE. The amount of money which is spent annually for the purchase of investments is nowhere scheduled in the balance sheet, statement of income and disbursements, or Gain and Loss Exhibit.

The CHAIRMAN. But it is obtainable from scrutinizing of the books?

Mr. HOWE. Of the two balance sheets from year to year or from an examination of the schedules supporting the Convention Form. You can see the net result of what has happened but you cannot see the turn-over which may have occurred, from the balance sheet. It is perfectly possible that on February 1, the company would buy a million dollars worth of Government bonds, short-term Government bonds, that those bonds would mature or be redeemed in November, in which case no trace of them would appear in the two balance sheets.

The CHAIRMAN. The totals are available? The asset values are available?

Mr. HOWE. They are.

The CHAIRMAN. And upon scrutiny these details of which you speak, which do not appear in the income and disbursement statement, are also available?

Mr. HOWE. Well, some of them are, Senator. That is a very broad question indeed. You cannot tell from these statements the turnover of assets during the year.

The CHAIRMAN. You are speaking now then of what is to be deduced from these statements themselves.

Mr. HOWE. That is correct.

Now, in this book[1] that we referred to yesterday, we spoke of the funds available for investments and the gross investments made. Those are the figures which reflect a turn-over of assets during the year. They do not appear in the income and disbursements statement, but are included only in the voluminous detail of the supporting schedules.

In years in which there is a large change in the amount of policy loans outstanding, the balance of income over disbursements may be extremely misleading as to the cash position of the company. In other

[1] Hearings, Part 10–A.

words, increase in the amount of policy loans will not be reflected anywhere in the schedule of income and disbursements, so that when one looks at income in comparison with disbursements, if he is thinking of it as a cash statement by the extent of the drain for policy loans which may or may not have occurred during the year, he will be misled by those totals.

No profit or loss is experienced when policy loans expand, and as the accounts are set up, the income and disbursements schedule does not reflect even to the slightest degree the very heavy demands which from time to time have been made upon life-insurance companies for cash for policy loans.

As a cash statement, therefore, the scehdule of income and disbursements is practically valueless. Even as a statement of change in total assets from year to year, it is subject to the serious limitation that it does not include all assets nor does it exclude those assets and valuation accounts which the balance sheet classifies as not admitted. Taking practically no account whatsoever of liabilities (except such liabilities as borrowed money, the receipt of which affects ledger assets) it has no value whatsoever as an ordinary income account showing the annual gains or losses of the business.

In a paper presented before the American Institute of Actuaries, Mr. C. O. Shepherd, associate actuary of Travelers Insurance Co., said [reading]:

> The True Income statement does not necessarily imply a complete change in the method of company books.
>
> The Convention Form contains its own confession of inadequacy; at least it seems a fair conclusion that the weakness of the income and disbursements schedules was one of the causes of the introduction of the Gain and Loss Exhibit * * * in 1895 * * * The changes in surplus schedule introduced in 1925 may be regarded as a further effort to bolster up the defective income and disbursements schedules.

In discussing nonledger assets, Mr. Joseph B. Maclean, associate actuary, the Mutual Life Insurance Co. of New York, in the fifth edition of his book, Life Insurance, makes the following statement regarding the income and disbursement schedule [reading]:

> The true financial position of a life insurance company, or indeed of any company, cannot be shown by such a cash-basis statement.[1]

What he means by "cash basis" is in that case, I take it, a cash basis as distinguished from an accrual basis, which takes into account the accruing interest and the accruing premiums and all that sort of thing. [Reading further:]

> It would be possible to prepare the whole of the statement, including the income and disbursements, on a revenue basis. * * *[2]

as ordinary commercial accounts are prepared.

I continue the quotation [reading further]:

> It is peculiar that * * * no separate information is given in respect to premiums for group insurance or for industrial insurance.

Mr. Victor Roy Smith, M. A., associate of the Institute of Actuaries, a British organization, and associate of the Actuarial Society of the United States, and a fellow of the American Institute of Actuaries, and at the time he made the following statement then president of

---

[1] *Life Insurance*, p. 305.
[2] Ibid., p. 306.

the American Institute of Actuaries, in his address by the president made in October 1937, has this to say [reading]:

> In short, there does not appear to be any single question of importance which the man on the street could ask about the profits of a life insurance company to which the income and disbursements statement would not give an incomplete, if not incorrect, answer or no answer at all.

The CHAIRMAN. What is the opinion of other actuaries, if you know, with respect to this matter?

Mr. HOWE. The literature that I have perused, which has been somewhat extensive on this subject, would lead to the belief that there is an almost complete unanimity of opinion that the schedule of income and disbursements is susceptible to great misinterpretation by those who are not thoroughly familiar with it.

The CHAIRMAN. You have read to us quotations from numerous insurance experts who take the same view as you have taken. Have you run across any statements by other experts made at the same or other times, which take the contrary view?

Mr. HOWE. I have not found a single one, Senator.

About 1895, some need was felt for something which approaches a commercial profit and loss account, that is an account which takes into consideration not only the changes of a part of the assets, but the change in all of the assets and the changes in all of the liabilities. This appeared in the form of an exhibit which is now known as the Gain and Loss exhibit. After about 10 years, and after the Armstrong investigation in New York, the Gain and Loss exhibit was generally adopted. The Gain and Loss exhibit was the first official attempt in insurance accounting to provide a rough substitute for an ordinary profit-and-loss statement taking account of the changes of ledger assets, nonledger assets, not admitted assets, and liabilities during the year.

Instead of setting up a statement, however, patterned on commercial accounting procedure, the Gain and Loss exhibit was built around an actuarial analysis of the business. A large part of its usefulness is lost due to the fact that the classification of items is not as detailed as the income-and-disbursements statement, and because the actuarial analysis requires for its interpretation much information nowhere available in the annual statement.

With reference to the Gain and Loss Exhibit, Mr. Maclean writes as follows in his book [reading]:

> No part of the convention blank is more subject to misunderstanding * * * than the gain and loss exhibit.[1]
>
> A further defect in the form is that it does not show the gains or losses in surplus on different classes of business. * * *[2]

Mr. C. O. Shepherd in his paper comments as follows on the same exhibit [reading]:

> * * * the Gain and Loss Exhibit * * * is shown to consist of two parts: one a pure accounting analysis made indispensible by the inherent weakness of the Income and Disbursement schedule; the other a supplemental actuarial analysis.

Then he comments on the actuarial feature of the exhibit when he says:

> The Gain and Loss Exhibit in its actuarial analysis is a budget of 1868.

---

[1] *Life Insurance*, p. 329.
[2] Ibid., p. 337.

The first actuarial comparison which the Gain and Loss Exhibit displays is referred to as "gain or loss from loading." Each life insurance premium is based upon a so-called net premium computed on an annual rate of interest and on a certain stated mortality table—mostly, as Mr. Stevenson explained this morning,[1] the American Experience Table which was prepared for 1868.

To this net premium is added a sum which is known as "loading." The total of the net premium plus loading is the gross premium charged the policyholder. The items on the Gain and Loss Exhibit entitled "Gain or loss from loading" is the difference between the actual expenses of operation (other than investment expenses) and the aggregate loading in the premiums received or accrued during the year.

The second item of importance is the "Gain or loss from mortality." This is usually a large figure because of the fact that the mortality contemplated by the American Experience Table is substantially in excess of the mortality currently being experienced by American life-insurance companies. As life-insurance companies often use the modern mortality tables in the calculation of their net premium rather than the American Experience Table which is generally used in determining contractual reserves and in computing the Gain and Loss Exhibit, the gain or loss from loading, therefore, and the gain from mortality are often more appropriately considered as an algebraic sum rather than as two separate items. This is especially true in the case of nonparticipating companies.

The third important item of the gain and loss exhibit is designated the "gain or loss during the year from surrendered, lapsed, and changed policies." This is the aggregate of the reserves on policies, lapsed, surrendered, or changed during the year, less the surrender values paid. In cases of companies which use the full level premium reserve (which is the principal method of reserve calculation used by the 26 companies under special consideration) first year expenses are such that in order to set up the statutory reserve in the first policy year, a deduction from surplus is experienced. Therefore, an undeterminable portion of the gain from surrenders is occasioned by a return to surplus of funds previously appropriated therefrom. Although it is undeniably true that in most cases companies experience a real gain from lapsed and surrendered policies, the method of accounting pursued by the companies is such that the amount of such gain cannot be determined with any degree of accuracy from the gain and loss exhibit.

One of the features of the gain and loss exhibit is the relation of interest earned on investments to interest required to maintain reserves. The balance of interest earned in excess of the amount required to maintain reserves is referred to as "gain from interest."

The gain and loss exhibit also shows the gain or loss from sales of bonds, stocks, and real estate, and the gain or loss occasioned from adjustments in value thereof which the company may elect to make.

Another important item of information to be gained from the gain or loss exhibit of some companies, and not from the gain and loss exhibit of others, is the gain or loss due to increase in reserves by reason of change in the basis of calculation. That sounds technical, but in brief, it is the amount which companies have added to

[1] Supra, p. 14769.

their reserves in order to strengthen them. It is a reflection—or the amount of that increase is a reflection—of the conservatism of the actuarial department in determining these reserves, and in increasing them from time to time.

A final nondescript item of the gain and loss exhibit is entitled "Increase or decrease in special funds and special reserves." These special reserves are sometimes reserves intended to supplement policy reserves. Sometimes they are for asset losses unaccounted for on the asset side of the statement, and sometimes they are merely an arbitrary earmarking of surplus. It is to be noted that increases or decreases in these so-called special reserves or funds usually include increases or decreases in liability accounts for estimated taxes, unpaid items of expense, and so forth. The lack of any clear distinction between various classes of special reserves or funds is one of the great weaknesses of the gain and loss exhibit. Without an accurate knowledge of the purposes of these funds, a proper interpretation of the year's operating results is impossible.

The algebraic sum of the above amounts and other items gives the amount of gains from the year's operations available for distribution as dividends to policyholders and stockholders.

One of the great shortcomings of the Gain and Loss Exhibit is that it gives only the haziest impression of the operating results of the various lines of business in which life-insurance companies are engaged. The need for information of this type was apparently not sufficiently felt until 1925, when the Exhibit of the Changes in Surplus was inserted in the Convention Form. This exhibit, which has been familiarly referred to as the "Jackass Exhibit," was the result of an obvious need but was very poorly constructed. The main part of the exhibit is simply a division by lines of business of the information itemized in much greater detail in the statement of income and disbursements. After arriving at a figure of excess of income over disbursements for each line of business, it successfully avoids a great opportunity to be useful by classifying all other items under the headings: "Increase in nonledger assets," "Increase in nonadmitted assets," and "Increase in liability." This results in an estimate of operating earnings but leaves the reader almost entirely in the dark as to the method of allocation which has been adopted as between lines of business in regard to asset lossses and in regard to the important matter of the strengthening of reserves by change in basis. This exhibit also produces the interesting effect of a statement most of the items of which are on a cash basis and the end-product of which is stated on a revenue or accrual basis.

In his paper Mr. C. O. Shepherd has this to say about the Exhibit of Changes in Surplus [reading]:

> The exhibit is unsatisfactory because it explains the sources of gains and losses only to the extent they are covered by income and disbursements, * * * the trouble is that income and disbursements do not furnish the information that is significant and pertinent in a financial statement.

In 1939 a new Gain and Loss Exhibit was adopted. It is patterned more or less on the Exhibit of Changes in Surplus and all items are put on a revenue basis. This statement has the important disadvantage that it is impossible under ordinary circumstances to reconcile the figures contained therein with the elaborate, if inconsistent, classification of accounts shown in the income and disbursements statement. Furthermore, the statement omits data with reference to the allocation of losses by lines of business, leaving the reader entirely at sea as to the method of allocation of this important item, which, however difficult, is inescapably necessary in order to analyze the company's dividend policy with respect to its various lines of business.

A few examples of a very simple sort will serve to illustrate the unwieldy and inconsistent character of the information in the Convention Statement. For example, with respect to ordinary business, premium income is divided between first year and renewal-premium income. No classification, however, is given of single-premium policies. In the case of industrial insurance, premium income is not even classified as first year and renewal. The policy exhibits showing the amount of insurance in force at the beginning and end of the year and the various changes throughout the year are given in considerable detail for ordinary and industrial insurance. This exhibit shows both the number of policies and the amounts of insurance in force. When we turn to group life insurance, however, figures given apply only to the master policies in force and only a few companies gratuitously give figures on the number of certificates, that is, actual individual policyholders under group contracts. This makes it impossible from the figures to determine the relatively high lapsation experienced among group certificate holders.

With respect to group annuities, however, both master contracts and certificateholders are given.

It was not until 1935, 2 years after the first-year premium income from individual annuities exceeded the aggregate first-year premium income from ordinary insurance, that a policy exhibit of individual annuities was included in the convention form.

Mr. Henderson. Will you say that again, please?

Mr. Howe. It was not until 1935, 2 years after the first-year premium income from individual annuities exceeded the aggregate first-year premium income from ordinary insurance, that a policy exhibit of individual annuities was included in the convention form.

(Representative Williams assumed the chair.)

Mr. Howe. Confusion of life insurance company annual statements is not only contributed to by the archaic accounting system and the ponderous nature of the accounts but is rendered still more difficult by reason of the fact that there is little standard of accounting within the business, and different companies may adopt accounting practices so significantly different as to render comparison extremely difficult if not impossible.

It is certainly not too much to say that the comparative interpretation of insurance accounts by anyone but careful students is likely to lead to nothing but confusion. An example of the differences which may be found in insurance company operating statements is clearly indicated by the case of the one company in 1936. In that year that company was required to prepare four different Gain and Loss Exhibits based upon four different sets of regulations from four different States. It is interesting to compare the Gain and Loss Exhibit as prepared in accordance with the regulations of the State of New York with the Gain and Loss Exhibit prepared in accordance with the regulations of the Commonwealth of Massachusetts. The gain from interest, for instance, shown in the Massachusetts statement was $2,470,000. In the New York statement it was $1,251,000.

One could go on at great length on this subject of accounts. In the schedule of income and disbursements, which was shown yesterday,[1] an ordinary person looking at death claims would think that the $7,000,000,000 shown there was actually disbursed by the companies in the payment of death claims. That is not correct. Those death claims were incurred, but a substantial proportion of that liability is being discharged under supplementary contracts.

Mr. HENDERSON. They are taking that out in trade?

Mr. HOWE. That is right. They are paying that out over a long period of time, so that as an aggregate amount of money disbursed the income and disbursements statement overstates death claims by over $2,000,000,000.

Mr. GESELL. Those payments are made in accordance with the terms of the contract?

Mr. HOWE. Oh, entirely. I am simply stating the manner in which the ordinary individual who is not informed of these facts, seeing what is alleged to be a cash statement, might misinterpret it.

Another factor which it seems desirable for the committee to be very briefly informed about prior to the examination of the specific figures are a few broad impressions of the various investment statutes in the different States under which these companies operate.

Mr. GESELL. Just a moment.

Mr. HENDERSON. Mr Gesell and members of the committee, the chairman feels that he has to leave to be in the Senate, and I would suggest that we suspend at this time, if the chairman can be here tomorrow, particularly if we could start early, rather than go forward without this technical analysis.

(Senator O'Mahoney resumed the chair.)

THE CHAIRMAN. Did I overhear you suggesting that we might recess at an earlier hour this afternoon?

Mr. HENDERSON. I took occasion in your absence to say very earnestly that I would much rather try to catch up the time while you are here than to go forward now.

If I could ask just one or two questions: In order to make very clear the nature of your remarks on accounting, you are addressing yourself principally to the great difference that exists between accounting in insurance companies and other more uniform and standardized types of accounting in other types of enterprise. Isn't that correct?

Mr. HOWE. Or more usual types. I don't think the other is entirely standardized either.

Mr. HENDERSON. I say "more standardized."

Mr. HOWE. More usual than this.

Mr. HENDERSON. And while the convention form may serve a number of purposes in the peculiar set-up of insurance, the policyholder or a layman undertaking to read a financial statement would be seriously bewildered.

Mr. HOWE. I believe that is a fair statement.

---

[1] "Exhibit No. 2257," supra, p. 14714.

The CHAIRMAN. Wouldn't the ordinary layman be bewildered in examining almost any statement?

Mr. HOWE. That may be true, Senator, but I think you will find that our commercial accounts are understood pretty well by a very large number of people who would be likely to be misled by insurance accounts unless they gave them very careful study.

Mr. GESELL. This presentation, of course, is quite without regard to anything else. It is a way of explaining what these various figures are, since we have used the captions used by the insurance industry in its books of accounts.

The CHAIRMAN. I think that is already made clear by what Mr. Howe has said. I merely remarked, because I think the testimony before this committee in other hearings has demonstrated that, as Mr. Howe has just said, there is really no standard system of accounting, and I feel that accounting systems for other great corporations might also be improved; if submitted to analysis they might be open to similar criticism.

Mr. HENDERSON. Mr. Chairman, I was going to remark on that. I am not suggesting for one minute that insurance companies ought to be brought within the accounting requirements of the S. E. C. in the filing of statements. They are excluded at the present time. But I do want to say that pretty generally we are walking up the ladder rather fast on the matter of standardization of terminology and usages in accounting.

The CHAIRMAN. The purpose of this preliminary technical explanation, as I understand it, is to make more clear to the members of the committee the analysis of the investment accounts and the financial accounts that will later come?

Mr. HOWE. That is correct, Senator, and to, as far as possible, guard against the misinterpretation of figures which might seem to mean something on a printed page which do not actually carry the meaning which they might seem to indicate to a layman.

The CHAIRMAN. Are there any other questions?

Then, following the suggestion of Commissioner Henderson, the committee will stand in recess until——

Mr. GESELL (interposing). I would like it 10 o'clock, if possible.

The CHAIRMAN. If there is no objection, we will recess until 10 o'clock in the morning.

(Whereupon, at 3:05 p. m., a recess was taken until Wednesday, February 14, 1940, at 10 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, FEBRUARY 14, 1940

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:20 a. m., pursuant to adjournment on Tuesday, February 13, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman), and White; Representative Williams; Messrs. Henderson, Lubin, Pike, Kades, and Brackett.

Present also: James V. Hayes, Department of Justice; Ernest Palmer, Commissioner of Insurance, State of Illinois; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; and Helmer Johnson, attorney, Securities and Exchange Commission.

The CHAIRMAN. The committee will please come to order.

The Chair is advised that the Government Printing Office is now at work on the publication of this exhibit, which has been presented to the committee, "Exhibit No. 2250."[1] It is the report of the S. E. C. on operating results and investments of the 26 largest legal reserve life insurance companies of the United States for 1929 to 1938. This will be printed as Part 10-A of the proceedings of this committee and will be available from the Superintendent of Documents at a price which, I understand, is to be fixed at about 35 cents per copy. This will be ready for delivery, I am given to understand, some time next week.

Mr. HENDERSON. Did you say 35 cents a copy?

The CHAIRMAN. Thirty-five cents is what I have been told.

Mr. HENDERSON. Insurance executives told me they would be willing to pay $25,000 for it.

The CHAIRMAN. Perhaps you should have said that before the announcement was made.

Mr. HENDERSON. It is just another case that proves the Government is usually a poor businessman.

Mr. GESELL. Will you resume the stand, Mr. Howe, please?

TESTIMONY OF ERNEST HOWE, CHIEF FINANCIAL ADVISER TO THE INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.—Resumed

Mr. GESELL. On the recess, Mr. Howe, you were about to discuss some of the principal investment requirements of the States in which these 26 largest companies do business.

[1] See Hearings, Part 10-A.

The CHAIRMAN. Before you take that up, may I ask with respect to this Convention Form of which you were speaking yesterday, whether that is not required by law in some, if not all, of the States?

Mr. HOWE. Yes, Senator. The National Association of Insurance Commissioners prescribes a form on which annual statements shall be made up. They have no real authority, but then the superintendents of the individual States require this form, with certain minor modifications in different States, so that substantially the form is handed to the insurance companies.

The CHAIRMAN. Is it handed with the requirement that that form be followed, or is the form merely approved?

Mr. HOWE. No; the form must be followed by the companies.

The CHAIRMAN. I see.

Mr. KADES. Have the companies tried to get the form altered in any respect?

Mr. HOWE. As I testified yesterday, in some of the meetings of the Actuarial Society, I believe, certainly some of the meetings of the American Institute of Actuaries, the form has been criticized. What effort any companies have made in a direct manner to get the form modified I have no knowledge, but, at any rate, there it is, and it is the form which is required, and it is the one which the companies fill out.

Mr. GESELL. Now, we were about to consider the investment provisions in the statutes of the various States.

Mr. HOWE. A study of the investment statutes of 11 States, including the principal States in which the 26 companies under review are operating, governing the investments of most of the legal-reserve life-insurance companies, reveals the wide range of investments permissible in the investment of insurance funds. Some of the States are more liberal than others, but in general the legal restrictions are somewhat similar. Generally speaking, Government obligations of the United States and its various political subdivisions are eligible for investment and loan purposes, as are the obligations of the Dominion of Canada and its provinces. Many of the States permit investment in obligations of political subdivisions in Canada, while a few authorize direct investment in Canadian industrials.

Corporate obligations of domestic companies are legal investments in all States under a wide range of restrictions, limitations, and earnings requirements. Two of the States reviewed—that is, Wisconsin and Iowa—prohibit the acquisition of corporate shares of any description, while two—New York and Ohio— specifically prohibit investment in common stocks. The other seven States permit investments in common stocks under various limitations.

Loans on mortgages secured by real estate in the United States are generally permitted, while some States permit loans on mortgages secured by real estate in Canada.

Mortgage loans in all cases examined are restricted to first liens and may be made up to various percentages of the appraised value of the real estate at the date the loan is made.

This percentage is 66⅔ percent in all of the 11 States examined except Massachusetts and Iowa, which permit 60-percent loans, and Wisconsin, which permits loan only to the extent of 50 percent. In

New Jersey, while the general provision is 66⅔ percent, under certain circumstances mortgages up to 75 percent of the appraisal value may be made. All States permit policy loans. In every instance, investment in real estate is definitely restricted with minor exceptions for housing projects, to the business needs of the company, although real property acquired as the result of foreclosure or in satisfaction of debts previously contracted may be held for a limited period.

Mr. HENDERSON. Are you going to discuss later what periods the insurance companies have held real estate?

Mr. HOWE. Yes; we have some data on that. The general rule as to the length of the time which a company may hold real estate without extension is 5 years. That is only a general rule, however.

It may be well to review quickly the composition of the portfolio of these insurance companies as shown by tables 102, 103, and 104.[1] It will be seen at first that bonds constitute the largest single investment of life-insurance companies. On the average for these 26 companies on December 31, 1938, this accounted for 53.97 percent of the total assets. Government bonds accounted for 18.63 percent of total assets. Mortgages accounted for 19.17 percent of total assets; policy loans, 11.62 percent; stocks, 2.17 percent; real estate, 7.30 percent.

The CHAIRMAN. From what table are you reading now?

Mr. HOWE. I was reading from the aggregate totals, Senator, on table 102; the table which you have shows only the figures for the companies as a whole, but I have here the aggregates.

The CHAIRMAN. The totals do not appear on our chart.

Mr. HOWE. Cash, 2.74.

Representative WILLIAMS. I didn't understand what you said. I am simply asking what it was.

Mr. HOWE. The table shows only the percentages for the individual companies. The figures which I have been discussing are the figures which represent the average for the companies, and the figure which I just gave Senator O'Mahoney was 2.74 percent, which is the average holding of cash of the 26 companies.

Mr. GESELL. Those tables appear on schedule A [2] of the release which has been prepared with respect to your statement, do they not?

Mr. HOWE. I think they do.

Mr. GESELL. Now, cash is 2.74 as of 1938; is that right?

Mr. HOWE. That is correct, which is a change from 1929, as schedule A [2] shows, of considerable importance. In 1929 cash aggregated 0.69 of 1 percent of all the assets, whereas in 1938 it was 2.74.

Mr. GESELL. And Governments are what in 1938?

Mr. HOWE. Governments are 18.63 percent in 1938, that is, United States Governments.

The CHAIRMAN. May I suggest that you offer schedule A for the record?

Mr. GESELL. I intended to do that after he discussed it. I will do so now, however, to make the record clear.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 2264" and is included in the appendix on p. 15495.)

---

[1] See Hearings, Part 10-A, pp. 102, 103, and 104.
[2] See "Exhibit No. 2264," appendix, p. 15495.

The CHAIRMAN. This shows that in 1929 Governments constituted only 2.03 percent of the total assets, whereas today—that is, of December 31, 1938—they constitute 18.63 per cent.

Mr. HOWE. That is correct, Senator. The other principal changes are that bonds of the United States political subdivisions have increased in percentages; railroad bonds have declined from 15.87 percent in 1929 to 9.38 in 1938; public-utility bonds have increased from 8.73 to 12.22; industrials, from 1.43 to 4.92; whereas mortgages have declined from 41.70 percent of total assets in 1929 to 19.17 in 1938. Real estate, on the other hand, has increased from 1.87 to 7.30.

The CHAIRMAN. Suppose you make a total right now of the industrials, public utilities, and railroads, so that we may compare them in percentages with the Governments and with other political subdivisions.

Mr. HOWE. In 1938, according to this calculation I have made here, the total of railroad bonds, railroad equipment-trust certificates, public-utility bonds, industrial and miscellaneous bonds in 1938 constituted 27.69 percent of the total admitted assets of the companies.

Mr. GESELL. What were they as of 1929, Mr. Howe?

Mr. HOWE. They were 28.41 percent.

The CHAIRMAN. So that while the United States Governments were increasing from 2.03 to 18.63, railroads, equipment trusts, utility bonds, industrials, and miscellaneous were falling from 28.41 to 27.69.

Mr. HOWE. That is correct. The fall came, of course, primarily in the railroad category, and is offset only partially by increases in utilities and industrial bonds.

The CHAIRMAN. Well, there was a comparatively notable increase in the investment in public utilities?

Mr. HOWE. Yes; and also, in percentage, a remarkable increase in holdings of industrial and miscellaneous bonds.

The CHAIRMAN. That was increased almost four times.

Mr. HOWE. Yes; but the decline of the railroads more than offset that. These average changes which have taken place in the composition of total assets of the 26 companies are indicative of general trends only. In the case of individual companies, however, there have been very sharp changes not revealed by the general averages. For example, in the case of Guardian Life, the bonds have increased from 11.4 percent to 29.2 percent of the total assets, while mortgages have decreased from 62.5 percent of total assets to 33.4. In the case of the Western and Southern, bonds have increased from 7.5 percent of total assets in 1929 to 39 percent, while mortgages have dropped from around 83 percent in 1929 to 43 percent in 1938.

Mr. HENDERSON. Isn't that a general characteristic, Mr. Howe? If the mortgage field had remained open for investment, that is, if you had gotten the prime farm and prime urban mortgage loans, there would not have been such excursion into other bonds?

Mr. HOWE. I think unquestionably the economic reasons explain the fact that companies virtually stopped expanding their mortgage accounts back 10 years ago. There are exceptions to that, of course, but the total mortgage and real-estate account has about stood still over this period. I don't think that is because of any prejudice of companies against mortgages in many cases. I think it is simply that the other avenues of investment were the only ones they felt were open to them during the particular period.

Mr. HENDERSON. To meet the terms of security they had to have?

Mr. HOWE. That is right.

Again, in the case of Lincoln National, bonds have increased from 1.74 percent in 1928 to 35.37, and in the case of Union Central bonds have increased from 1.4 percent to 26.14.

That further bears out the point we had in mind.

The CHAIRMAN. Have you set those figures forth in an exhibit? You gave us a comparison between 1929 and 1938 for all of the companies?

Mr. HOWE. Yes.

The CHAIRMAN. And now you have been discussing individual companies. Do you have a schedule showing that?

Mr. HOWE. No; Senator. I do not have all the 1929 balance sheets of the companies included in this book.

The CHAIRMAN. You selected only those for which you had the information?

Mr. HOWE. I have all the schedules in my three filing cabinets over there to give you the balance sheets of any company in 1929.

Mr. GESELL. Those are simply examples.

The CHAIRMAN. It is not set forth?

Mr. HOWE. No; it is not set forth. It would be quite a problem to produce the balance sheets for all the years.

The CHAIRMAN. You have done a big job as it is.

Mr. HOWE. We have looked at the composition of the bond portfolio—that is, I mean, rails, industrial utilities, and Governments, and so forth. It may be interesting to take a look at the ratings, the quality ratings of the bonds owned by insurance companies, which are shown by table 139.[1]

Mr. GESELL. You are speaking now of table 139, is that correct?

Mr. HOWE. I am speaking now of tables 138 and 139. One is absolute figures and the other percentages.

As the committee is doubtless familiar, there are several investment publishing houses in New York which publish ratings of investment securities. These are Moody, Poor's, Standard Statistics, and Fitch. Because of the impossibility of describing in a few words the quality of this tremendous fund of $13,000,000,000 in bonds, the only way we can get at it is to use the ratings which these publishing companies have prepared.

So that on table 138, we see across the top of various ratings, and the United States Government bonds have been segregated from the other Aaa bonds, which is the highest rating that Moody's Investors Service gives to a bond.[2] Aa is next, and so forth, across the page.

Mr. GESELL. Those figures are expressed in terms of percentages of the individual companies' portfolios on table 139. Is that correct?

Mr. HOWE. That is correct.

I should perhaps qualify this by also calling attention to the "Not rated" column, which is shown here. It is not necessarily true that because a bond is not rated that its quality is under question. There are numerous private placement transactions on which these companies do not have adequate information to make ratings.

Mr. GESELL. You mean which the rating companies do not have adequate information on?

---

[1] See Hearings, Part 10–A, p. 139.
[2] Ibid., p. 138.

Mr. Howe. That is right, which the rating companies do not have adequate information on to rate, and therefore do not put a rating on.

Nevertheless, in a broad general way, these figures indicate some interesting facts.

You will see, for instance, that in looking down the Aaa column, excluding Governments, that the Penn Mutual shows the highest percentage of the highest quality bonds, that is, 22.64 percent. That same company also holds a high percentage of Aa bonds, and the total of its Aaa and Aa bonds, excluding Government's, is 41.89 percent, which is higher than that of any other company listed there.

Mr. Gesell. You mean that that is higher than the amount that any other company has in Aaa and Aa bonds?

Mr. Howe. Other than Government's; yes.

Mr. Gesell. There are companies with a more substantial amount of their investments in Government's, are there not, such for example as the Western and Southern?

Mr. Howe. Certainly, the Western and Southern has 91.39 percent of its bond investment in United States Government bonds.

The Chairman. Isn't it true that all bonds which bear a rating of Baa up, are regarded as really first quality bonds?

Mr. Howe. Well certainly, Senator, that could be said from A up, and there might be some difference of opinion with respect to Baa.

Mr. Gesell. You mean on individual bonds that involve to some extent determination as to individual bonds within that classification?

Mr. Howe. Yes; that is right, but Baa bonds are good bonds.

The Chairman. They are good bonds but it occurred to me that qualification ought to be made in any discussion of this list, and would it not also be well to add the additional qualification that frequently the bonds with the very high rating command a premium in the market?

Mr. Howe. At least they produce a low yield, Senator. Whether they are selling at a premium or discount is simply a mathematical matter after all, to some extent.

The Chairman. I note that the holdings of all bonds above Ba, that is Baa, A, Aa, and Aaa, are greatly in excess for each classification, greatly in excess of the holdings of Ba bonds.

Mr. Howe. Oh, very much.

The Chairman. So that that tends to bear out what I have remarked, namely that the Baa classification upward is the classification of high standard bonds.

Mr. Howe. That is correct. As a matter of fact, so far as these companies as a whole are concerned, Senator, 75.69 percent of their bonds are rated A or better, and over 90 percent of their bonds are rated Baa or better. So that what you say is true, that the overwhelming proportion of the bonds are definitely in the quality group.

We have made an anlaysis of the investments of these 26 companies in other corporations with which they interlock.

Mr. Gesell. That analysis is set forth on this schedule, is it not, "Investments of Life Insurance Companies as of December 31, 1939, in Companies Whose Officers or Directors Interlock with the Insurance Companies"?

Mr. Howe. That is correct.

Mr. GESELL. I wish to offer that schedule for the record at this time.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 2265" and is included in the appendix on p. —.)

Mr. HOWE. The face value of these bonds held by these 26 companies in companies with which they interlock, is $721,720,100. Book value is $674,710,515, and the number of shares involved in those cases where stock is involved is 1,726,623 shares of stock.

Now, of the face value of these bonds of the $721,720,100 face value of bonds, $210,000,000 is held by Metropolitan.

Mr. GESELL. There are some companies which have no such investments, are there not?

Mr. HOWE. There are; Connecticut Mutual has none, Bankers Life has none.

Mr. GESELL. The Connecticut Mutual has some as far as shares are concerned, has it not?

Mr. HOWE. They have some shares, no bonds. The Bankers Life has none, neither bonds nor stock.

Mr. GESELL. And the last four companies on the list, Equitable of Iowa, Western and Southern, Lincoln National, and Guardian Life, have none, either in shares or bonds?

Mr. HOWE. That is correct.

Mr. HENDERSON. Mr. Howe, where you compare the book value and face value of investments having interlocking directorates, that ratio of book to face value is just about the same as it is for the total bond holdings, is it not?

Mr. HOWE. I am not sure of that.

Mr. HENDERSON. Will you keep that in mind when you come to discuss face and book with the total book portfolio?

Mr. HOWE. We can compute that, but I think probably the preponderance of rails here has something to do with this ratio.

The CHAIRMAN. Perhaps it might be well to allude to the fact that Mr. Buckner, testifying here the other day, said the directors of his company did not participate in action upon the purchase of bonds of the companies that they represented so that the interlocking character of the investment doesn't necessarily carry the conclusion, does it, that all of these were sold because of the interlocking arrangement?

Mr. GESELL. It is also true, is it not, Mr. Howe, that this schedule [1] does not purport to show whether these investments took place at the time the interlocking directorship existed? They are investments in interlocking concerns as of the date indicated in the schedule only, is that not correct?

Mr. HOWE. That is correct.

Mr. GESELL. Some of the investments may have been made prior to the time that the interlocking director came on the board of directors.

Mr. HOWE. That is correct. It is a perfectly objective study, Senator. There is no intimation given that these bonds are better or worse than any others or that anything improper took place in their acquisition. It is simply a study of the facts.

[1] "Exhibit No. 2265," appendix, p. 15495.

The CHAIRMAN. So that your answer to my question is that the presentation of this chart of interlocking directors is not intended to imply that the interlocking character of directorships was the cause of the condition that you described in this chart?

Mr. HOWE. No; there is no intent to carry such an implication with the table.[1]

Mr. HENDERSON. It does show a degree of concentration of mutuality and interdependence.

Mr. HOWE. Yes; that is why the table was prepared.

By looking at table 81, we can get an idea of the income on investments.[2] Table 81 is net income on investments expressed as a percentage of mean ledger assets.

Mr. GESELL. What do you mean by "mean ledger assets"?

Mr. HOWE. Those are the average assets which get onto the ledger. That is the classic ratio in the gain and loss exhibit, and it is taken from the gain and loss exhibit of the companies.

Now, that is the way in which they show the rate of return. Now, it will be observed from this schedule that the rate of return obtained in 1929, for instance, was substantially in excess of the rate in 1938.[4] And as a matter of fact, on the average these companies earned on this basis about 5.06 percent in 1929; in 1930 the figure was 5.03; in 1931, 4.88; in 1932, 4.55; in 1933, 4.18; in 1934, 3.87; in 1935, 3.69; in 1936, 3.70; in 1937, 3.69; and in 1938, 3.61.

There is also a considerable variation between companies in the yields which they have obtained. For instance, in 1938 the Western and Southern had a return of 3.83, while the Mutual Life of New York received 3.30.

It will be noticed that during this period from the aggregate figures here, the return from 1929 to 1938 has declined from 5.06 to 3.61, or 1.45 percent. On Moody's Aaa bonds——

Mr. HENDERSON (interposing). Mr. Howe, that is not percent.

Mr. HOWE. That is right, 1.45 points in yield.

It will be interesting to note that during the period from December 1929 to December 1938, the yield on Moody's Aaa bonds declined from 4.75 to 3.08, or 1.67 percent.

The CHAIRMAN. Percent?

Mr. HOWE. Points of yield, that is right.

The CHAIRMAN. So that the decline on Moody's rating of Aaa bonds was greater than this decline for all?

Mr. HOWE. That is correct. On the Aa bonds the decline was 1.43 points in yield.

In A bonds the decline was 1.28 points in yield and in Baa bonds, .63 of one point.

The interesting thing to note is the decline which has taken place since December 1938, and the Aaa bonds have declined .08 of a point in yield, the Aa bonds——

The CHAIRMAN (interposing). Are you talking of Moody or this?

Mr. HOWE. Moody again. The Aa bonds have declined .26 of a point in yield; A bonds, .24; and the Baa, .42. In other words, the market is so high that even the bonds of lesser security are rising more in proportion now than the bonds of highest quality.

---

[1] "Exhibit No. 2265," appendix, p. 15495.
[2] See Hearings, Part 10–A, p. 81.

The CHAIRMAN. What was the decline for Aaa's, that last figure you gave?

Mr. HOWE. Eight hundredths of a point in yield.

Mr. GESELL. Now, there is a table here, is there not, or a series of tables, to show what the income has been from the various types of investment?

Mr. HOWE. That is correct. That is table 10.[1]

Mr. GESELL. That shows the rate of income from the types of assets for 1938 only, does it not?

Mr. HOWE. Only 1938.

Mr. GESELL. Can you tell me how over the period the earnings on policy loans have compared with the earnings on the investments shown in the table we were just discussing?

Mr. HOWE. Well, policy loans have, especially in the latter portion of the period, provided a higher gross yield than the other types of assets; mortgages, for instance, in 1938 provided a yield of 4.74 on the average; bonds, 3.47; stocks, 4.95. Policy loans, 5.79; foreclosed real estate, 1.46; home-office real estate, 4.11.

Mr. GESELL. Home-office real estate is what?

Mr. HOWE. It is 4.11.

Mr. GESELL. I don't understand that. What is that, the income they have had on their own buildings?

Mr. HOWE. Yes; that is the income the companies have had on their home offices.

Mr. GESELL. They get that from themselves, don't they, by paying themselves a rent?

Mr. HOWE. Well a large portion of it is rent which they pay to themselves.

Mr. GESELL. I see. Will you go on.

Mr. HOWE. So that the various rates of return on this table [2] as between companies are dependent to some extent on the scale of rent they charge themselves.

Now, to relate this return on investments to the insurance aspects of the company's business, we turn to——

Dr. LUBIN (interposing). May I just raise a question before you continue? It is quite evident that for the year 1938 the most profitable investment an insurance company could make was a loan to a policyholder.

Mr. HOWE. With respect to the gross rate; yes.

Dr. LUBIN. And these funds that were loaned to the policyholders, I take it, are part of the reserves that were set apart, and in a sense is his own money?

Mr. HOWE. There is an argument about whether it is his own money.

Dr. LUBIN. Although legally it may be not his, in a sense it is a sum set aside against his policy?

Mr. HOWE, It is money which he paid in originally as premiums, less expense.

Dr. LUBIN. And which in the event he does not pay the loan is deducted from the policy?

Mr. HOWE. That is right.

---

[1] See Hearings, Part 10–A, p. 10.
[2] Ibid.

Dr. LUBIN. So in reality it is money he has turned over to the company, and the company is holding for him under a certain legal relationship.

Mr. HOWE. That is right.

Dr. LUBIN. And is there any other type of investment an insurance company could make that would be as sound as such a loan?

Mr. HOWE. There is no possibility of loss involved in a transaction of that sort, so long as the thing is accurately handled mechanically.

Mr. GESELL. As long as the policyholder eventually dies or his policy matures?

Mr. HOWE. That is right. Or surrenders.

Dr. LUBIN. So in reality the return is largest on the safest investment you can make?

Mr. HOWE. That is right. Now, there are certain elements regarding that matter which I hope to discuss at the moment when I come to policy loans, but to return to the relationship of the earnings on the assets to the insurance aspects of the business, we might look at table 82.[1] That table is designated "Interest required to maintain policy reserves." The committee is familiar with the fact that in all of the contracts written by insurance companies there is implicit some interest assumption, and the gain and loss exhibit combines all together at the end of the year the amount of money which is necessary to be added to reserve from interest. Those are the figures which are shown on table 82.[1]

Now, an interesting thing about this table is that as the contracts average out between the companies, the rates which they must earn in order to maintain their reserves, that is, the rates which they must earn on their assets in order to maintain their reserves, vary somewhat. In other words, in 1938 the rate which the Travelers Insurance Co., of Hartford, Conn., had to earn to maintain their policy reserves was 3.55 percent. On the other hand, the contracts of the New York Life were such that they had to earn only 2.78 percent.

Mr. HENDERSON. Will you say that again, Mr. Howe?

Mr. HOWE. This rate of interest required to maintain reserves is the amount of money which the company figures that they have to put out of the investment income into the reserves in order to maintain them according to their contracts. Now, in order to determine the relative amount of this money, we relate, as they do the net income in the gain and loss exhibit—we now turn and relate this to the same base, you see, namely, to the mean ledger assets.

Mr. GESELL. Are you now speaking from schedule C [2] of the release, Mr. Howe?

Mr. HOWE. I am not speaking from schedule C, although the percentages are shown on schedule C.

Mr. GESELL. You mean the percentages of interest necessary to maintain reserves expressed in percent of the ledger assets can be shown on schedule C?

Mr. HOWE. That is correct.

Mr. GESELL. And that schedule also indicates, does it not, the amount and percentage of total assets earning less than the interest required for policy reserves in the case of these companies?

Mr. HOWE. That is right.

---

[1] See Hearings, Part 10-A, p. 82.
[2] "Exhibit No. 2266," appendix, p. 15496.

Mr. GESELL. I would like to offer this schedule for the record at the present time.

Mr. PIKE. What year is that?

Mr. HOWE. Those figures are for 1938.

Mr. GESELL. As of December 31, 1938.

The CHAIRMAN. The exhibit may be received.

(The schedule referred to was marked "Exhibit No. 2266" and is included in the appendix on p. 15496.)

Mr. HOWE. The purpose of reducing this interest to maintain policy reserves to a percentage is to show the way in which the interest margin—that is, the interest earned in comparison to the amount which must be set up to maintain reserves—has declined; how the margin has declined relatively.

Now, in 1939 the rates of interest required to maintain reserves were not greatly different from what they are in 1938, on the average. They were some higher but not greatly different.

The CHAIRMAN. Table 83 shows that for all of these companies the margin has been maintained at not as large a figure as formerly.[1]

Mr. HOWE. Oh, the margin is there, Senator. It has simply declined in relation to the amount necessary to maintain reserves.

The CHAIRMAN. I observe also that this margin reached its lowest point in 1935.

Mr. HOWE. In terms of absolute dollars; that is correct.

The CHAIRMAN. And it increased in 1936, and then again in 1937, and though there was a falling off in '38, the margin for '38 is still about $7,000,000 greater than it was in '35.

Mr. HOWE. That is correct in terms of total dollars. In terms of proportions, Senator, you will see on table 84 that in 1929 the margin amounted to 56 percent of the amount necessary to maintain reserves.[2] In 1938 it had declined to 13.65.

Mr. GESELL. In 1938 it is the lowest shown on that table, is it not?

Mr. HOWE. That is correct.

The CHAIRMAN. Please explain that term which you have used there. How did you divide this figure—expressed as a percentage, you say, required to maintain reserves?

Mr. HOWE. From the gain and lose exhibits we get the figure of the interest required to maintain reserves—this annual amount of money which must be added to reserves on account of the interest assumptions implicit therein.

The CHAIRMAN. Am I to interpret it as meaning, for example, in 1938, that the margin; that is to say, the excess over the amount required in terms of percentage, is 13.65 percent?

Mr. HOWE. Is 13.65 percent of the amount of money which they had put into the reserves in the way of interest. In other words, you take your investment income——

The CHAIRMAN (interposing). In other words, they earned all that was required and 13.65 percent more.

Mr. HOWE. That is right.

Mr. GESELL. That is on the average.

The CHAIRMAN. And then it would appear that in 1936 that percentage was the lowest for any years shown up to that time, namely, 15.22, that it increased in '36 and increased in '37.

[1] See Hearings, Part 10–A, p. 83

[2] Ibid., p. 84.

Mr. Howe. That is right.

The Chairman. That is to say, over '35, but '38 dropped below '35.

Mr. Howe. That is correct.

The Chairman. So that in terms of percentage, 1938 is the lowest of any of the years, although according to table 83 in terms of dollars it is greater than 1935? [1]

Mr. Howe. That is correct.

Mr. Gesell. And expressed in terms of expense there is a considerable variation in 1938, pointing both ways from that average, is there not? There are some places where the margin is very, very slight and some places where it is substantial. What is the range there?

Mr. Howe. The range is from 1.05 percent——

Mr. Gesell (interposing). And what is the highest?

Mr. Howe. The highest is New York Life, 30.45.

Mr. Pike. Are there any figures yet available—I don't suppose there are—for 1939?

Mr. Howe. There are not. I mean to say that the annual convention forms in most cases have not been filed. We have written to the companies for them; they have informed us that they will give them to us as soon as they are available.

Mr. Pike. Then there is no evidence to show whether that downward trend continues except just the most general feeling?

Mr. Howe. We have no specific information on 1939 as yet, except what has appeared in the press.

Mr. Henderson. I think, Mr. Howe, one of the most important things about that margin is the wide variation which you have indicated from 1.05 to over 30, and also the fact that there were about 13 or 14 below the average and 13 or 14 above the average. It is a wide range, which also would mean that this number below the average would tend to conceal that the experience of some companies is quite different from others.

Mr. Howe. That is right. Expressed in points of yield, Commissioner, the margin varies from 0.77 of a point in the case of New York Life to 0.11 of a point in the case of Travelers, so that a decline in yield of those proportions is the margin which they have.

Schedule C, which was introduced a moment ago, shows that there is another factor other than mere decline in yield that insurance companies have to contend with in investing their funds; that is, there is a substantial proportion of their total assets which for one reason or another they have been unable to invest at rates which are necessary to maintain their reserves.

Mr. Gesell. Will you tell us, Mr. Howe, what type of assets are included in "Exhibit No. 2266"?

Mr. Howe. The first is cash, the second is United States Government bonds, the third is bonds in default, the fourth is mortgages in default.

Mr. Gesell. When you say "mortgages in default," you mean mortgages delinquent as to interest 1 year or more?

Mr. Howe. Yes.

Mr. Gesell. You have not included in here the 3-month delinquencies, have you, only the year delinquencies?

[1] See Hearings, Part 10–A, p. 83.

Mr. Howe. Only the mortgages delinquent 1 year or more are included. Then there is also the foreclosed real estate which on the average does not yield a return sufficient to maintain reserves. It is interesting to see what proportion of the total assets are constituted by assets of the type we have been speaking of. On the average it is about 31 percent, and it varies from 55 percent down to 17.

Mr. Gesell. You mean 35 percent, don't you?

Mr. Howe. No; I mean 55 percent.

Mr. Gesell. In the case of what company?

Mr. Howe. In the case of the Travelers, but that figure is subject to the qualification that they have a very large Government account.

Mr. Gesell. And what is the low?

Mr. Howe. The low is in the case of the Connecticut Mutual, if I read this correctly, of 17.71 percent.

Mr. Gesell. And an average of 31.19?

Mr. Howe. An average of 31.19.

Now, having looked quickly at the character of the composition of the insurance companies' assets and a little about the returns they have made on them, it is appropriate perhaps to consider the assets one by one from the point of view of the management of those assets. Perhaps the logical place to begin is on pages 106 and 107, on cash.[1]

Mr. Henderson. Before you get into that, Mr. Howe, this interest assumption which the companies have to earn is determined by their contracts with the policyholders, is it not?

Mr. Howe. That is right, it is stated in the contract.

Mr. Henderson. And those contracts, many of them, have years and years to run?

Mr. Howe. Very long periods to run. Now, of course, there are many qualifications that can be made on that statement, but that is the fact that those are the rates which are stipulated in the contract, and if they don't earn them from this source or that source, they have to put up money at that rate.

With respect to cash, on December 31, 1938——

Mr. Gesell (interposing). You are speaking now from tables 106 and 107, are you not?[2]

Mr. Howe. I am. The companies had free cash balances totaling $665,329,000. In 1929 these same balances amounted to only $102,188,000. In recent years the companies have had a substantial variation in the amount of interest earned on their deposits. The best performance in this regard has been in the case of the Pacific Mutual which in a year in which the year-end cash balance amounted to $3,856,000, earned $39,944 in interest on deposits.

Mr. Henderson. Did you inquire, Mr. Howe or Mr. Gesell, as to what they did particularly, whether there was anything special about what they did?

Mr. Gesell. I neglected to bring their letter and I will this afternoon.[3] I wrote the Pacific Mutual because they are so far out west, and we didn't want to bring them on here, and asked them what they had done to bring about this especially outstanding performance in terms of interest income on cash balances, and the company advised

[1] See Hearings, Part 10–A.
[2] See Hearings, Part 10–A, pp. 106 and 107.
[3] Infra, p. 14824.

that they had made this interest on their cash balances and that it resulted from the policy of the company to get interest on their accounts—simply a one-sentence explanation. I will bring the letter for the record this afternoon. I haven't much to add to what the figures show here.

Mr. HENDERSON. In other words, they "planned it that way."

Mr. GESELL. That is about what they said.

Mr. PIKE. That is the only Pacific coast company in this list, as I remember.

Mr. GESELL. That is correct.

Mr. PIKE. The policy of the banks might very well be different there.

Mr. GESELL. The rates may be a little higher there.

Many of the companies shown on this schedule, however, as we will consider at a later time, have bank balances in the same banks as the Pacific Mutual.[1]

Representative WILLIAMS. Isn't there a provision now that they cannot pay on demand deposits?

Mr. HOWE. Not on demand deposits, but they can on time deposits.

Representative WILLIAMS. This includes time deposits?

Mr. HOWE. This includes time deposits.

Representative WILLIAMS. In fact, that is the only place where we can get interest.

Mr. HOWE. Yes; in this country.

Representative WILLIAMS. In these Federal Reserve banks, members of the Federal Reserve System, they cannot pay interest on demand deposits.

Mr. HOWE. That is correct; ever since the Glass-Steagall Act went into effect. Wasn't that in 1933 sometime?

Representative WILLIAMS. Yes; '35.

Dr. LUBIN. May I ask the witness a question? Looking down the list here, Provident Mutual with $8,546,000 in cash earned $9,097,[2] which I think is a better showing than even your Pacific Mutual, is it not?

Mr. HOWE. No; it was not any better. The other people had only a 3-million cash balance and made $39,000, and these people had an 8-million cash balance and made $9,000.

Dr. LUBIN. I thought it was $90,000; I am sorry.

Mr. HOWE. But the fact is, as will be seen from the variation in the figures here, that some companies have had the policy of putting out money on time, and others have apparently restricted their deposits to demand deposits. For instance, out of the total $665,000,000 in cash balances, the companies have earned in the aggregate $273,000. Now, of that, the Metropolitan with a year-end cash balance of $108,000,000 collected $112,000 in interest. Of course, that was collected on the time deposits, the "time" portion of the $108,000,000. Prudential received no interest.

Mr. GESELL. On a balance of how much?

Mr. HOWE. On a balance of $95,676,000.

Representative WILLIAMS. That simply means they had all theirs on demand?

---

[1] See Hearings, Part 10-A, p. 107.
[2] See Hearings, Part 10-A, pp. 106 and 107.

Mr. HOWE. That is right.

Mr. GESELL. It is a question of different management policy in the handling of cash balances, is it not?

Mr. HOWE. That is all.

The New York Life made $43 on their $50,000,000 in cash, and the equitable with $112,000,000 made $42,000. We simply wish to point out the differences in management policy with respect to the handling of these various assets.

Mr. PIKE. They are all insignificant, however; except for the Pacific Mutual hardly any of them made over one-tenth of 1 percent. The whole thing doesn't add up to anything.

Mr. HOWE. That is right.

Mr. HENDERSON. It doesn't add up, in many cases, to pay the chief executive's salary, does it?

Mr. HOWE. Well, I imagine not.

Mr. HENDERSON. All right, let's go on.

Mr. HOWE. Policy loans outstanding December 31, 1929, as shown by table 108, amounted to $1,923,000,000.[1] By December 31, 1938, this amount had increased about $1,000,000,000, to $2,822,000,000. As previously explained, policy loans earned the highest rate of interest of any class of assets of the company, providing a gross return of 5.79 in 1938. This return is indicated by table 109 with $163,474,000.[2] Policy loans, it will be recalled, constituted 11.62 percent of total admitted assets on December 31, 1938, having increased 46.75 percent since December 31, 1929.

Mr. HENDERSON. And they produced about 20 percent of the income?

Mr. HOWE. Yes.

Mr. GESELL. The schedule, Mr. Howe, entitled "Policy Loans and Income Therefrom," shows for the 26 companies, does it not, the policy loans outstanding at the end of 1938, the percentage of those loans to admitted assets, the interest earned on the policy loans, and the percentage of the investment income attributable to such loans?

Mr. HOWE. That is right.

Mr. GESELL. I would like to offer that schedule for the record.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 2267" and is included in the appendix on pp. 15496, 15497.)

Mr. HOWE. You will see, Commissioner Henderson, in that table, that on the average whereas the policy loans involved 11.62 percent of the total admitted assets, they produced 18.66 percent of investment income.

Mr. GESELL. There are some rather outstanding cases on this schedule, are there not, Mr. Howe; such as, for instance, the Pacific Mutual, where the policy loans constituted a little over 15 percent of the assets, but accounted for almost 30 percent of the investment income?

Mr. HOWE. That is right. Union Central received more than 25 percent of its gross investment income from policy loans.

Mr. GESELL. On the average there is a difference as between 11.62 expressed in terms of assets and 18.66 expressed in terms of investment income.

---

[1] See Hearings, Part 10-A, p. 108.
[2] Ibid., p. 109.

Mr. Howe. That is correct.

Dr. Lubin. Is there any other type of investment made by these companies where the percent of investment income is so much greater than the percent of admitted assets?

Mr. Howe. Oh, no. Of course, it is frequently said by life-insurance executives that this 5¾ percent average return is only a gross return because of the fact that policy loans in general are made in relatively small amounts, and a study which was made of the business of the Metropolitan Life Insurance Co. by the New York State Insurance Department showed that, on the average, their cost of handling policy loans amounted to three-fourths of 1 percent. That is to say, if their loans—which I don't think they did at that period—yielded them 5¾-percent gross, that their net yield would be 5.

The Chairman. But it is also true, is it not, Mr. Howe, that policy loans afford the policyholder an opportunity for raising money which he probably couldn't get any other way?

Mr. Howe. Well, it is about the only loan, Senator, which a borrower can obtain at his option. After all, most loans are obtained at the request of the borrower at the option of the lender.

The Chairman. And here it is at the option of the borrower?

Mr. Howe. That is right.

The Chairman. And he is not subjected to any duns and he is not required to pay upon the day set? This runs as long as he wants to allow it to run and pay the interest?

Mr. Gesell. Both as to loan and interest.

The Chairman. I say as long as he wants to pay the interest?

Mr. Howe. As long as he wants to pay the interest. Otherwise it would wash out.

The Chairman. And the interest rate which is charged on these policy loans is by and large lower than the average rate for similar loans from any other source?

Mr. Howe. Well, it is lower than you can borrow $20 any place.

The Chairman. Let us say $1,000—is it not lower?

Mr. Howe. Senator, there are numerous cases in recent years in which policyholders have been able on the security of their policy to borrow at banks more cheaply than they could borrow at insurance companies.

The Chairman. That is an interesting fact, of course. How many instances of that kind are there?

Mr. Howe. Well, I can't give you statistics on it, but there are organizations in New York who make a business of providing bank credit for policyholders on which they obtain loans at lower rates than the companies offer.

The Chairman. Is that a recent manifestation?

Mr. Howe. I don't know how recent it is; obviously it was not going on in 1929.

The Chairman. That problem may be a result of the general financial condition; that is to say, other owners of capital who would like to get it out on good security see the opportunity of undercutting the rate offered by the insurance companies and therefore bid for that business.

Mr. Howe. They are doing so to some extent.

Dr. Lubin. Did you notice the ads in the Washington newspapers, in which certain banks are advertising loans on the cash value of policies at lower rates than those that the insurance companies give to you?

Mr. HOWE. I haven't seen those.

Dr. LUBIN. There have been some in local newspapers. One of the local banks is advertising they will lend money on cash values and the quoted rate, I believe, is less than you can get from insurance companies.

Mr. HOWE. As far as my experience goes, in almost all cases in which banks lend on insurance policies, at least in recent years, they have loaned at somewhat lower rates than those obtainable from the companies.

Dr. LUBIN. My original question was raised because I had the impression—I wanted you to correct me if I was wrong—that in a sense not only is your original loan guaranteed but also the interest is guaranteed. As long as that reserve is sufficiently great to cover that interest charge, it is automatically deducted from the face value of your policy so the company is guaranteed not only its principal but its interest.

Mr. HOWE. That is right.

Mr. KADES. Mr. Howe, have companies in time of stress always honored the obligation to make loans?

Mr. HOWE. I think they have, with the exception of the period of the moratoria which we are going to discuss a little later on. I have some data on moritoria which I will present later. I would be glad to discuss it now, but I thought I might better put it in orderly sequence. Aside from a relatively short period, they have always honored their obligations, the companies which have not failed.

Now, it might be useful, just quickly to emphasize the importance of policy loan interest to the insurance companies themselves.

The importance of income from policy loans to insurance companies is indicated by the fact that during the 10-year period ended December 31, 1938, $1,503,048,000 was collected from interest on policy loans. That is shown in table 109, $1,503,048,000.[1]

The CHAIRMAN. In order to make that a little bit clearer, how many policyholders contributed to that interest? Do you know?

Mr. HOWE. How many policyholders?

The CHAIRMAN. In other words, how many individual policy loans were there? Do you know?

Mr. HOWE. I have no figures on that, sir.

The CHAIRMAN. You did have the figure as to the total number of policyholders for these 26 companies?

Mr. HOWE. Oh, yes.

The CHAIRMAN. That figure was what?

Mr. HOWE. For these 26 companies the total number of policyholders is 98,000,000.

Mr. GESELL. The total number of policies.

Mr. HOWE. Policies, not policyholders, at the end of 1938 was 98,054,000 policies.

The CHAIRMAN. But you don't know how many of those policies were the basis for loans?

---

[1] See Hearings, Part 10-A, p. 109.

Mr. Howe. No; I do not.

Mr. Gesell. You will recall Mr. Buckner's testimony to the effect that the average loan of his company was around $400 and that it was between a third and a half of the policyholders of his company who borrowed on policy loans.[1]

The Chairman. Yes. Thank you very much.

Mr. Gesell. Nearer a third, I believe he said.

Mr. Howe. The $163,474,000 collected from interest on policy loans in 1938 was equivalent to over 55 percent of the total amount disbursed as dividends on ordinary insurance in 1938, and was also equivalent, just to show the general importance of it, to over 147 percent of the aggregate gain from interest during that year. Further indication of the importance of this income is obtained from the fact that certain companies received more than 25 percent of their total investment income from policy loans, as I have already indicated from the table.[2]

Mr. Gesell. The next asset you wish to discuss is bonds. Is that correct?

Mr. Howe. That is correct. We pay no attention to collateral loans because it is too small an item.

The Chairman. Well, what can you tell us about the type of collateral loan? Though it may be a small item, on what type of collateral are these loans made?

Mr. Howe. They are mostly made on the security of collateral which the companies could have purchased for investment in the first place.

The Chairman. This type of business is the type which would be in competition with ordinary banks, is it?

Mr. Howe. Well, the insurance companies don't make brokers' loans, for instance, on stock exchange collateral.

The Chairman. I am not thinking in terms of New York or any stock exchange. I am thinking in terms of the small town, the small city. The collateral loans mentioned in this compilation are ordinary loans on ordinary collateral, are they not?

Mr. Howe. Most of them are on about the type of collateral the insurance companies could have bought in the first place, so it doesn't greatly expand their legal ability to invest over a broader field.

The Chairman. To what type of borrower are these loans made?

Mr. Howe. Well, so far as I can find, they are mostly favorites of one sort or another.

The Chairman. They are not made to policyholders, as such?

Mr. Howe. No.

The Chairman. And they are not made to large corporations as such?

Mr. Howe. In general; no. They are made to individuals who put up security of these corporations, or other securities which the company is entitled to loan upon or to accept as collateral.

The Chairman. Are these loans made at the home office or to persons living in and around that area or are they scattered throughout the United States?

Mr. Howe. I can't really answer that question. I think, in general, they are not scattered. You will notice that the amount of them altogether is only some——

---

[1] Supra, p. 14742.

[2] See Hearings, Part 10-A, p. 9.

Mr. GESELL (interposing). It is only $2,324,000.

The CHAIRMAN. For all the companies?

Mr. HOWE. For all the companies.

Mr. GESELL. A representative[1] of the Lincoln National is under subpena to appear in connection with these hearings and discuss collateral loans made by that company. You will at that time have a chance to get a better look-in at it.

You are about to discuss the bonds.

Mr. HOWE. Yes. The most striking thing about it, of course, is that this is the place in which the growth in insurance company assets has taken place for the most part, in the bond account. That is where the expansion has taken place during the 10-year period.

As we have emphasized previously, Governments have increased 1,394 percent and industrial and miscellaneous bonds 460.

Now, from table 122, we see the acquisitions of bonds.[2] This includes the United States Government bonds and all other bonds, and the total for the period is $15,246,000,000.

Mr. GESELL. That is all bonds of any description that were acquired by these 26 companies?

Mr. HOWE. That is right; all bonds of any description acquired by these companies during the period from January 1, 1932, to December 31, 1938.

Mr. GESELL. And that figure is $15,246,000,000. It that correct?

Md. HOWE. That is correct.

Mr. GESELL. And bonds in the portfolio at the present time represent, on the average, over 50 percent of the portfolio?

Mr. HOWE. That is correct. Fifty-three percent. The United States Government bonds which have been acquired aggregate $8,343,000,000 of this amount, and other bonds only $6,903,000,000, as shown by the table on page 124.[3]

Mr. GESELL. Have you tables showing the different methods pursued by the company in the acquisition of these bonds?[4]

Mr. HOWE. We have. The methods which were used in the acquisition of these bonds were several. Some bonds were purchased at public bidding; others were purchased from dealers or bankers, investment bankers, as they used to be called; still others in the open market; others were purchased privately. We might analyze for a moment the various methods by which this was done.

Mr. GESELL. You are talking with respect to bonds other than Government's now—the $6,903,000,000 acquired of other bonds?

Md. HOWE. That is correct.

Mr. GESELL. How many of those were acquired at public bidding?

Mr. HOWE. $81,025,000, of which $46,807,000 were acquired by the Prudential.

These bonds acquired at public bidding, of course, involve both equipment trust certificates customarily sold that way, and probably some municipals. Table 127 shows "Bonds of new issues purchased from bankers."[5]

Mr. GESELL. What do you mean by bonds of new issues? Do you mean bonds from dealers?

---

[1] Mr. Arthur M. Hall, whose testimony appears infra, p. 14934.
[2] See Hearings, Part 10–A, p. 122.
[3] Ibid., p. 124.
[4] Ibid., pp. 126–132.
[5] Ibid., p. 127.

Mr. HOWE. Yes; the type of underwriting leading financial houses in New York engage in. These are the portions of those underwritings which have been purchased by the companies on this list of 26 largest companies within 90 days of the offering date.

The CHAIRMAN. When you speak of a new issue do you wish to include those which are issued to refinance recalled bonds?

Mr. HOWE. Yes; I am not going back of the purpose of the issue at all, but am speaking of all the new issues.

So there were $2,537,000,000 acquired in that way. In the open market—now that doesn't necessarily mean exclusively the stock market by any means, but in the open market—in the open market $2,149,000,000 in bonds were acquired.

The CHAIRMAN. The difference, then, was just about $400,000,000?

Mr. HOWE. Yes; about $400,000,000 more acquired from new issues than from bonds which were otherwise outstanding.

The CHAIRMAN. Well, from new issues purchased from bankers?

Mr. HOWE. Right. But the caption of that table might possibly be misleading, Senator. I don't mean from commercial bankers; I mean from investment bankers and dealers and people of that sort.

The CHAIRMAN. Is this intended to reflect the amount of sales or purchases made without competitive bidding?

Mr. HOWE. The element of competitive bidding has not been considered in the organization of these figures. I am very sure that most of these bonds have not been purchased by competitive bidding but some of them may have been.

The CHAIRMAN. Then this table is of no significance so far as that question is concerned? [1]

Mr. HOWE. No significance whatsoever as far as that particular question is concerned.

Representative WILLIAMS. Are there any direct purchases from the issuers?

Mr. HOWE. Yes; I was coming to that on table 129.[2] We show it.

Mr. GESELL. What have such purchases totaled?

Mr. HOWE. Such purchases have aggregated during the period of these 7 years——

Mr. GESELL (interposing). That is, from 1932 to 1938?

Mr. HOWE. The beginning of 1932 to the end of 1938, $1,850,000,000. It is very interesting to notice the concentration of these purchases in the largest life insurance companies. For instance, of the $1,850,000,000 of private purchases, $649,000,000, or 35.7 percent of the total, were purchased by the Metropolitan Life Insurance Co.

The CHAIRMAN. What is that percentage?

Mr. HOWE. It is 35.7. Nineteen and seven-tenths percent of the total was purchased by the Prudential; 8.6 percent were purchased by the New York Life; 18.7 percent were purchased by the Equitable; and 5.4 by Mutual of New York.

Mr. GESELL. What is that total for the top five?

Mr. HOWE. Eighty-eight percent of the total purchased was purchased by the top five companies. In 1938 the top five purchased about the same proportion as they did during the entire period, but the relative position of the companies changed greatly due to the very

---

[1] See Hearings, Part 10–A, p. 127.
[2] Ibid., p. 129.

great emphasis which the Equitable put on private purchases during that year.

The CHAIRMAN. It would appear from the table that there was a general trend among all the companies to purchase bonds in this manner, although, as you pointed out, the greatest amount of purchases by far were made by the larger companies.

Mr. HOWE. The practice seems to be growing and spreading, as you look at this table, although by far the largest amount of it has up to the end of 1938 been done by these five great, billion-dollar companies.

Mr. GESELL. As you look back at 1932, 1933, and 1934, almost half the companies participated to no degree at all and in recent years have received some——

The CHAIRMAN (interposing). That is to say, there were 14 companies which in 1932, 1933, and 1934—that is, the 14 smaller companies—did not participate at all, and the Equitable and the Mutual of New York, Northwestern, Penn Mutual, didn't participate in either 1932 or 1933, so it is a new development, isn't it?

Mr. HOWE. That is right.

Dr. LUBIN. Mr. Howe, in comparing the table on page 128 with the table on page 129,[1] I get the impression that, at least as far as the five leading companies were concerned, the purchase during this period of 6 years of securities directly from issuers was far in excess in terms of dollar value than the purchases in the open market. Is that correct?

Mr. HOWE. That is correct. As a matter of fact, Dr. Lubin, if you will look at table 131, it shows that the percentages of the total corporate purchases—that is, of course, those bonds which might possibly be done as private deals, excluding Governments—in other words, of the total corporate purchases of these companies, the Metropolitan acquired 67 percent in 1938, privately; the Prudential acquired 64 percent of its corporate purchases privately; the New York Life, 53 percent; the Equitable, 62; and the Mutual, 64 percent.[2]

The CHAIRMAN. Of course, as this trend develops, it means that a larger and larger proportion of these bonds are being purchased directly by these companies, with the premiums or the savings of the policyholders, which are transmitted to them, and that opportunity to purchase these issues is constantly being withdrawn from the ordinary investor?

Mr. HOWE. Yes. That is of special significance in view of the fact we brought out the other day that the total debt, the total corporate debt, available for purchases during the 10 years has declined about $14,000,000,000.

The CHAIRMAN. And did you not have the figure to show what percentage of these bonds have been acquired in recent years by the companies, the life-insurance companies?

Mr. GESELL. Yes; the table on 125.[3]

Mr. HOWE. Table 125, Senator, shows the total number of corporate issues put out by all American companies of which we have record. That is the good, bad, and indifferent bonds and notes.

---

[1] See Hearings, Part 10–A, pp. 128 and 129.
[2] Ibid., p. 131.
[3] Ibid., p. 125.

Mr. Gesell. And without regard, I believe you said, to whether or not those bonds and notes are legal investments for the companies.

Mr. Howe. That is right, without regard to whether they are legal for the companies or whether they are issued publicly or privately, the total figures of issues range from $515,000,000 in 1934 to $4,254,000,000 in 1936, and then reach $2,187,000,000 in 1938. These companies purchased respectively, these 26 companies, 23.7 percent in 1934; 24.8 percent in 1935; 24.5 percent in 1936; 48.9 percent in 1937; and 47.7 percent in 1938, of all of the new corporate bonds and notes which were available.

The Chairman. Now, inasmuch as the companies naturally restricted their purchases to the higher grade bonds, it means that the 52 percent which was left in 1938 for the balance of investors was naturally largely made up of lower grade securities.

Mr. Howe. Certainly, all the low-grade securities were in that group, so that the competition for acquisition of these bonds is greatest in the highest quality classification.

The Chairman. Of course, it probably would be proper to say that life-insurance companies would naturally try to get the best bonds and ought to try to get the best bonds.

Mr. Howe. They do. That is right. There is no question about that.

Mr. Gesell. Have you some figures on redemptions, Mr. Howe?

Mr. Howe. Yes; I have some figures on redemptions. It will be noted quickly from table 133 that during the period from 1932 to 1938 these 26 life-insurance companies sold only $2,469,000,000 bonds.[1] And of this amount $1,702,000,000 were United States Governments, so that of other bonds, they sold only $767,000,000.

Redemptions, on the other hand, that is, bonds which were called prior to maturity and bonds which matured, aggregated $4,942,000,000, more than twice as much as the sales, and United States Governments accounted for $2.206,000,000 of this total.

Mr. Gesell. What is the explanation on table 133 of the great number of bonds appearing as sold as against the name of the Equitable of New York?[2] That figure, it appears, all during the years shown on this table except for 1932 and 1933, is substantially greater than any of the other companies, including the companies larger than it. Have they been in and out of the market more? Is that the explanation of it?

Mr. Howe. Yes; I believe that is the explanation of it. Certainly their turn-over of Government bonds has been very much higher than other companies'.

The Chairman. It will be noted from your company table on page 129, with respect to the Equitable, that from 1932 to 1937 its purchases were comparatively small; nothing for 1932, nothing for 1933, nothing for 1934, $54,000,000 for 1935, $28,000,000 for 1936, $31,000,000 for 1937, and then it jumps to $225,000,000,[3] and that is the same year in which you have found the large sale of bonds as reflected in table 133.[2]

Mr. Howe. That is right.

---

[1] See Hearings, Part 10–A, p. 133.
[2] Ibid., p. 133.
[3] Ibid., p. 129.

Dr. LUBIN. Isn't it true, on the other hand, that Mutual, which also apparently followed policies similar to that of the Equitable in the purchase of securities from private issuers, had an entirely different experience when it came to redemptions?

Mr. HOWE. Yes; I think so, in all probability. Although I haven't had an opportunity to analyze it in detail, I think the Equitable has probably handled more short-term Government's than some of the other companies, and naturally that brings about a higher turn-over, whether they sell them or whether they are redeemed.

Mr. GESELL. This table isn't all Government's?[1] It is Government's and all other bonds, isn't it, Mr. Howe?

Mr. HOWE. Table 133 is Government's and all other bonds.

Mr. GESELL. Do you account for the $664,000,000 figure as entirely a turn-over in Government's in the case of the Equitable, or had they been in and out on all issues?

Mr. HOWE. $605,000 of that is sales of Government bonds, as shown by table 134.[5]

The CHAIRMAN (interposing). I notice a change in the method of acquiring industrial bonds and so-called private bonds. Have you any comments on the changes of method in acquiring Government's?

Mr. HOWE. Well, of course, Government's are acquired under the regulations which the Treasury sets up.

Mr. HENDERSON. That is, new issues?

Mr. HOWE. New issues; yes.

Mr. HENDERSON. The rest of it is bought in the open market.

Mr. HOWE. Naturally the rest is bought in the open market from banks or large Government traders in New York, but as far as new issues are concerned, the offerings are sent to the Treasury and allotments are made.

Mr. GESELL. Have you any evidence as to there having been any change in the method of obtaining Government bonds or is it simply a change in the amounts?

Mr. HOWE. I think it is mostly a question of amounts. There have been some slight changes over the period of the last 7 years in the way Government bonds have been handled at various times but they are matters of detail and not matters of great significance.

It will be seen from a combination of the sales and redemption figures and of the purchase figures that of the $6,903,000,000 of bonds other than the United States Government's purchased by life-insurance companies since January 1, 1932, $2,736,000,000 or 39.5 percent were purchased to replace bonds which had matured or which had been called for redemption.

In order to get a little clearer angle on the bond account, it may be interesting to look at the table on page 155.[2] This table compares the cost and market value of bonds owned by the various companies. It will be seen, for instance, in 1938, that in spite of the amazing recovery which the bond market has made in the past 7 years and in spite of the fact that the level of bond prices is now at almost a world's record peak, the aggregate cost of the bonds owned by these 26 companies exceeded their market value on December 31, 1938, by $360,000,000.

---

[1] See Hearings, Part 10–A, p. 133.
[2] Ibid., p. 134.

The CHAIRMAN. Where does that figure appear?

Mr. HOWE. And table 155, Senator, in the next to the last column on the page. You will see a minus sign, 360,156,000.[1]

Mr. GESELL. That is the difference between the market value and the cost value of bonds and stocks held by these companies as of December 31, 1938, is that correct?

Mr. HOWE. That is correct.

Representative WILLIAMS. Are you going to explain why that is?

Mr. HOWE. I hope to.

Representative WILLIAMS. I was wondering, if the statement you made that the fact that the bond market now is unprecedentedly high is true, how it is they have paid more for them than they are now worth?

Mr. HOWE. That is because of the railroad situation, largely, sir.

Representative WILLIAMS. All right.

Mr. HOWE. Of course, the difference between the cost and the market value of a portfolio at a given date reflects, first, the type of securities which were purchased for the portfolio, and second, the type of securities which were thrown out of it, as a house-cleaning proposition as time goes on—because every investment portfolio requires constant combing over no matter how good its initial quality was. So that to some extent I have thought of these percentage figures, the differences expressed in percentages to market value, as a sort of house-cleaning index.

And it will be seen, for instance, that of the first five companies, the Prudential's excess of cost over market is the smallest in percentage of any of the companies shown, namely, 0.8 of 1 percent.

Mr. GESELL. It is equaled by the Western and Southern, is it not?

Mr. HOWE. It is equaled by the Lincoln National, not the Western and Southern.

The CHAIRMAN. And the John Hancock.

Mr. HOWE. The John Hancock; right.

Now, there are two explanations for that. One is the volume of sales which these companies have undertaken, the courage they have displayed in throwing out everything that seemed to be weak. It is always a hard thing to sell investments for life insurance companies because you are always selling the bond that yields 4½ or 5 percent and turning around and buying high-grade bonds which yield much less. So there is a psychological deterrent except when the broad problem of keeping the security paramount is considered.

The CHAIRMAN. Of course, there is another factor, I suppose, which ought to be taken into consideration in evaluating these figures, namely, that the statutes fixing the legality of issues for investment by insurance companies were all drawn before the depression.

Mr. HOWE. Yes; I think so.

The CHAIRMAN. So that conditions with respect to the inherent value of some types of bonds, which have been described as legal investments for trust funds, are very different now from what they were at the time the statute was drawn?

Mr. HOWE. That is right; there has been a whole new crop of laws during the past couple of years, but these bonds represent purchases largely under previous laws.

---

[1] See Hearings, Part 10-A, p. 155.

Now, it will be observed that there are some cases in which the market value exceeds the cost value. For instance, we get down here to the Penn Mutual, the market value of whose portfolio exceeds the cost, and then we come down to the Bankers' Life of Iowa, where the market value exceeds cost; the National Life of Montpelier, Vt.; Equitable of Iowa; and the Western and Southern.

Mr. GESELL. These are companies shown on here with a plus figure?[1]

Mr. HOWE. That is right. They are the ones I am pointing to. And the interesting point about that is that in the case of the last four companies I mentioned, namely, the Bankers' Life, the National Life, the equitable of Iowa, and Western and Southern, they own no rails. Even in the case of Penn Mutual, which has 8.53 percent of the total assets invested in rails, they have been so managing their portfolio that their present market value exceeds the cost.

Mr. GESELL. That is striking. You brought that out in the case of National Life, did you not, which has the highest plus figure on this schedule, and, as I recall, is a company that never at any time bought any railroad securities?

Mr. HOWE. That is right.

Mr. GESELL. Even back in 1906.

Mr. HOWE. That is right—never bought any rails for many, many years.

Dr. LUBIN. May I ask one question at this particular point? The statement on page 155, which shows the cost value, market value, and difference between market value and cost for December 31, 1932, and December 31, 1938,[2] doesn't in any sense, however, show what has happened to the value of investments in the sense that a company may have had, say, the difference between cost and market value may have been 22 percent at one time and zero at another; that washing out may have been brought about, may it not have, by taking losses on such securities as they sold?

Mr. HOWE. Yes—well, no; I point out that this column is cost value, you see. Now, the companies have taken write-downs on bonds, for instance, during this period of 10 years in the aggregate amount of—I think it is about $605,000,000. I don't remember accurately, but that does not show in this cost figure. This goes back to original money paid out.

Dr. LUBIN. In other words, a company that happened to have bonds that cost a million and which were valued at half a million sold them, thereby getting rid of all bonds in their portfolio which cost them more than the current market value they took that loss which is not shown in this table?[3]

Mr. HOWE. That is right. This has nothing to do with whether the companies have taken losses. They have taken substantial losses.

Mr. PIKE. You could sell and buy again and set up new costs during this period and probably many did?

Mr. HOWE. Oh, yes; there were instances in which high-grade bonds were sold and funds invested in substantially the same securities.

---

[1] See Hearings, Part 10-A, p. 155.
[2] Ibid.
[3] Ibid.

Mr. PIKE. You could do almost the same thing with low-grade bonds to get rid of the losses in the portfolio. You looked over this thing in detail, and I think you feel from what you said that, by and large, these losses represent losses in railroad securities more than anything else?

Mr. HOWE. Overwhelmingly more than anything else. As a matter of fact, I think that I have schedules here which show that in the Baa bonds the losses in rails are greater than the total losses in the group, so there is a profit in the remainder. That is not true of the Ba bonds.

Mr. PIKE. Those are bonds that declined since purchase? They were not purchased as of that grade?

Mr. HOWE. I believe that is correct.

The CHAIRMAN. We will stand at recess until 2 o'clock.

(Whereupon, at 12 noon, a recess was taken until 2 p. m. the same day.)

AFTERNOON SESSION

The committee resumed at 2:05 p. m. on the expiration of the recess.

The CHAIRMAN. The committee will please come to order.

Mr. Gesell, are you ready to proceed?

Mr. GESELL. Yes. This morning a question came up [1] about the Pacific Mutual's cash balances and the interest that it earned on them and I advised the committee that I would have the letter that we received from them for the record this afternoon. It is addressed to Mr. Howe and signed by Mr. Call, executive vice president, stating as follows:

DEAR SIR: This is in reply to your communication of January 23.

This company had on deposit in banks on December 31, 1938, the total sum of $3,856,000. This is the same sum as is shown in your "Investment Analysis, Table 106." Of this amount the sum of $3,403,037.12 was on deposit with various California banks, at interest. Most of it was carried in the form of Certificates of Deposit, the balance as Term Deposits. The rates of interest received from these deposits vary from 1% to 2%. The interest income received thereon in the year 1938 was the sum $39,944, as is indicated in Table 107 of your Investment Analysis.

It has been the policy of this company, as far as practicable, to keep its cash balances earning interest, as above indicated.

Very truly yours,

Mr. Howe, will you return to the stand, please?

TESTIMONY OF ERNEST HOWE, CHIEF, FINANCIAL ADVISER TO THE INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.—Resumed

Mr. GESELL. At recess, Mr. Howe, we were about to discuss farm mortgages and farm real estate. Will you continue your statement at that point, please?

Mr. HOWE. From 1929 to 1938 farm mortgages owned by these 26 companies declined from $1,787,000,000 to $743,000,000. This decline was contributed to largely by foreclosures.

[1] Supra, p. 14811.

On December 31, 1938, over 50 percent of the farm-mortgage account owned by these companies was owned by the Prudential, Northwestern, Equitable, and Metropolitan.

Senator WHITE. May I interrupt right there? You say this shrinkage in farm mortgages was contributed to largely by foreclosures. Have you the precise figures as to foreclosures?

Mr. HOWE. I have the figures, Senator, with respect to foreclosures for the 7 years from January 31, 1932, to December 31, 1938. This appears on table 165, which indicates that in the case of these 26 companies, or at least approximately 20 thereof who engaged in farm lending, foreclosures in the amount of $669,559,000 took place within this period.[1]

Mr. GESSELL. That is from 1932 to 1938?

Mr. HOWE. That is from 1932 to 1938; yes, sir.

Senator WHITE. Do you know what part of the whole total of fore closures that amounts to?

Mr. HOWE. I think that is most of them. I haven't figures prior to 1932.

Mr. GESELL. Do you know, Senator, the percentages of foreclosures by all classes of lenders?

Senator WHITE. As referred to in this statement? The witness said that the decline was accounted for largely by foreclosures. Now, I was interested to know, out of that $1,787,000,000, how much was accounted for by foreclosures?

Now, for a period of 6 or 7 years you give a figure of $669,559,000. That is, roughly, a third.

Mr. HOWE. The decline, Senator, has been about a billion dollars.

Senator WHITE. That is right.

The CHAIRMAN. Let us call the Senator's attention to the table on page 161, beginning with 161.[1] There is the table of all farm mortgages owned.

Senator WHITE. I was confused. I thought the decline was $1,787,000,000.

Mr. GESELL. From $1,787,000,000 to $743,000,000.

Mr. HOWE. I was saying of the farm-mortgage account on December 31, 1938 over 50 percent of the farm-mortgage account owned by these companies was owned by the Prudential, Northwestern, Equitable, and Metropolitan. The Prudential held the largest amount at $167,298,000.

The CHAIRMAN. Perhaps in connection with what Senator White was referring to, it might be well to call attention to the fact that as shown by table 161,[2] the amount of farm mortgages owned declined from $1,787,000,000 in 1929 to $743,000,000 in 1938.

Mr. HOWE. That is correct, Senator.

The CHAIRMAN. That is shown by table 164, beginning with 1932, farm mortgages were repaid in full for 1932 amounting to $48,508,000; $51,290,000 in '33; $198,369,000 in '34; $150,044,000 in '35; $106,817,000 in '36; $87,766,000 in '37; and $63,313,000 in '38.[3]

Mr. HOWE. A total of $807,869,000.

---

[1] See Hea ıgs, Part 10–A, p. 165.
[2] Ibid., p. 61.
[3] Ib d., p. 164.

The CHAIRMAN. While farm mortgages foreclosed, the record is disclosed on page 165, and that is $115,494,000 in '32; $154,540,000 in '33; $141,041,000 in '34; $10,537,000 in '35; $70,992,000 in '36; $45,208,000 in 37; and $37,746,000 in '38; or a total for the period 1932 to 1938, inclusive, of $669,559,000.[1]

Mr. HOWE. That is correct.

The CHAIRMAN. And then there is another table which shows the farm real estate owned by the companies. Where does that table appear?

Mr. HOWE. That appears a little later on, Senator. Farm real estate owned.[2]

The CHAIRMAN. This tells the story of real estate owned rising from $81,907,000 in 1929 to $529,392,000 in 1938?

Mr. HOWE. That is correct.

Mr. GESELL. With that high in 1934 of $456,705,000?

The CHAIRMAN. No; '36 is higher.

Mr. GESELL. I might say that tomorrow we are going to present in detail information on the insurance investments in farm mortgages and loans.

The CHAIRMAN. Yes, I understand.

Mr. HOWE. Of the four largest holders of farm mortgages only the Prudential's farm mortgage account has increased in recent years. That applies quite generally throughout the entire list of 26 companies, that only the Prudential's farm mortgage account has been expanded. You can see that on table 161.[3]

Mr. HENDERSON. Prudential was declining down to 1935 and has increased every year since then.

Mr. HOWE. That is correct.

Mr. HENDERSON. And it is the only one?

Mr. HOWE. I believe that is true. They are the only one active enough in the farm-mortgage market so their total account has expanded during the period.

Over 25 percent of all the farm mortgages owned by the 26 companies was secured upon land located in Iowa, and over 55 percent of such mortgages were secured upon land located in Iowa, Illinois, Kansas, and Nebraska.

One hundred ten million dollars, or 14.71 percent, of farm mortgages had interest in default 3 months or more. About $40,000,000 of these mortgages, or 36.4 percent, were so-called work-out cases—that is, cases in which the lender has taken some steps other than foreclosure to protect its interest.

Twenty-four million dollars, or 21.8 percent, were in foreclosure. This compares with $69,632,000 farm mortgages with interest delinquent 1 year or more.

The leading owners of farm real estate are in some cases different from the leading lenders. The largest owner of farm real estate is the Metropolitan, with $83,000,000; Equitable follows with $67,000,000; Mutual Benefit, $50,000,000; John Hancock, $49,600,000; Prudential, $48,800,000; Union Central, $43,600,000; Northwestern, $25,000,000.

The CHAIRMAN. What was the percentage of mortgages on South Dakota and North Dakota real estate?

---

[1] Ibid., p. 165.
[2] Ibid., p. 180.
[3] Ibid., p. 161.

Mr. Howe. These 26 companies had owned farm mortgages on December 31, 1938, in North Dakota to the extent of $4,395,000, or 0.58 percent of the total mortgage accounts. In South Dakota the investment was $18,131,000, or 2.4 percent of the total farm-mortgage account of the 26 companies.

Mr. Gesell. Information as to geographical distribution starts at page 167.[1]

The Chairman. Thank you.

Mr. Howe. The companies listed above sold the following percentage of their farm real estate: Metropolitan, 17 percent; Equitable, 12 percent; Mutual Benefit, 19 percent; John Hancock, 29 percent; Prudential, 58 percent; Northwestern, 46 percent.

The following percentage of farm real estate has been held 5 years or more by the companies indicated: Metropolitan, 64 percent, Prudential, 46 percent; Northwestern, 39 percent.

Senator White. May I ask you a question there?

Mr. Howe. Mutual Benefit, 48.02 percent.

Senator White. You say of these companies only the Prudential farm-mortgage account has increased in recent years. Then I note that Prudential has sold 58 percent of its real estate.

Mr. Howe. Yes; the mortgage account—I am speaking of mortgages which they own, and when I speak of real estate I am speaking of real estate acquired in satisfaction of debt. In other words, they have acquired some real estate and 58 percent of it they have sold back to the farmers.

Senator White. This doesn't mean 58 percent of their mortgages?

Mr. Howe. No; 58 percent of the foreclosed farm real estate has been resold to the farmers.

Of the $18,000,000 gained over adjusted book value received from the sales of farm real estate, 14,000,000 was the Prudential's. The Prudential and the Union Central are the only ones of the large 7 holders of farm real estate which showed an operating loss on that real estate in 1938.

Now, there obviously is a great deal more detail which can be given on this farm real estate but in view of the fact that extended hearings are planned on it, I thought perhaps we might economize the committee's time and get rapidly along to urban real estate and some of these other subjects.

The Chairman. Very well.

Mr. Howe. With respect to urban mortgages and urban real estate we find, from 1929 to 1938, mortgages declined from $4,418,110,000 to $3,888,045,000.

Table 194. From 1929 to 1931 there was an increase from $4,418,000,000 to $4,849,000,000 while urban real estate acquired in satisfaction of debt increased from $12,000,000 on December 31, 1929, to $68,000,000 on December 33, 1931.[2]

The Chairman. May I interrupt and say that the committee is fortunate to have present this afternoon Commissioner Palmer of the State of Illinois. Mr. Palmer, the committee will be very glad to have you ask any questions that may occur to you during the testimony, if you desire.

---

[1] See Hearings, Part 10–A, pp. 167–171.
[2] Ibid., p. 194.

Senator WHITE. May I take occasion, during the interruption, to ask a question which may not be of general interest, but it is to me. On table 168, I notice there are no farm mortgages owned in the State of Maine.[1] How does that come about? Aren't there any borrowers, or does the law prohibit, or has the Federal Government got them all?

Mr. HOWE. The law does not prohibit it. That is one of the very striking features of this whole situation, the concentration of lending by insurance companies in the States which I mentioned, primarily Iowa, whch has 25 percent of the entire farm mortgages.

Mr. GESELL. I believe you said 55 percent of the farm mortgages were in Iowa, Illinois, Kansas, and Nebraska?

Mr. HOWE. That is correct.

Senator WHITE. I notice neither Maine nor Massachusetts had any of these mortgages. The companies had none of the mortgages in those two States. I wondered if there were some peculiarity of the law or of the people.

Mr. GESELL. We will get to that when we have the gentleman from the companies who have been loaning on the stand.

The CHAIRMAN. That is true of Delaware as well as Maine.

Mr. HOWE. New Hampshire.

The CHAIRMAN. Nevada and New Hampshire.

Mr. GESELL. I think you will find the loans are rather negligible even in New York State.

The CHAIRMAN. Rhode Island has none. Vermont has only $1,000.

Mr. HOWE. Yes; a thousand dollars.

The CHAIRMAN. And Wyoming has $50,000.

Mr. GESELL. We are going to have on the stand Mr. Rogers of the Prudential[2] and Mr. Rogers of the Metropolitan[3]—two different Mr. Rogers—in charge of the farm loans of those respective companies. I think we can get from them some idea as to the factors that have prompted this.

The CHAIRMAN. Proceed, Mr. Howe.

Mr. HOWE. On December 31, 1931, the urban mortgages and real estate—that is, the total of the two—owned reached a total of $4,918,000,000, from which it declined to $4,872,000,000 at December 31, 1938. During this period, however, mortgages declined $961,000,000, while real estate increased $915,000,000; $2,087,000,000 of the $3,888,000,000 invested in urban mortgages on December 31, 1938, was owned by the Metropolitan, the Prudential, and the New York Life. Over $2,552,000,000, or 65 percent, was owned by these companies and the Equitable and the Mutual—that is, the five largest legal reserve life-insurance companies.

Of the $905,000,000 of urban real estate, $474,000,000, or 52 percent, was owned by the Prudential and the New York Life, and $605,000,000, or 67 percent, was owned by the first five companies.

Of all mortgages and real estate owned by the 26 companies, the following percentages are owned by the three leading companies: Metropolitan, 23 percent of the mortgages; Prudential, 19.6 percent; and New York Life, 11 percent.

[1] Ibid., p. 168.
[2] Ibid., p. 15030.
[3] Ibid., p. 15030.

Of the real estate, the Metropolitan has 26 percent; the Prudential, 14; and the New York Life, 11.

Real estate accounted for the following percentages of the total urban mortgages and real estate account:

Metropolitan	20 percent
Prudential	14
New York Life	20
Equitable	27
Mutual	18
Penn Mutual	28
New England Mutual	40
State Mutual	28
Massachusetts Mutual	35

$1,227,000,000, or 32 percent of all city mortgages owned were secured upon real estate located in New York City.

Mr. GESELL. That is 32 percent of all the city moravages?

Mr. HOWE. Thirty-two percent of all the city mortgages owned by these 26 companies were secured upon real estate located in New York City. Fifty-nine and sixty-five one hundredths percent of all mortgages owned were located in the States of New York, California, Illinois, New Jersey, Ohio, and Pennsylvania.

Mr. GESELL. Now, table 201, Mr. Howe, shows the degree of concentration of these city mortgages in the 10 metropolitan areas, does it not?[1] I was particularly impressed by the figure for the Mutual of New York, which shows 93.3 percent of its real estate in those 10 cities shown. Is that correct?

Mr. HOWE. That is right.

Mr. GESELL. Of its mortgages.

Mr. HOWE. And 89.17 percent of the Mutual's urban mortgages were secured upon real estate in New York City.

The CHAIRMAN. Where is that shown?

Mr. HOWE. That is shown on table 201, Senator.[2]

The CHAIRMAN. I don't see that figure.

Mr. HOWE. The 89.17 is a computation, a ratio that I have made, but it does not appear on the table.

Mr. GESELL. They have under the heading of New York City, over $200,000,000 of mortgages in New York City, and in the total of 10 areas they have only $209,000,000. Is that not correct?

Mr. HOWE. That is correct, and the total mortgage account is $224,806,000 as of December 31, 1938.

Mr. HENDERSON. It is a case of putting your eggs in one basket and watching the basket.

Mr. HOWE. That is certainly great concentration.

Senator WHITE. Is there any law, so far as you can discover, as to the amount these companies loan on this urban real estate? Do they loan 50 percent of the assessed valuation or some other fixed ratio?

Mr. HOWE. In the 11 States in which these companies are domiciled, 1 State calls for a mortgage loan only to the extent of 50 percent—that is Wisconsin. Two States call for 60 percent. The remainder of the States call for 66⅔ percent maximum loans, with the exception of New Jersey, which permits 75 percent under certain circumstances.

---

[1] See Hearings, Part 10-A, p. 201.
[2] Ibid.

Senator WHITE. That is loans of assessed value?

Mr. HOWE. No. The appraised value at the time the loan is made.

The CHAIRMAN. Does that apply to both farm and urban real estate?

Mr. HOWE. It does.

Senator WHITE. That is the appraised value by the company?

Mr. HOWE. Frequently they have their own appraisers and frequently they have appraisals made by an independent appraiser at the time the loan is made.

The CHAIRMAN. But do the statutes specifically prescribe that there shall be a given percentage of appraisal made in a particular way?

Mr. HOWE. There is no—of course, when you figure 48 States, there are a lot of laws, but so far as my knowledge goes, I have never seen a law in which the manner of appraisal was detailed.

The CHAIRMAN. If the lender is free to make the appraisal, then the percentage is not very significant.

Mr. HOWE. The same thought has occurred to me. However, it must be said that there is some integrity among appraisers as well as there is among accountants and other professional men.

The CHAIRMAN. Oh, yes; of course.

Mr. HENDERSON. We will get into that more tomorrow, Senator.

Mr. GESELL. Now, you have on tables 207 and 209, Mr. Howe, some break-down of these urban mortgages in terms of functional types and the size of the mortgages held? [1]

Mr. HOWE. That is right.

Mr. GESELL. Have you same comments which you wish to make on those tables 207 and 209?

Mr. HOWE. It is very interesting to note in looking at these companies that the policy of companies apparently is quite different with respect to the size of loans which they emphasize in the lending which they do. For instance, this classification here shows——

Mr. GESELL (interposing). You are on table 207?

Mr. HOWE. I am on table 207. It shows that in the case of the Metropolitan, the largest amount of mortgages held in any one group is $135,000,000, in the size group from 1 to 2 million dollars. That constitutes 5 percent of the total mortgage account.

Mr. GESELL. It is under the two to five million dollar class, is it not?

Mr. HOWE. I am sorry; yes, it is. It is $150,000,000, under the classification from two to five million, which is 16.7 percent of the total mortgage account.

Mr. GESELL. How does that compare with the Prudential, for example?

Mr. HOWE. The Prudential, on the other hand, emphasizing to some extent residential loans, has the largest amount loaned in the size classification from five to ten thousand dollars, and 21.4 percent of the total mortgage account of the Prudential is in mortgages of that size.

Mr. GESSELL. Is that partly brought about by the fact that the Metropolitan hasn't seen fit to go into F. H. A. mortgages and the Prudential has been a rather heavy investor in that type of mortgage?

---

[1] See Hearings, Part 10–A, pp. 207 and 209.

Mr. HOWE. That may have been a contributing factor. Another interesting thing is, when you jump to the Mutual Life Insurance Co. of New York you find that the largest proportion of their mortgage account which turns up in any classification here, is $46,436,000 in the two-to-five million-dollar classification. This constitutes 20.7 percent of their total mortgages.

The CHAIRMAN. Of what company are you speaking now?

Mr. HOWE. The Mutual of New York—the last company in the first block on the page, Senator.[1]

The CHAIRMAN. Now, the largest aggregate appears to be in the classification of one hundred to two hundred and fifty thousand, does it not?

Mr. HOWE. Yes; it does for the companies as a whole.

The CHAIRMAN. And of that also, the Metropolitan appears to have the largest amount and Prudential next.

Mr. HOWE. That is correct, in that classification.

The CHAIRMAN. No; New York Life is next, that is right, in that classification.

Mr. HOWE. In that classification, one hundred to two hundred and fifty thousand dollars for 26 companies as a whole constitutes 12.9 percent of the total mortgage account.

The CHAIRMAN. And the smallest aggregate is in the classification of less than two thousand. That amounts to $68,983,000.

Mr. HOWE. 1.77 percent of the total mortgage account.

The CHAIRMAN. And the next smallest aggregate appears to be in the twenty-five to fifty thousand classification.

Mr. HOWE. And over five million is a small classification also, of $212,000,000.

The CHAIRMAN. Yes; over five million is the next with $212,886,-000, and then the twenty-five to fifty thousand group, $219,543,000.

Mr. HOWE. That is correct.

Senator WHITE. Are there any figures to show the extent to which the mortgagors are in arrears either as to principal or interest?

Mr. HOWE. There are no figures with respect to arrearages as to principal, Senator, for the reason that large amounts of mortgages are permitted to stay, as they say, open on the books. I mean to say a mortgage is made for 3 years, and it is extended and remains open, and the fact that the period is extended has nothing to do with the value of the mortgage.

So we have restricted ourselves to interest and tax delinquency.

Senator WHITE. That is true unless the security itself has depreciated.

Mr. HOWE. That can happen, too, that the security will depreciate, but because of that general situation, the fact that large amounts of mortgages are permitted to run open, a statistical tabulation based on principal delinquency would be likely to be grossly misleading, and that is the reason no data of that sort was included in these figures.

Mr. GESELL. We do have figures on interest delinquencies, however, in Table 211.[2]

Mr. HOWE. Yes; we do.

---

[1] See Hearings, Part 10–A, p. 207.
[2] Ibid., p. 211.

Mr. GESELL. Would you comment on that table, Mr. Howe?

Mr. HOWE. Yes; on table 210, it will be seen that the mortgages delinquent 3 months to 1 year amount to $125,000,000; and 1 to 2 years, $87,000,000; 2 to 3 years, $94,000,000; over 3 years, $101,000,000; and the last column is the total of the mortgages delinquent 1 year or more, which is $283,000,000. The total of mortgages delinquent 3 months or more is $409,697,000.[1]

Mr. GESELL. And those figures are expressed on a percentage basis on 211, are they not?

Mr. HOWE. They are.

Mr. GESELL. There seems to be discrepancies there between the mortgage accounts, the quality of the mortgage accounts of the various companies, ranging from delinquencies under the 3 months or more column of as high as 33 percent of the account, down to as low as less than 1 percent?

Mr. HOWE. That is correct, shown by the column entitled "Mortgages with interest delinquent 3 months or more." The average is 10.52 percent. Of the four principal holders of city mortgages, the Prudential has the highest ratio of mortgages in foreclosure to mortgages 2 years in default, and the Northwestern has the lowest percentage. The Prudential percentage is 34.4, and Northwestern is 2.79.

The three largest holders of city mortgages are also the three largest holders of city real estate.[2] They are as follows: Metropolitan, $237,000,000; Prudential, $129,000,000; New York Life, $108,000,000.

The Connecticut Mutual with 51.89 percent held the largest percentage of urban real estate owned 5 years or more as of December 31, 1938.

Mr. GESELL. You mean to say that over half of the real estate held by the Connecticut Mutual has been on their books more than 5 years?

Mr. HOWE. That is right.

Mr. GESELL. Why have you taken the 5-year period?

Mr. HOWE. Because there is, while not absolutely standard, a general rule that after real estate has been held for 5 years, the companies must obtain special permission of the insurance commissioners to hold it for a longer period.

Mr. GESELL. What are the percentages for some of the other companies?

Mr. HOWE. The Metropolitan, 30.08; Prudential, 37.44; New York Life, 27.37; Northwestern, 22.72.

The following percentages of urban real estate owned December 31, 1931, and that subsequently acquired had been sold by December 31, 1938.

Mr. GESELL. Let me see if I understand before you go further. You have tables showing the amount of real estate acquired by years, have you not?

Mr. HOWE. That is right.

Mr. GESELL. And then you have computed the amount of that real estate that has been sold over the same period.

Mr. HOWE. That is right.

---

[1] Ibid., p. 210.
[2] Ibid., p. 217.

Mr. Gesell. Where do those tables appear?

Mr. Howe. With respect to urban real estate, on pages 222 and 223.[1]

Mr. Gesell. Now, on page 223, the last column, one can get the percentage of the real estate held or acquired during this period?

Mr. Howe. That is right.

Mr. Gesell. Which was sold by the end of the period?

Mr. Howe. That is correct.

Mr. Gesell. In other words, the Metropolitan sold 28.09 percent of such real estate and the Prudential 50.08, to use those two companies?

Mr. Howe. That is correct.

Mr. Gesell. What are some of the other percentages of that performance?

Mr. Howe. The New York Life had sold 13.78 percent; the Equitable, 14.16 percent; the Mutual, 15.92 percent; the Provident Mutual, 2.95 percent; Massachusetts Mutual, 2.80 percent; and the New England Mutual, 2.27 percent. The total average is 27.11.

Mr. Gesell. That concludes the discussion of the various types of investments, does it not, Mr. Howe?

Mr. Howe. Yes; that does.

Mr. Gesell. Did you now wish to make some statement with respect to problems of valuation?

Mr. Howe. Yes; I do.

Mr. Gesell. And the factors of safety that relate thereto?

Mr. Howe. I do.

Of all American business, life insurance is unique in the number of factors of safety which are inherent in its plan of operation. The principal factors of safety should be mentioned at this time as preliminary to the discussions of valuation which are to come. There are several of these factors which are particularly outstanding.

The first is the level of gross premiums. It is well understood that mutual life-insurance companies charge policyholders a premium rate which is higher than they anticipate to be necessary to fulfill their obligations. The difference is later returned to policyholders under the somewhat misleading name of dividends. Thus a company from year to year takes in more money than in normal circumstances it will require, so that in the event unusual conditions arise it has a fund which it may use in the protection of the policyholders' interest. One of the principal reasons for the liberal gross premiums is the fact that rates are computed on the basis of a mortality experience which is worse than that being experienced in the country at the present time. As the result of this, gains from mortality are experienced almost uniformly, and these gains are available for return to the policyholder or for the use of the company in the event circumstances require.

The second important factor of safety is that the interest earnings of companies have to date been in excess of the interest which the companies have obligated themselves to earn under their contracts with the policyholders.

To the extent that there is an excess in this regard, it gives additional funds which the companies may utilize in the event it is necessary, but which in the ordinary course are returned to the policyholders with the excess premium.

[1] See Hearings, Part 10–A.

Another factor of safety is the restriction imposed upon the withdrawal of reserves by policyholders. Thus in most companies the policy must have been in force for at least a year before any withdrawal is permitted, and thereafter a surrender charge is made on the withdrawal. These surrender charges vary somewhat between companies but are in the case of most companies substantial. In general surrender charges have been increased since the depression. The importance of these checks on withdrawal is indicated by the fact that on the basis of figures submitted to us, the aggregate amount which cannot be withdrawn has been estimated at $4,900,000,000, or a sum equivalent to over 20 percent of total assets.

Mr. Gesell. Now, you have a table relating to that, have you not, on the subject of withdrawal?

Mr. Howe. That is right.

Mr. Gesell. What table is that?

Mr. Howe. Two seventy-five.

Mr. Gesell. I think some further discussion of that table would be desirable.

Mr. Howe. The table shows total liabilities to policyholders, including policy reserves.[1] Then it shows the gross sum subject to withdrawal in cash based on answers to investment questionnaires supplied by the companies. Not all of the companies supplied this information, but we do have information with respect to companies whose liabilities to policyholders constituted $12,105,000,000. These companies stated that the aggregate of the cash-surrender values of their policies, plus other sums which may be withdrawn by policyholders in cash, amounted to $9,508,000,000. Using this as a basis, and assuming that the situation is about the same for the remaining companies, and applying this ratio to the total liabilities to policyholders of all the 26 companies which constitute $22,808,000,000 we estimate that the amount subject to withdrawal in cash is $17,900,000,000, which being deducted leaves a balance of $4,900,000,000.

Mr. Gesell. What reasons were given by the Metropolitan and the Equitable Life and the New York Life, for example, in not submitting this information, Mr. Howe, or were any explanations given?

Mr. Howe. I forget the precise language of the answers to those questions, but evidently they thought it was rather a burdensome and complicated calculation to determine the aggregate of cash values. They apparently kept no records on that matter or did not wish for other reasons to supply the information.

The Chairman. Of course, it is a rather burdensome matter to gather all of these statistics, as your own work in preparing this report evidenced.

Mr. Howe. I would be the first to admit that, Senator.

The Chairman. Now, the amount which is subject to withdrawal in cash is prescribed by law, I suppose?

Mr. Howe. I think you might say it is limited by law. The amount which is subject to withdrawal is a matter of the contracts which the companies have made with their policyholders. Now, the law in some cases limits the amounts of the surrender charges which may be made.

---

[1] See Hearings, Part 10-A, p. 275.

The CHAIRMAN. Before the Armstrong Committee investigation, the policyholders didn't have the right to demand cash withdrawals?

Mr. HOWE. It was about that time that cash withdrawals began to be manifested.

The CHAIRMAN. And the policy with respect to policyholder's loans is also as a result of law requiring the companies to make those loans, so that the condition which we find here is by and large the result of statutes which have been passed in the various States, or is that true?

Mr. HOWE. Well, Senator, that is not entirely in accordance with my understanding in the matter. I haven't made any detailed investigation of law with respect to surrender values and policy loans, but it is my understanding that the companies have a relatively free right of contract within certain latitude which is prescribed by the laws of the various States.

Mr. GESELL. That must be true, must it not, or you would not have percentage variations as between companies as to the amounts of money subject to withdrawal?

Mr. HOWE. For instance, there is the New England Mutual here, who have a provision—I mean their contracts customarily bear the provision that on surrender, the policyholders shall get the full reserve, I believe it is beginning with the third year. On the other hand, the surrender charges of some of the companies like the Travelers Insurance Co. of Hartford in some cases run to the twentieth year.

The CHAIRMAN. It will be observed from Table 275, if you glance at the column entitled "Policy loans outstanding," you will find that that apparently follows a standard curve.[1] The amount of policy loans outstanding by and large corresponds to the size of the company, does it not?

Mr. HOWE. I think so. We had some figures here this morning which show, if you will refer to this other table, the various percentages of policy loans in relation to assets.[2]

The CHAIRMAN. Just look at this one on page 275 so that I may make the point I have in mind. That table seems to follow the curve of size of the companies.[3]

Mr. HOWE. In a broad general way it does.

The CHAIRMAN. Yes; just in a broad general way. Whereas, that is not true with respect to the second column which is labeled, "Gross sum subject to withdrawal in cash." So what I am trying to develop is whether or not there is any standard that governs this figure, namely, the amount subject to withdrawal in cash.

Mr. HOWE. You see, Senator, the situation is complicated by the fact that these contracts have been issued over a long period of time. There are some policies outstanding today issued mostly before the Armstrong investigation, as I understand it, under which the policyholder has no right to obtain cash on surrender. I think that as a matter of fact, most companies will pay the policyholders on surrender, but there is no contractual right there.

During this period——

The CHAIRMAN (interposing). Is there not a legal right which has been imposed since those contracts were drawn?

---

[1] See Hearings, Part 10-A. p 275.
[2] Ibid., p. 102.
[3] Ibid., p. 275.

Mr. HOWE. I understand there is not, Senator, but I have not investigated that point of law.

Senator WHITE. I take it, so far as my experience goes, you have two methods of getting cash, either by loan or by what I call the cash-surrender value of the policy?

Mr. HOWE. Correct.

Senator WHITE. And does this heading which you have here mean the same thing as the cash-surrender value of the policy?

Mr. HOWE. Subject to minor qualifications, it does mean that that is the aggregate cash-surrender value of the policies.

Dr. LUBIN. Is that cash-surrender value, would that total be greater than the loan value?

Mr. HOWE. Well, one may borrow as a general rule on a life-insurance policy up to the cash-surrender value. Now, they make a certain allowance for interest at the end. You can't borrow quite as much money as you can get on surrender because of that difference, but as a practical matter the amounts are the same.

The CHAIRMAN. In other words, interest is computed on the discount basis rather than on the payment basis.

Mr. HOWE. I am not sure how it is computed, but at least you can only borrow an amount which will permit the company to collect a little interest in addition to the sum borrowed for a short period.

Another aspect of this same problem—you will remember that we are talking about factors of safety. This, of course, is a very substantial factor of safety, this $4,900,000,000 not subject to immediate withdrawal.

The CHAIRMAN. Yes. Of course, if all were subject to withdrawal, then the ability of the company to meet its liability by reason of mortality might be impaired.

Mr. HOWE. Yes.

Another aspect of this same problem——

Dr. LUBIN (interposing). Mr. Chairman——

The CHAIRMAN (interposing). Mr. Howe, there is some disagreement with that conclusion on the part of Dr. Lubin and Mr. Gesell.

Dr. LUBIN. I would like to have that question and your answer repeated by the stenographer.

(The reporter read the question and answer as follows:)

> The CHAIRMAN. Of course, if all were subject to withdrawal, then the ability of the company to meet its liability by reason of mortality might be impaired.
> Mr. HOWE. Yes.

Mr. HOWE. I mean, it is subject to further qualification. Naturally the liability to policyholders as constituted by these reserves is less than the total assets of the companies. They have capital in the case of stock companies and they have surplus in the case of mutual companies in excess of their liabilities to policyholders. They have all of these factors of safety, but the point that I thought the Senator was trying to establish was that this is an additional source of strength to the companies and if they had no surrender charges, some other method of protection would probably have to be devised.

Mr. GESELL. Mr. Howe, I thought the Senator's question was as to whether this sum was necessary in order to meet liabilities which might be incurred. However, if everybody withdraws, there will be $4,900,000,000 left and there would be no liability, isn't that correct?

Mr. Howe. That is substantially it.

Mr. Gesell. There wouldn't be any liabilities left if everybody cashes in. So it is a margin, isn't it, Mr. Howe, it is a margin of safety, a factor of safety?

Mr. Howe. Yes; it is a margin of safety and a factor of safety. It is substantially a surrender charge.

The Chairman. What is the relation of the surrender value to the contract liability?

Mr. Howe. We got into a question of reserves there.

The Chairman. The surrender value is always substantially less than the contract liability, the mortality liability. On a $5,000 policy, for example, the cash-surrender value is considerably less than that, just as the loan value is.

Mr. Howe. And so is the reserve ordinarily less than five thousand?

The Chairman. Surely, but if there were not a limit to the cash-surrender value, then obviously there would not be as sound a factor of safety.

Mr. Howe. If you could pay your first annual premium and draw out $5,000, you wouldn't have to do any other work.

The Chairman. Of course, that isn't the question at all. What can you withdraw after the first premium is paid, as a rule?

Mr. Howe. In most cases you can withdraw nothing.

The Chairman. All right, then, with respect to when the second premium is paid?

Mr. Howe. There is some variation, but usually then you can withdraw nothing.

The Chairman. In other words, this is all in accordance with law in the various States, is it not?

Mr. Howe. That is right.

The Chairman. Now, the withdrawal of the first premium, and in most cases of the second premium as well, is due, is it not, to the feeling upon the part of the legislators that to permit the policyholder to withdraw the full amount of the premium would impair the ability of the company to meet its mortality liability?

Mr. Howe. I don't think it goes quite as far as impairing their ability to meet their liability.

The Chairman. Until a company has built up its investment income, its primary source of revenue is the income from permiums, is it not?

Mr. Howe. Oh, yes.

The Chairman. And it still is?

Mr. Howe. It always is.

The Chairman. Your testimony showed only the other day the income from premiums is, I would say, three or four times that from investments, is it not?

Mr. Howe. Greatly in excess; oh, yes.

The Chairman. So that it is only natural that there should be by law some factor of safety with respect to the cash surrender value as well as the loan value.

Mr. Howe. Yes.

The Chairman. That is all I am trying to say.

Dr. LUBIN. Does the law specifically prohibit making a loan on a policy or having a surrender value on a policy before a year or two? If my memory serves me correctly, one of the witnesses said under the Massachusetts Savings Bank, you could get it in 2 months.

Mr. GESELL. That is correct; and I know of no law which requires a company to make a surrender charge.

Mr. HOWE. A maximum surrender charge is stipulated by law. It is my impression that the companies can go as much farther as they want in that respect but that may be different in different States.

Senator WHITE. Or they can stop far short of that.

Mr. HOWE. Certainly. They can charge the maximum surrender charges permitted by law, or a lesser surrender charge.

Mr. GESELL. Or no charge at all.

Mr. HOWE. Correct.

Mr. GESELL. Will you continue with your statement, Mr. Howe?

Mr. HOWE. Another aspect of this same problem, which like the surrender charge may be considered an additional factor of safety, is the provision common in most insurance policies issued in recent years that the policyholder may be delayed a period of 60 days to 6 months in the event he requests the cash value of his policy. It must be stated that there is no evidence that the companies are making use of that provision at the present time, but it exists as a check on serious cash withdrawals in times of stress.

Dr. LUBIN. Does this mean, then, in reality, that under these newer contracts, that in times of distress when the probabilities of the needs for borrowing are the greatest, the chances of getting your money are the least?

Mr. HOWE. I imagine, Dr. Lubin, that it works somewhat as the similar provisions against savings banks withdrawal. I think the companies will use them very, very rarely, but the provision is there and if a moratorium isn't enacted and they feel they need one, they have the legal power to establish one of their own.

Dr. LUBIN. But if you withdraw your money from a savings bank you don't pay the savings bank interest on the money you have withdrawn.

Mr. HOWE. That is right.

Mr. GESELL. There is no interest charge on the cash surrender of a policy, is there, Mr. Howe?

Mr. HOWE. No; there is nothing on cash surrender.

Dr. LUBIN. This refers to loans as well, does it not?

Mr. HOWE. Yes; this provision applies, as I understand it, both to policy loans and to surrender values, and it is included only in policies which have been written in recent years. There are many policies on the books to which such provisions do not apply.

Senator WHITE. But it is designed to prevent runs?

Mr. HOWE. That is right; and of course has been used by other financial institutions.

Mr. KADES. Mr. Howe, before those new provisions were inserted in policies, had insurance companies complied with the obligation to make loans at any time?

Mr. HOWE. The paragraph after the next here discusses moratoriums, and I think that will answer your question.

Another factor of safety is the stability of income from renewal premiums. Reference has already been made to the psychological and other factors which tend to encourage policyholders to continue payment of insurance premiums even in times of stress, and it is, of course, a fact that once a policy has been sold, a continued income may be expected over a considerable period. This constant and stable income provides a company with cash funds to meet almost any emergency.

During the period of growth which the companies are experiencing, income has almost invariably exceeded disbursements, and thus in general it has been possible for the companies to meet their commitments without liquidating assets even in times of stress.

Not the least of the factors of safety is the essential first lien character of life insurance assets. In general they consist of the safest bonds and the best mortgages available. Therefore, the investment income as well as the value of life insurance assets are less affected by fluctuations in economic activity than any other type of investment.

During the depression, additional factors of safety were created. These were in the nature of temporary protective devices which were placed upon the business as a whole; regardless of the needs of any particular companies for the additional protection. I refer to convention values and moratorium legislation.

Mr. WHITE. Will you explain what you mean by convention values?

Mr. HOWE. Yes; in subsequent paragraphs I go into that subject.

Mr. WHITE. Bring it in in the natural order then.

Mr. HOWE. All right. We will get into that subject. Convention values for securities were established by the National Association of Insurance Commissioners. These values, which applied to bonds and stocks only, were substantially in excess of the depressed market quotations then prevalent. On December 31, 1932, the use of convention values for insurance companies resulted in balance sheet values of bonds and stocks for the 26 companies of $6,670,000,000 compared with estimated market values as of that date of $5,545,000,000 or a difference of $1,124,000,000. In the succeeding years convention values have been gradually adjusted toward market so that at the present time there is no substantial difference between market and convention values, on the portion of the portfolio to which the convention values apply. Presumably, the action of the Association of Insurance Commissioners was taken not only for the purpose of protecting some companies in financial distress but by reason of the recognition that the securities held by life-insurance companies were in general of high quality and sound character and, therefore, not necessarily of an ultimate value as low as that represented by the prevailing market prices. The events of subsequent years have given further indication as to why it is permissible to cite the first lien nature of the assets as a factor of safety.

Convention values were simply arbitrary values based in most cases on actual market values at periods of time prior to the date of the balance sheet, maybe a year or so back.

Senator WHITE. And were established arbitrarily by the Association of Insurance Commissioners?

Mr. Howe. Yes. The insurance commissioners of the various States are organized in this National Association, and it is my understanding that they appoint a committee and that committee issued a volume an inch or inch and a half thick, in which the prices of all these securities were scheduled.

Senator White. What legal significance, if any, did these convention values have?

Mr. Howe. I don't know that they had any legal significance. They were simply used as the basis for determining the total assets on the balance sheet.

Senator White. I wondered whether they had any bearing upon the authority of a particular insurance company to continue business in a particular State or not, and whether they were established possibly to avoid the impact of some State laws?

Mr. Howe. I am sorry; I just can't answer as to the full purpose.

Senator White. Just what was the reason for establishing convention values?

Mr. Gesell. It is clear, is it not, Mr. Howe—perhaps I can help—that these convention values enabled the companies to show a better financial value than had they carried their security at market?

Mr. Howe. Yes; they showed a better financial condition without a doubt.

Mr. Gesell. In a case where that might have meant the difference between solvency and insolvency then they did prevent insolvency.

Senator White. Then they did have some legal significance.

Mr. Howe. If that is legal significance, they certainly had it.

Senator White. I should think that a valuation which kept a man out of insolvency had some significance, if a different value headed him into insolvency.

Mr. Howe. That is not true of all companies. These values had different effects on different companies.

Mr. Gesell. And the use of convention values, I understand, had no particular significance as to what the particular situation might have been. They were used by all companies?

Mr. Howe. They were used by all companies so far as I know.

Mr. Hayes. You mentioned that the difference between convention and market value which existed at the end of 1932 has since been substantially, if not entirely eliminated?

Mr. Howe. That is right.

Mr. Hayes. Was that elimination brought about by an increase of market values or a writing down of convention values, or both?

Mr. Howe. Both.

Mr. Hayes. The different treatment depended upon different policies by different companies?

Mr. Howe. No, I don't think so. Some of the portfolio has appreciated. Other securities, rails, and so forth, have gone into default and have been written down to market, and the combination of these processes has resulted in the condition where this morning we found that the portfolio on December 31, 1938, had a market value of $360,000,000 less than the cost.

But on the other hand, the portfolio also has a market value of $200,000,000 in excess of what it is carried on the balance sheet.

Mr. Gesell. Now, what about moratorium legislation?

Mr. HOWE. I might make one brief statement about moratorium legislation. Moratorium legislation was enacted quite generally throughout the country. By virtue of special legislation passed on March 7, 1933, the New York superintendent of insurance issued the first moratorium regulation for that State under the date of March 9, 1933. The superintendent's ruling provided that no cash or loan values should be permitted except for the purpose of and to the extent of covering payment of premiums or any obligations to the insurance companies by the policyholders.

Mr. GESELL. You mean that a policyholder under that moratorium legislation could make a loan or surrender one policy if he needed the funds to meet some other obligation to the insurance company, but otherwise not?

Mr. HOWE. That is right. The only exceptions were in cases of extreme need in which the company could pay an individual policyholder not in excess of $100 as cash surrender or loan value in the aggregate on all policies of ordinary insurance carried by him.

Mr. HENDERSON. Mr. Howe, was there any moratorium on the requirement of the policyholder's contract?

Mr. HOWE. You mean to pay premiums?

Mr. HENDERSON. Yes.

Mr. HOWE. Not that I ever heard of. In fact, this was arranged so that the policyholder could borrow on one policy or on his policy to pay the premium but there was no moratorium on income.

The regulations were modified providing for the payment of full cash and loan value for pay-roll purposes on March 17, 1933, and a further extension of the purposes for which such funds might be obtained was made by a regulation of April 3. On September 9, the moratorium in New York was terminated.

Mr. KADES. Mr. Howe, were you here when Mr. Buckner testified?

Mr. HOWE. Only a portion of his testimony.

Mr. KADES. Were you here when he testified relative to policy loans? Do you recall his statement that the policyholder had a right to call for a policy loan at any time, and that the advance might be called for at times when money was exceedingly scarce and very dear; consequently, interest rates on policy loans must necessarily be charged without relation to the current money market? In the light of the moratorial legislation in 1933 and the new policy contracts, is that statement still substantially accurate?

Mr. HOWE. Well, it is substantially accurate because the moratorium effectively lasted only a few days, but that is the exception that proves the rule, if you want to follow that philosophy.

Mr. KADES. Would you care to comment on whether or not there might be a more reasonable relationship between current money rates or perhaps the average of current investment income rate and the rate on policy loans?

Mr. HOWE. Of course, you know that beginning, I believe it was January 1, 1939, there was a reduction on policy-loan interest instituted in New York, and I think all of the large companies which are operating in New York now carry a 5-percent policy-loan rate in all their policies issued in all States—that is, the new policies which they are issuing. It has nothing to do with the 6-percent rate which is charged on policies issued before that date.

Mr. GESELL. I might say, Mr. Kades, that I think subsequent witnesses from the companies will be in better position to talk about the problem you have raised, since it is one of insurance management, and if you don't mind I think it might be better to pass over it.

Mr. KADES. It is perfectly all right.

Mr. HENDERSON. I think, Mr. Gesell, that committee members might well take note of what Mr. Howe is attempting and that is to interpret the facts as we have developed them and not to give opinions on managerial questions. I think we would like very much to have those presenting material avoid giving opinions as far as possible.

Mr. GESELL. Now, this brings you, does it not, Mr. Howe, to the question of valuation?

Mr. HOWE. This does.

Given those substantial factors of safety, it is surprising to find that the companies have not taken a realistic position in all cases in the statement of their assets and income.

First, with respect to assets, if the bonds owned by the 26 companies are classified in accordance with investment ratings it is found that the indicated market value of Baa bonds on December 31, 1938, was $121,000,000 less than the value at which these bonds were carried on the balance sheet. In the case of Ba bonds, the market value was $159,000,000 less than the value at which the bonds were carried in the balance sheet. In other words Ba bonds were carried at 45 percent over their market value.

Mr. GESELL. There is a table on that, Mr. Howe. Which table is that?

Mr. HOWE. That is table 157.[1]

Mr. GESELL. That table shows, does it not, that taking the entire bond account as a whole, the market value is some 200 million in excess of the admitted asset value?

Mr. HOWE. That is correct.

Mr. GESELL. The type of bonds which are carried at admitted asset value, which is above market, start with the Baa, in the case of companies as a whole, and run through the Ba and B bonds, do they not?

Mr. HOWE. That is right.

Senator WHITE. Were these values at which these securities were carried on the books the convention values, or what were they?

Mr. HOWE. Senator, the National Association of Insurance Commissioners still publishes values at which these securities may be carried on the balance sheet, but at the present time convention values and market values are almost synonymous. They apply, however, only to a section of the portfolio.

Senator WHITE. Then your answer is that these are not convention values?

Mr. HOWE. I should say that is right. Mostly they are so-called amortized or investment values.

Mr. GESELL. Your answer rather, Mr. Howe, is, is it not, that these are convention values but the convention values and the market-values are approximately the same since the companies do follow the convention values still in setting up balance sheets?

---

[1] See Hearings, Part 10–A, p. 157.

Mr. Howe. That is right. They still publish this book with the quotations in it, but at the present time the quotations in it are substantially market values. However, those are only used for the valuation of securities which are rated B or less, or for bonds which are in default.

The Chairman. What is the basis upon which the admitted asset value is determined?

Mr. Howe. The basis on which admitted asset value is determined, Senator, depends first on whether a bond is considered to be amply secured or whether it is not considered to be amply secured. First, in the case of bonds which are considered to be amply secured, those bonds are carried at cost, plus or minus an amortization factor which is designed to reduce the bond to par, its face amount, by its maturity.

In other words, if a bond, neglecting minor differences in the table, were purchased at 95 and it was to mature in 10 years, the price would be advanced a half a point a year until after 10 years it would be at par.

If on the other hand a bond were purchased at 105 to mature in 10 years, the price would be reduced a half of 1 percent a year in the direction of par.

The Chairman. As carried in the admitted asset value table? [1]

Mr. Howe. Yes; as carried in the admitted asset value table. That is the way the bonds which are classified as amply secured are carried.

The Chairman. So that the purchase price, the cost, is the determining factor plus the amortization charge?

Mr. Howe. That is correct.

Mr. Gesell. That is in the case of bonds that are amply secured?

Mr. Howe. That is in the case of bonds that are amply secured. That is the only section of the portfolio we are talking about at this instant.

Mr. Pike. The same bond might be carried at a different price by two different companies, depending on what their cost was?

Mr. Howe. Absolutely.

Mr. Gesell. And also depending on whether or not the individual companies found the bonds to be amply secured?

Mr. Howe. That is right.

Mr. Gesell. There is latitude there in that one company may declare a bond to be adequately secured and carry it at cost plus amortization, and another company, which may hold the same bond, may sell it inadequately secured and mark it down.

Mr. Howe. We have examples of that.

The Chairman. With respect to those which are regarded as inadequately secured, what is the basis on which the admitted asset value of such a bond is fixed?

Mr. Howe. Bonds which are considered to be inadequately secured—and I will try to define that a little further—are carried at market value. That includes all the bonds that are in default and all the bonds which are rated by any one of these four services, at a rating of less than Ba (or a comparable rating) or a rating of B or less. In other words, anything less than Ba must be carried at market.

[1] See Hearings, Part 10-A, p. 112.

The CHAIRMAN. So that inadequately secured bonds are carried at the market value?

Mr. HOWE. That is correct.

The CHAIRMAN. Which is a mark-down from cost?

Mr. HOWE. Ordinarily; yes.

The CHAIRMAN. But those which are regarded as adequately secured are carried at cost rather than at market value?

Mr. HOWE. That is correct; adjusted cost.

The CHAIRMAN. And we are dealing here now, of course, with those which are adequately secured?

Mr. HOWE. In part.

The CHAIRMAN. In this table?[1]

Mr. HOWE. In this table we have bonds which are rated all the way from Aaa down to C.

The CHAIRMAN. There are no C's in this table.

Mr. HOWE. Ca.

Now, the bonds which are rated B or less must all be carried at market, substantially, whereas the bonds which are rated Ba or better——

The CHAIRMAN (interposing). Are there any bonds in the portfolios of any of these companies which are excluded from this computation?

Mr. HOWE. Only the bonds which are in so-called schedule X, which are considered to be relatively worthless.

The CHAIRMAN. Then this table undertakes to reflect a condition with respect to the whole bond accounts?[1]

Mr. HOWE. That is right.

The CHAIRMAN. And there is no distinction so far as this table is concerned, between bonds which are adequately secured and those which are not adequately secured?

Mr. HOWE. No, except as the ratings tend to indicate that.

The CHAIRMAN. And the excess of market value over admitted asset value takes account of the fact that you have already described, namely, that with respect to bonds which are inadequately secured, they are carried at market value, which in most instances, I take, would be probably less than the cost?

Mr. HOWE. In most cases, I think it would be less; yes.

The CHAIRMAN. So with that understanding, we have the picture in which the excess of market value over asset value is more than $200,000,000?

Mr. HOWE. That is right.

Mr. GESELL. Will you proceed, Mr. Howe.

Mr. HOWE. Yes; I will.

I was just commenting here on the fact that the Ba bonds in the aggregate get into the balance sheet by reason of the fact that they are amortized at 45 percent over their market value. You see, the Ba is the borderline classification. That is the weakest classification of the bonds which are permitted to be carried at cost and, as it shows, that particular classification of bonds are carried here at $159,000,000 more than their market value.

The CHAIRMAN. Suppose you were to eliminate the Governments from this computation, what would that show?

---

[1] See Hearings, Part 10-A, p. 157.

Mr. Howe. Well, the indicated appreciation on Governments, Senator, is $193,000,000, and the indicated appreciation on the total portfolio is $200,000,000.

Mr. Henderson. And it also shows, does it not, that there isn't a single company of the 26 that does not have an excess of market value over admitted asset value in its Governments?

Mr. Howe. That is correct.

Now, speaking again of this question of the Ba bonds and the fact that they are carried at 45 percent over the market, between companies there was great variation. Western and Southern carried its Ba bonds at 7.8 percent below the market, a conservative practice. Aetna and Mutual of New York, on the other hand, carried their Ba bonds at over 60 percent above the market.

Ba bonds which are held by insurance companies in general are "has beens" of the quality group. Moody says [reading]:

> Bonds carrying the Ba rating are judged to have speculative elements; their future cannot be considered as well assured.[1]

Standard Statistics designated their comparable grade B1 as "fair"; Fitch describes their similar grade designated BB as "medium grade" which, in their scale, is one notch below "good." Poor's describes bonds of their similar rating B* as "better grade speculation class" and states—

> Bonds of this class are borderline issues falling in Group II of the Government regulations and therefore are not considered eligible for bank investment.

On the other hand, the companies have an excess of market value over balance-sheet value in the case of bonds rated Aaa, Aa, and A as well as in the United States Government bonds, so that the entire portfolio on December 31, 1938, had a market value over $200,000,000 in excess of balance-sheet value.

Mr. Henderson. Before you go on with that, will you come back to the Ba, table 157?[2] I don't know whether you have done anything like this or not—the ratio of those minus signs, you might say, to the total admitted assets of the different companies—whether or not the companies pretty uniformly had these Ba bonds which were below in value or whether their experience was just about the same. For example, Metropolitan has bonds that are $5,647,000 below.

Mr. Howe. That is right, $50,647,000.

Mr. Henderson. But it has a large portfolio?

Mr. Howe. That is right.

Mr. Pike. Ninety-nine million dollars of them. Table 156 shows $99,000,000.[3]

Mr. Howe. Yes.

Mr. Henderson. I wondered whether you made any calculations as to whether or not any company showed up extraordinarily well or extraordinarily poorly in this relationship to the total accounts? If you haven't, it's all right.

Mr. Howe. I think I have it right here.

Based on market value and the relationship of that to admitted asset value, we find that the percentage varies all the way from the Western and Southern, which carried their Ba bonds at 7 percent

---

[1] "Moody's Bond Record," Key to Moody's Ratings.
[2] See Hearings, Part 10–A, p. 157.
[3] Ibid., p. 156.

less than their market value, to the Mutual Life of New York, which carries their bonds at 63 percent in excess of market value.

Now, for the leading companies, the percentages of the excess of admitted asset value over market value are these:

Metropolitan	50.86
Prudential	36.89
New York Life	51.77
Equitable	38.96
Northwestern	26.94
Travelers	40.97
John Hancock	47.16
Penn Mutual	16.19
Mutual Benefit	44.18
Aetna	63.09
Connecticut Mutual	54.42

Bankers Life carried their bonds at less than their market value, 2 percent less, and so forth. So there is a very substantial difference between the companies with respect to that.

In view of the fact that this excess of market value over balance sheet value of the best bond is being withdrawn year by year in the interest earnings of the companies, through the regular amortization procedure, it is a questionable practice to offset it against the depreciation of lower grade bonds. These latter bonds are of less security and may ultimately result in loss. The companies have failed to take account of this shrinkage in market value of $280,316,000 in the case of Baa and Ba bonds. Further, it is interesting to note that there is substantial difference among companies in handling bonds of borderline security. In some instances, companies have written such bonds down to market. In other instances, companies accounting for the same bonds may carry them at their amortized value. For example, Baltimore & Ohio Railroad, Southern Division First 5's of 1950 were carried by the Aetna, Travelers, and Prudential at 34, whereas the Metropolitan and New York Life carry the bonds at 100¾ and 98⅝, respectively. In the case of Hudson and Manhattan, first-lien-mortgage series A, 5's of 1957, the Prudential carries bonds at 45 and the Mutual Benefit at 45 while the Aetna and the Equitable of New York carry them at 97¾ and 98¾, respectively. In the case of the Florida East Coast Railroad 50-year first mortgages 4½'s of 1959; Metropolitan, New York Life, and Mutual Life carry the bonds at 95⅜ to 98¾, respectively.

The amounts of these bonds held December 31, 1938, by these companies varied from over $5,000,000, in the case of one issue by the Metropolitan, to $31,000 in the case of another issue held by another company.

This difference of treatment undoubtedly results from differing interpretations placed upon the rule for bond valuations promulgated by the superintendent of insurance of New York. The portion of the ruling applicable to these bonds is—I am speaking of these borderline bonds—"for all other bonds which are not in default as to principal or interest, which are found by the insurer to be amply secure"—notice that, "found by the insurer to be amply secure"—"and which are also rated B1, Ba, BB, B*, or higher, by any one or more of the investment rating concerns referred to in the next preceding section, amortized value shall be entered in this column." That means the amortized value shall be used.

Mr. GESELL. Take it another way; it means the companies have latitude on what valuations they place upon the borderline securities?

Mr. HOWE. That is right.

Thus the commissioner clearly says that only bonds which are amply secured, in the opinion of the insured, shall be carried at amortized values.

The CHAIRMAN. That makes the opinion of the insurer the standard which fixes the value?

Mr. HOWE. That is right.

Senator WHITE. And there is a variation of a couple of hundred percent?

Mr. HOWE. That is right, a very substantial variation in this narrow borderline area.

The CHAIRMAN. Is there any such variation in any other area? You have referred two or three times to this narrow borderline area.

Mr. HOWE. With respect to the well-secured bonds, cost is the determining factor. With respect to the bonds at the other end of the spectrum, the ones in default, they have to put them at market——

Mr. GESELL (interposing). Of course, when we talk about narrow areas, the Ba's alone amount to $159,000,000 worth of securities.

Mr. HOWE. No, the Ba's amount to $358,094,000 at market value and are shown on the balance sheet at $159,589,000 more than their market value.

The CHAIRMAN. What page is that?

Mr. HOWE. Page 156 and page 157, Senator.[1]

The CHAIRMAN. What percentage of the bond account do you say would fall within that group?

Mr. HOWE. Well, now, let's see here, what percentage of the Ba, Baa——

Mr. PIKE (interposing). Two and a half percent, isn't it?

Mr. HOWE. Yes, 2½ percent in the Ba, and a larger percentage in Baa.

The CHAIRMAN. So that so far as 97½ percent of the bond account is concerned, they are carried without any question, either at cost or at market, and it is only in this narrow group of 2½ percent that there is this variation of which you speak?

Mr. HOWE. That is right. It is only $159,000,000 or something like that.

Mr. GESELL. Now, there is a misunderstanding. You are talking about both Ba and Baa. Senator O'Mahoney is talking only about Ba.

The CHAIRMAN. What classifications fall into the 2½ percent?

Mr. HOWE. The 2½ percent would constitute the Ba bonds, $358,000,000, and the Baa bonds constitute an additional $1,272,000,000.

The CHAIRMAN. Do you find any variation in the values at which the Baa are carried?

Mr. HOWE. No, they are almost all carried at amortized value, although the amortized value is in excess of the market value uniformly.

The CHAIRMAN. It is the other small group that shows the variation?

Mr. HOWE. That is right.

---

[1] See Hearings, Part 10–A.

Mr. KADES. How much in excess of the market value is the balance sheet value of Ba bonds?

Mr. HOWE. Forty-five percent in the aggregate for these 26 companies.

In spite of the fact that bonds in default are carried at market, no similar provision is made for mortgages in default. This table shows the amount of mortgages delinquent as to interest 3 months or more and the amount of mortgage interest due and unpaid as of December 31, 1938.

Mr. GESELL. That is the table I now show you, entitled "Mortgages Owned as of December 31, 1938, Delinquent 3 Months or More as to Interest."

Mr. HOWE. Yes.

Mr. GESELL. I wish to offer this table for the record.

The CHAIRMAN. The table may be received.

Mr. GESELL. That will be designated "Exhibit No. 2268."

(The table referred to was marked "Exhibit No. 2268" and is included in the appendix on p. 15497.)

Mr. GESELL. Will you proceed with the discussion of this table?

Mr. HOWE. In spite of the fact that bonds in default are carried at market, no similar provision is made for mortgages in default. The table which has just been introduced in the record shows the amount of mortgages delinquent as to interest 3 months or more and the amount of mortgage interest due and unpaid as of December 31, 1938.

It will be seen that the mortgages amounting to over $520,000,000 were delinquent; as to interest, over $47,000,000. In other words, the delinquent interest amounted to $47,000,000.

Mr. GESELL. On 520 millions of mortgages?

Mr. HOWE. Yes. The question as to whether it is conservative policy to carry these mortgages in the balance sheet at their full unpaid principal amount is one which merits serious consideration. This is the next table.

Mr. GESELL. That is the table entitled "Interest Due and Accrued on Bonds and Mortgages," is it not?

Mr. HOWE. That is right.

Mr. GESELL. I wish to offer the table for the record.

The CHAIRMAN. It may be received.

(The table referred to was marked "Exhibit No. 2269" and is included in the appendix on p. 15498.)

Mr. HOWE. The table which has just been introduced in the record, shows the amount of interest due and accrued on bonds and mortgages on December 31, 1938.

Mr. GESELL. What is the amount of such interest, Mr. Howe?

Mr. HOWE. The amount of delinquent interest on bonds in default is $118,000,000; the mortgage figure is $47,000,000; the total delinquent interest on bonds and mortgages as of December 31, 1938, was $166,280,000.

Mr. KADES. Mr. Howe, is it possible for you to give us a percentage of the amount of assets of the leading life-insurance companies which is carried at other than market value, which is subject to a market valuation?

Mr. HOWE. Well, so far as market values are concerned, the only assets which are carried precisely at market values are bonds in default and bonds below rating. The other bonds are carried at an adjusted cost, which at the present time, is less than their market value, and mortgages are carried at the unpaid principal amount, and real estate is carried at whatever values they may elect. So that a very small proportion of the assets are carried exactly at market value.

Since the valuation of real estate is left almost entirely to the discretion of management, it is not surprising to find that great differences exist among the companies in the standards adopted for valuation, and in many cases an overstatement appears to exist.

(Off-the-record discussion.)

Mr. Howe. In the case of farm real estate, for instance, there was great variation between the companies as to the relationship between the value at which it was carried on its books, and the face amount of the mortgages which the companies had held on this real estate before foreclosure. This ratio varied from 78.71 percent in the case of New York Life to 119.17 in the case of the Union Central.

Urban real estate showed a somewhat similar condition in that the book value of the real estate varied from 85 percent, the face amount of the mortgage which the companies had held on this real estate before foreclosure in the case of the New York Life Insurance Co. to 120.66 percent in the case of the New England Mutual.

Further evidence of the extreme difference in the relative level of values at which city real estate was carried by different companies is indicated by the fact that the real estate of the New York Life was carried on its books at 5.8 times gross income, whereas in the case of the Union Central such real estate was carried on its books at 18.23 times gross. In cases where an overstatement of assets exists this has also caused a corresponding increase in income over the period during which the overstatement has taken place. One of the important forms in which this overstatement of income has occurred in a few companies is the form of capitalization of accrued and uncollected interest income on mortgages.

Mr. Henderson. What do you mean by that term "capitalization"? Ordinarily that means that you take an interest rate of, say, 5 percent, and multiply the income by 20, and put it on your books at that; is that what you mean by this?

Mr. Howe. No; it is not, commissioner. The capitalization of interest arises, really, in three ways. It always arises out of a situation where a borrower is not able to meet his interest charges. If a borrower has been unable to meet his interest charges and an accumulation of interest or taxes or other charges on the mortgage has occurred, the company may sit down with the borrower and draft a new mortgage for a larger amount, taking into account all the accrued interest and all the accrued taxes, and so forth, adding that on to the face of the mortgage and starting afresh.

Mr. Henderson. Is that known in the insurance business as capitalizing?

Mr. Howe. That is one of the ways in which interest is capitalized. There are three ways. The second type of capitalized interest occurs in the case where a borrower is unable to meet his interest and the lender says to the borrower, "All right, you don't have to pay us the full rate, shall we say 5 percent, on the mortgage, but only 2 percent. The remaining 3 percent we will accrue and you can pay that after 10 years, shall we say." Now, the 3 percent in that case, in some instances, is taken into income right along, just as fully as the 2 percent, which is fully paid.

Mr. HENDERSON. Now, wait a minute. It is taken into income, although they don't get it?

Mr. HOWE. That is right.

Mr. HENDERSON. Wait a minute. I want to get this straight. You mean that some insurance companies take into income account interest that is not received?

Mr. HOWE. Certainly. Not received in cash; it is simply added to the book indebtedness of the borrower.

Mr. HENDERSON. But that is adding to the principal amount.

Mr. HOWE. Sure.

Mr. HENDERSON. That isn't income, I mean in the ordinary sense of the word.

Mr. HOWE. I am inclined to agree with you.

Mr. GESELL. I doubt if it is income in the extraordinary sense of the word.

Mr. HENDERSON. You are sure of what you are saying?

Mr. HOWE. I am as confident as I can be of it, sir. I have made quite a study of this phase of the situation.

Mr. GESELL. Can you give us an example, Mr. Howe, of what this capitalization of interest means in a specific case?

Mr. HOWE. Yes; I can. Now, may I just say there is a third way of capitalizing interest, and that is just simply writing it down without reference to any arrangement with the borrower. Those are the three ways.

Mr. GESELL. May we have an example of it?

Mr. HOWE. Yes. This is table 177.[1] This table has the disadvantage that it refers only to farm real estate, except in certain cases, and I can read the amounts of capitalized interest which occurred in the cases of certain companies, if the committee is interested.

Mr. GESELL. You mean this would be capitalized interest for city as well as farms?

Mr. HOWE. That is right.

Mr. GESELL. That doesn't show in the exhibit.

Mr. HOWE. It shows, but to get it out would require the combination of two tables, 177 and 214.[2]

Mr. GESELL. Table 214 shows the urban and 177 shows the farm and you now have the total amounts that you wish to read?

Mr. HOWE. That is right. In the case of Prudential, the amount so capitalized during the period 1932 to 1938 amounted to $3,253,000. In the case of the New York Life Insurance Co., the amount was $2,389,264. In the case of the Equitable Assurance Society of the United States, the amount was $481,000.

Mr. GESELL. The Metropolitan you did not mention.

Mr. HOWE. The Metropolitan did not capitalize any interest during that period.

The CHAIRMAN. Explain this capitalization of interest again, please.

[1] See Hearings, Part 10–A, p. 177.
[2] Ibid., p. 214.

Mr. Howe. It occurs in three ways, Senator. First is where there is a mortgage which is rewritten. The borrower get in trouble; he is delinquent on his mortgage; he is in arrears either with respect to taxes, interest, or other charges. The lender sits down with him and says, "Now, if we reorganize this debt and make you pay your interest monthly, instead of semiannually, and all these things, perhaps we can get out of this hole," so that we will write a mortgage for an increased amount, taking into account the interest which has not been paid and the taxes which the insurance company may have had to advance on behalf of the borrower, and so this new mortgage for the larger amount is put upon the books.

The Chairman. Now, then, the difference between the original mortgage at its face value and the new mortgage at its increased value, which includes the unpaid interest, must be accounted for in some way?

Mr. Howe. Correct.

The Chairman. Now it is accounted for as income?

Mr. Howe. That is correct.

The Chairman. Is there any other way to account for it? It is an increased asset, assuming that it is to be paid, technically?

Mr. Howe. Yes; assuming the mortgage is as good as it was before for the increased amount, it is all right.

The Chairman. The mortgage, of course, is sustained by real property?

Mr. Howe. That is right; but at the time that a recomposition of a mortgage of this sort is made it is not necessary to sit down and appraise the property and determine that the new mortgage is less than two-thirds of the appraised value of the property.

Mr. Gesell. This is just added on?

Mr. Howe. Yes; it is just added on.

The Chairman. But there is no other way of making the bookkeeping entry, is there?

Mr. Howe. No; if you are determined to put the new mortgage on the books at the higher figure, it has got to affect the income account.

The Chairman. The question is whether a mortgage of this kind should be carried upon the books at its full value, or whether it should be carried on the books at a depreciated value because it wasn't paid?

Mr. Howe. That is right.

The Chairman. And that judgment might depend upon the character of the real property which sustains the mortgage?

Mr. Howe. I should think it would very much depend. If the mortgage is already a very full mortgage, the capitalization of interest under those circumstances is very different from what it would be if the mortgage was a 20-percent mortgage, for instance.

Mr. Gesell. There is more to it than that, isn't there, Mr. Howe, in that capitalizing the interest? The company is showing that it has received interest which has not been paid?

The Chairman. Well, it hasn't received it in cash but it has received a promise for an increased payment.

Mr. Gesell. Yes; but it has not received it in cash, is that not correct?

Mr. Howe. Yes; that is correct.

The Chairman. That of course is obvious, but it is merely a question of whether this increased asset should be regarded as income or not. I suspect that in the computation of the income tax, an accrual of that kind would be subject to taxation on the part of an individual.

Mr. HOWE. Well, if he keeps his books on a cash basis it would not.

The CHAIRMAN. But it is a thing of value that is received and anything of value that is received is income.

Mr. HOWE. All right.

Mr. GESELL. But your question suggested, Senator, that there was no other way of accounting for this accrued but unpaid——

The CHAIRMAN. (interposing). I asked whether there was any other way.

Mr. GESELL. There is another way, and that is, to be realistic about it and not count it as income.

Mr. HOWE. Metropolitan has capitalized no interest. They must have made some deals with some of their mortgage-holders. You can't hold tremendous mortgage accounts like theirs without having occasionally to make some adjustment.

The CHAIRMAN. That might be a matter of judgment as to whether or not the real property should be carried at its real value, at its original value.

Mr. HOWE. Absolutely.

The CHAIRMAN. What other method of capitalization were you speaking of?

Mr. HOWE. The second method of capitalization occurs in a case like this. The mortgage becomes delinquent, shall we say as to interest. The lender sits down with the borrower and the borrower says, "I can only pay you 2 percent. You can have the property or I will pay you 2 percent," or for some other reason he can only pay 2 percent. The borrower says to him, "All right; we will take 2 percent for the next so-many years, but the balance of the contract rate will accrue against you and at the end of this period you will have to pay it." So that as that interest accrues it is also taken into income just to the same extent that the 2 percent which was fully paid and cash was taken in.

The CHAIRMAN. You mean as it accrues though not paid?

Mr. HOWE. As it accrues, though not paid.

The CHAIRMAN. Because it becomes an obligation to be paid later on? It is an account receivable to be handled at some future time?

Mr. HOWE. That is right.

Mr. GESELL. The theory there is that maybe no demand has been made for the interest and so that even though it is delinquent, it has still been received because it hasn't been defaulted on, isn't that the theory being expressed?

Mr. HOWE. Yes; there has been no demand and it can't be in default, and therefore it is good and they take it in.

The CHAIRMAN. What I see is the difference between cash income and income in another form, and I can understand why some accountants might call it income.

Mr. HENDERSON. You couldn't make a policy loan with it, or you couldn't pay an officer's salary, and you couldn't pay rent with it. It looks to me like that old saying, you know, Mr. Chairman, of someone who signed a note for a debt and said, "Thank God, that is paid!"

Mr. HOWE. The third method, Senator, is simply a variation of the second. Here is a case, shall we say, in which a mortgage is totally delinquent as to interest, no interest is being paid. Well, it is accruing, you see; the debt is being increased, and so it is income and we will take it in as income. If the value of the property is such that the thing all washes out and we get the interest and everything back, it is all right, but it seems like a practice which could be a little more conservatively handled.

The CHAIRMAN. Does it appear in the statements as indistinguishable from cash income?

Mr. HOWE. Extremely indistinguishable.

Mr. GESELL. Entirely indistinguishable.

Mr. PIKE. How did you get these figures of capitalized interest?

Mr. HOWE. By asking for them.

Mr. HENDERSON. You didn't get them out of the Convention Form?

Mr. HOWE. No; I did not.

The CHAIRMAN. What is the total amount?

Mr. HOWE. The total amount of interest which has been capitalized by these companies during this period is $25,463,000.

The CHAIRMAN. Where does that appear?

Mr. HOWE. That is really the total of tables 177 and 214, Senator.[1] Here the tables are divided between farm and urban, and I have made a consolidated table.

Mr. GESELL. About half of that rests with one company?

Mr. HOWE. That is right.

Mr. GESELL. Will you show what that company is and what the effect of that capitalization item is?

Mr. HOWE. Outstanding in this connection is The Union Central which company has capitalized interest to the extent of $10,954,000 since 1932.[2] This is an amount which is in excess of the surplus and contingency reserves of the company. The company is a stock company, however, and has capital in excess of surplus and contingency reserves.

The CHAIRMAN. What is the explanation of that method from the point of view of a company which follows it?

Mr. HOWE. The explanation I think is the one that you have given, that—well, after all——

The CHAIRMAN (interposing). I am not an accountant.

Mr. HOWE. I mean, the theory of it is that if the company recovers and be made whole from the security, there is no harm; I mean the real property security, there is no harm in capitalizing their interest because they will be paid back anyhow, ultimately.

Mr. GESELL. How does their real estate carry on their books from a valuation point of view in relation to the others? It is the highest, is it not, 18.23 times?

Mr. HOWE. That is right. The Union Central urban real estate is carried at 18.23 times gross.

Mr. PIKE. They also have probably the highest ratio of real estate owned to total assets?

Mr. HOWE. Yes; they have a higher ratio.

Mr. GESELL. In a way you might say it was a symptom of difficulty in the real estate, would you not?

---

[1] See Hearings, Part 10-A, pp. 177 and 214.

[2] In this connection see also memorandum regarding this item, subsequently submitted by W. Howard Cox, president, The Union Central Life Insurance Co., which appears in appendix, pp. 15629-15631.

Mr. HOWE. Well, it is a symptom of something; yes. The Union Central has the highest percentage, or one of the highest percentages, at least, on real estate of any of the companies, as shown by table 104, 11.66 percent of total admitted assets is in farm real estate,[1] and 0.66 percent in city real estate.

The CHAIRMAN. What is the geographical distribution of the mortgages of this company?

Mr. HOWE. They have a rather wide geographical distribution, Senator. My recollection is that they are in 32 States, or 33. They have property in Alabama——

The CHAIRMAN (interposing). What page?

Mr. HOWE. Page 167.[2] I am speaking of farm mortgages. We don't need to review the urban account because it is relatively small. The Union Central has 910,000 of mortgages in Alabama; none in Arizona; 958,000 in Arkansas; 1,041,000 in California; 1,833,000 in Colorado; none in Connecticut; none in Delaware; none in District of Columbia; one in Florida.

In Georgia they have 1,202,000; Idaho, 1,220,000; Illinois, 1,861,000; in Indiana, 3,788,000; Iowa, 4,255,000; Kansas, 3,867,000; Kentucky, 505,000; Louisiana, 1,048,000; none in Maine; none in Maryland; none in Massachusetts. In Michigan, 633,000; in Minnesota, 2,862,000; Mississippi, 1,763,000; Missouri, 3,482,000; and then as we skip along, Senator, unless you want me to read all of these, you will see that in Wyoming they have 50,000.

The CHAIRMAN. Well, Nebraska carries 3,829,000.

Mr. HOWE. That is right.

The CHAIRMAN. And South Dakota, 1,523,000; North Dakota has 1,401,000, indicating that their difficulties were in the agricultural States where the farm problem was the greatest.

Mr. GESELL. Does that complete the comments that you have, Mr. Howe, up to a discussion of the operating results and lines of business?

Mr. HOWE. Yes; that completes that.

Mr. GESELL. Then unless the committee has some questions, that completes the presentation today. I would like to bring Mr. Howe back at some auspicious occasion to discuss lines of business after the committee and Mr. Howe have had a little rest.

The CHAIRMAN. Are there any other questions now to be asked of Mr. Howe?

Mr. HENDERSON. I think in view of its importance I would like to go back to this capitalization—sometime, not now—of the gross income that you mentioned. I think that ties right into this last item, and when we pick up again let's have a little more information on it.

Mr. GESELL. I might say that tomorrow we will begin a consideration of life insurance company investments and farm real estate and farm mortgages, and the first witness will be Mr. Norman J. Wall, head of the Division of Agricultural Finance, Bureau of Agricultural Economics.

The CHAIRMAN. The committee will stand at recess until 10:30 tomorrow morning.

(Whereupon at 4:05 p. m., the committee recessed until Thursday, February 15, 1940, at 10:30 a. m.)

---

[1] See Hearings, Part 10–A, p. 104.
[2] Hearings, Part 10–A.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, FEBRUARY 15, 1940

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washingon, D. C.

The Committee met at 10:40 a. m., pursuant to adjournment on Wednesday, February 14, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney, presiding.

Present: Senator O'Mahoney (chairman), Representative Williams, Messrs. Henderson, Kades, Pike, and Brackett.

Present also: Senators Guy M. Gillette, of Iowa; George Norris, of Nebraska; Robert La Follette, of Wisconsin; and Clyde L. Herring, of Iowa; Representatives Vincent F. Harrington, of Iowa; John W. Gwynne, of Iowa; and Henry O. Talle, of Iowa; James V. Hayes, Department of Justice; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser, and Hollis Black, attorney, Securities and Exchange Commission.

The CHAIRMAN. The committee will please come to order. Mr. Gesell, are you ready to proceed?

Mr. GESELL. I am, Senator. I have a short statement.

During the next 2 days we will consider life insurance company farm investments. The committee will recall that the statistical summary entitled "Operating Results and Investments of the Twenty-six Largest Legal Reserve Life Insurance Companies Domiciled in the United States"[1] which is in evidence discloses that the 26 companies held at the end of 1938, $743,961,000 of farm mortgages and $529,392,000 of farm real estate. In addition, they owned $81,755,000 of farm real estate under contract of sale making a total farm investment of $1,355,108,000. The Prudential is the most active company in the field of farm mortgages and farm real estate. Its holdings of $167,298,000 of farm mortgages are over twice that of any of the other 26 companies. In the case of all but 4 of the 26 companies who do not own farm mortgages, farm investments represent a substantial portion of the portfolios ranging as high as 17 percent in the case of the Equitable of Iowa.

At the end of 1929 the 26 largest life insurance companies owned $1,787,000,000 worth of farm mortgages. During the next 10 years this amount decreased until at the end of 1938 it stood at $743,000,000. During this period the amount of farm real estate owned has risen from $81,000,000 to $529,000,000, with another $81,000,000 worth owned under contract of sale. From the beginning of 1932 to the end of 1938 the companies acquired $430,000,000 of farm mortgages.

---

[1] See Hearings, Part 10–A.

The CHAIRMAN. It might be interesting, Mr. Gesell, to remark at that point that while the value of farm mortgages held by the insurance companies was declining, beginning with 1929 and 1930, the value of farm mortgages held by the Federal land banks and the Farm Credit Administration under the Land Bank Commissioner was steadily increasing, so that there was a transfer of these farm mortgages from the life insurance companies to government agencies.

Mr. GESELL. That is correct, and we will present figures through the first witness with respect to that matter.

Of farm real estate owned December 31, 1931, and that acquired between that date and December 31, 1938, 32.66 percent had been sold by the latter date. The percentage of such farm real estate sold ranged, for individual companies, from 4.6 to 70.3 percent. Net income on farm real estate owned in 1938 averaged 0.93 percent before depreciation.

Of mortgages owned December 31, 1938, $195,000,000 at book value was on farms in Iowa and $91,000,000 was on farms in Illinois. At the same time $2,000,000 was on farms in Alabama and $2,000,000 on farms in South Carolina. The 26 companies reported no farm mortgages in several States, among them Maine, New Hampshire, and Massachusetts. Relatively few loans were made in many Southern States.

The bulk of farm mortgages owned by the insurance companies is from $5,000 to $25,000 in size. As of December 31, 1938, 14.7 percent of farm mortgages were delinquent as to interest 3 months or more. In 1938 the average interest rate on farm mortgages owned by all companies was 4.7 percent.

Because of their huge investments in farm real estate, life insurance companies are an important factor in the agricultural economics of the country. Difficulties with these investments have placed them among the largest landowners in the country. The economic and social consequences of insurance companies as creditors of farmers and owners of farm land pose many interesting and difficult questions, some of which cannot yet be answered and others to which the answers can only be suggested.

In the period between the war and 1929, insurance money in liberal amounts flowed into the agricultural country. In their efforts to secure good mortgages the insurance companies entered into active lending competition with one another and with local financial institutions, making farm credit comparatively easy to be had in some parts of the country. What were the effects of this generous credit upon agriculture? Will the insurance companies resume lending on the same scale as formerly? What will be the results if they fail to do so?

In some parts of the country in which farm real estate did not appear to be as attractive a security as in other parts, the insurance companies made few farm mortgages. What has been the effect of this policy upon those sections? Has this policy served to enhance the difficulties of farmers in these areas? Has the result of insurance operations been a drawing off of capital from some sections, particularly from the farms of the South? And why have some companies not loaned money on farms at all?

During the depression thousands of farmers came into financial difficulties and the insurance companies, as well as other lenders, were forced to foreclose their mortgages in order to protect their investments. As landlords, these companies have become farm managers. What effect has this absentee ownership had upon the agricultural communities of the Middle West? Has it encouraged the rehabilitation of these communities or has it resulted in an uprooted population?

In recent years the Federal Government, through the Department of Agriculture, has undertaken an extensive farm program. What has been the effect of this program upon the insurance companies' investments? Has it helped or hindered the insurance companies in their efforts to work out the problems which unprecedented numbers of foreclosures forced upon them? And conversely, what has been the effect of insurance-company ownership upon the Government's farm program?

These are not new questions. It is hoped the testimony will, however, throw further light on the problems raised and contribute to their solution. I might point out to the committee that the information on farm mortgages and farm real estate will be found, commencing on table 161 of "Exhibit No. 2250" and continuing to table 192.[1]

The first witness will be Mr. Norman Wall, of the Bureau of Agricultural Economics.

The CHAIRMAN. Mr. Wall, do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WALL. I do.

TESTIMONY OF NORMAN WALL, HEAD OF THE DIVISION OF AGRICULTURAL FINANCE, BUREAU OF AGRICULTURAL ECONOMICS, DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.

Mr. GESELL. What is your official title, Mr. Wall?

Mr. WALL. Head of the Division of Agricultural Finance.

Mr. GESELL. Of the Bureau of Agricultural Economics?

Mr. WALL. That is correct.

Mr. GESELL. How long have you been connected with the Bureau of Agricultural Economics?

Mr. WALL. Since 1925.

The CHAIRMAN. And the Bureau of Agricultural Economics is in the Department of Agriculture?

Mr. WALL. That is right.

Mr. GESELL. Since 1925?

Mr. WALL. Yes.

The CHAIRMAN. Are you a civil-service employee?

Mr. WALL. Yes, sir.

Mr. GESELL. I want to show you first, Mr. Wall, a table entitled "Farm-Mortgage Debt," and ask you if that was a table which was prepared under your supervision?

Mr. WALL. That is correct, sir.

Mr. GESELL. I wish to offer the table entitled "Farm-Mortgage Debt" for the record.

The CHAIRMAN. The exhibit may be received.

---

[1] Hearings, Part 10–A, pp. 161 and 192.

(The table referred to was marked "Exhibit No. 2270" and is included in the appendix on p. 15498.)

The CHAIRMAN. May I interrupt to say for the record that the committee has the pleasure of having the attendance this morning of Senator Herring, of Iowa. It is only natural that Iowa should be represented in a study of farm mortgages according to the statistics already presented here.

Mr. GESELL. Mr. Wall, with respect to the table entitled "Farm-Mortgage Debt," will you point out some of the significant figures shown on that table and make any comments which you wish?

Mr. WALL. As one looks at the table on total outstanding farm-mortgage debt, one is impressed with the very rapid rise of this indebtedness from the pre-war period to the early twenties.[1] From 1910 to 1923 the total farm-mortgage debt more than tripled, increasing from around $3,200,000,000 to $10,786,000,000 in 1923.

There were several factors accounting for this rapid rise in the indebtedness. In the early period, say from 1910 to 1916, the increase in debt reflects primarily a continuation of the upward trend in indebtedness that had been occurring since almost the beginning of the century. During that period farm-land values had been rising almost continually, farm income was on the upward trend, there was an expansion in the number of banks serving agricultural communities, and we can consider that whole period as one of credit expansion.

Mr. GESELL. That is the period up to '23?

Mr. WALL. No; I am speaking of the period up to 1916. Beginning with 1916 and continuing to 1920, we began to get the influences of the very rapid rise in agricultural prices associated with the war-time demand and with our own entry into the World War.

The CHAIRMAN. Let me interrupt again. May I add to my previous statement that we also have with us Senator Gillette, of Iowa, and Congressman Harrington, of Iowa. On behalf of the committee I want to invite each of these gentlemen to participate in the examination of the witnesses.

Mr. GESELL. You were talking about the period 1916 to 1920, Mr. Wall.

Mr. WALL. During this period, as I have already indicated, it was evident that the war-time expansion in prices and in income was being reflected in an expansion of farm-mortgage debt as well as in the short-term debt of the farmers. From about 1914 to 1920 the short-term loans, that is, personal and collateral loans, obtained from commercial banks had more than doubled. It was in 1919 and 1920 that the largest expansion in mortgage indebtedness occurred.

In addition to this war-time influence, there was a substantial increase in the volume of land transfers, particularly in the Midwest. We have found from past experience that there is a very close correlation between the volume of transfers, that is farm transfers, and the demand for farm-mortgage credit.

---

[1] See "Exhibit No. 2270," appendix, p. 15498.

The CHAIRMAN. Mr. Wall, in preparing this exhibit which has just been handed in, have you made any effort to compute the total interest, or the average interest on the average indebtedness?

Mr. WALL. In the second column, Senator, you will find a series that shows the total amount of interest payments on mortgage debt.

The CHAIRMAN. Well, this first exhibit shows two columns, first the total debt outstanding and next the total interest charges, and I wondered if you had computed the relation of the two so far as the average is concerned.

Mr. WALL. Yes. For 1913, for instance, the average interest rate was 6.1 percent. It increased to a high level of 6.4 percent in 1923, and by 1939 that had decreased to 5 percent.

We shall have a chart a little later in which I shall go into these interest rate variations a little more in detail.[1]

The CHAIRMAN. What was it in 1913?

Mr. WALL. It was 6.1 percent.

The CHAIRMAN. Thank you.

Mr. WALL. The increase in indebtedness in 1921, '22, and '23 reflects to a very large extent the shifting over of loans that had previously been held by commercial banks and the refinancing of other short-term loans for equipment purchases and other miscellaneous purposes.

In the period following 1923 there was a gradual reduction in the total amount of indebtedness and, as indicated in the chart, farm income was maintained at a relatively stable level, although farm land values were declining during this entire period.[2]

Following 1930, you had somewhat the same factors showing up as occurred following 1920; that is, there was the effort on the part of short-term creditors and commercial banks to obtain greater security for their outstanding advances, and there was some increase in mortgage debt for this purpose. On the other hand, the forces of the depression were so great that the dominant movement during that period was one of debt liquidation. This continued at a very rapid rate until '33 and '34. Beginning with the refinancing program of the Farm Credit Administration there was a rapid shift of loans from the various other agencies to the Federal land banks and the Land Bank Commissioner. As a matter of fact, from 1933 to 1936, 71 percent of the proceeds of Federal land bank and Land Bank Commissioner loans were used for refinancing mortgage indebtedness to other agencies.

The CHAIRMAN. What was the experience prior to 1933?

Mr. WALL. Well, there was great difficulty in obtaining credit from the usual agencies from about 1929 until the Farm Credit Administration was organized.

The CHAIRMAN. Well, the land banks were established in the first instance during the administration of Woodrow Wilson, as I recall.

Mr. WALL. In 1917.

The CHAIRMAN. Have you followed the trend from that year on of the expansion of government credits?

---

[1] See "Exhibit No. 2272," infra, pp. 14863–15500.
[2] See "Exhibit No. 2271," infra, p. 14862.

Mr. Gesell. That is shown in a subsequent chart, I believe.[1]

Mr. Wall. We will take that up a little later.

Mr. Gesell. That is scheduled third on the list. Now I notice, Mr. Wall, that the figures on this table are estimated.[2] What is the source of these figures?

Mr. Wall. At each census period the Bureau of the Census obtains information on the amount of indebtedness on owner-operated farms. The Department of Agriculture has made surveys to indicate the relationship of the indebtedness on farms of other tenures which are used to raise the data obtained through the Bureau of the Census on owner-operated farms, so that at census dates we obtain a total estimate of debts for owner operators, managers, and tenants.

For inter-censal years, we have used the data on outstanding loans of some of the leading lending agencies, and in 1936 and '37 there was a Nation-wide W. P. A. project which obtained data on farm mortgage recordings and releases. From this material we have computed changes in the outstanding debt for the other lending agencies which then have been adjusted to the census periods.

Mr. Gesell. So these are, in effect, a composite of the figures obtained from these various sources?

Mr. Wall. That is correct.

Mr. Gesell. Have you completed your comments on this schedule?

Mr. Wall. I have not given much consideration to the last 4 or 5 years, Mr. Gesell. Would you like to have me take that up?

Mr. Gesell. Yes; if you will.

Mr. Wall. You will note that the decline in indebtedness was quite rapid up until about 1935 or '36, and while it has continued to decline during the last few years, it has not been nearly as marked as in the early depression period. There has been some increase in the recordings of life insurance companies and commercial banks, indicating that they are reentering the field. The decrease in indebtedness has been intensified in certain regions where we have had recurring drought for a number of years, which has made it very difficult for farmers to meet their obligations.

The Chairman. How does that affect the debt? Do you mean that because of the inability of the farmers to meet their obligations they have been foreclosed?

Mr. Wall. There are two factors in operation there, Senator. To the extent that the farmer is able to retain ownership of his farm, he has his interest extended and there is a gradual increase. The major factor that works in the area has been a heavy rate of foreclosures which has extinguished debt.

The Chairman. So this reduction in recent years, which was noted on this chart, is not due to the payment of mortgages by farmers but to the foreclosure of those mortgages by the mortgagee?[3]

Mr. Wall. That varies between different areas of the country. In certain regions agricultural income has recovered fairly satisfactorily, and there has been an increase in the repayment of loans in those areas, so that you have actually the formal repayment process proceeding together with the forced liquidation.

---

[1] See "Exhibit No. 2274," appendix, p. 15501.
[2] See "Exhibit No. 2270," appendix, p. 15498.
[3] "Exhibit No. 2271," infra, p. 14862.

The CHAIRMAN. These two factors then have operated to reduce the debt?

Mr. WALL. That is true.

The CHAIRMAN. Which is the major factor? Do you know?

Mr. WALL. It would be a little bit difficult to indicate exactly which is the more important because it varies so between regions. Then there is a third factor that comes in toward increasing indebtedness. Some of these farms that were acquired earlier are being transferred back to the farmers.

The CHAIRMAN. These figures which have been presented to us indicate, for example, that the farm land owned by the life insurance companies back in 1929 was valued at about $81,000,000 or $82,000,000, whereas they are now valued at about $529,000,000, indicating a very striking increase in foreclosures.[1]

Mr. WALL. The life insurance companies hold more real estate in relation to their acquirements during the period than almost any other group of lending agencies. Federal land banks have followed a policy of rather rapid disposition of their farms.

The CHAIRMAN. The land banks have also not pursued a policy of foreclosure. They have been withholding and have endeavored to permit the mortgagor to remain on the farm. Isn't that so?

Mr. WALL. They have acquired a fairly substantial amount over a period of years.

Mr. GESELL. Those figures, too, Senator, are scheduled for specific discussion.

The CHAIRMAN. Very well. I will wait until that time.

Mr. GESELL. You referred, Mr. Wall, to a chart. I take it you mean the chart entitled "Cash Farm Income and Farm-Mortgage Debt, 1910–39," which is in front of the committee. Is that the chart you refer to?

Mr. WALL. That is true.

Mr. GESELL. I would like to offer this chart for the record at the present time.

The CHAIRMAN. It may be received.

(The chart referred to was marked "Exhibit No. 2271" and appears on p. 14862. The statistical data on which this chart is based are included in the appendix on p. 15499.)

Mr. WALL. I might make a few comments on the chart, in order to bring out regional differences. You will notice there has been a gradual decline in outstanding debt from 1923 to 1930. By geographical regions, however, you get a different picture.

In the New England States you had practically a rising trend, not only during that period but up to the present time.

In the West South Central States, the indebtedness continued up until about 1932. The same is true for the Pacific States. The amount of indebtedness in the West North Central States is so large that a very sharp declining tendency influences the national series of mortgage debt.

Mr. GESELL. Now, the chart which you wish to discuss is the chart showing change in interest rates, is it not?

Mr. WALL. That is right.

[1] See Hearings, Part 10–A, p. 180.

Mr. GESELL. It is entitled "Average Interest Rates on Outstanding Farm Mortgages, January 1, 1913, 1923, 1933, and 1939," is it not?

Mr. WALL. Yes.

Mr. GESELL. I wish to offer this chart for the record.

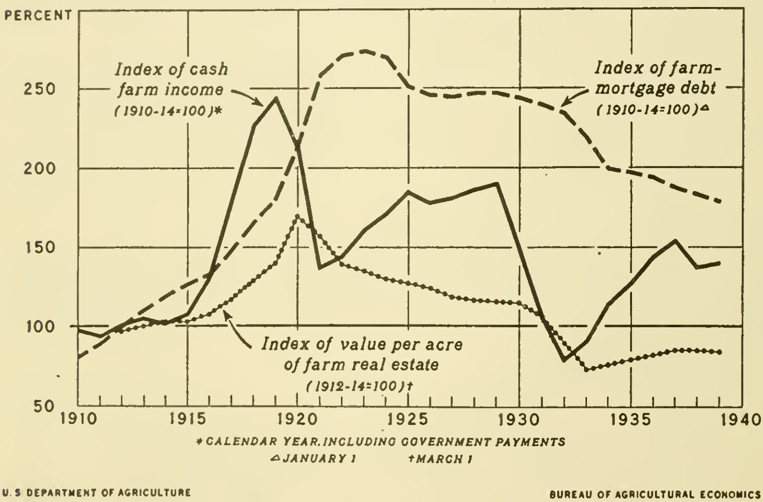
The CHAIRMAN. It may be received.

(The chart referred to was marked "Exhibit No. 2272" and appears on p. 14863. The statistical data on which this chart is based are included in the appendix on p. 15500.)

Mr. GESELL. The Chairman referred to changes in average interest rates which have taken place in the period covered by the first exhibit.[1] This chart that is now before you shows those changes both for the country at large and by individual States for the period

EXHIBIT No. 2271

CASH FARM INCOME AND FARM-MORTGAGE DEBT, 1910-39, AND VALUE PER ACRE OF FARM REAL ESTATE, 1912-39



indicated, does it not? Is that true? Have you some comments which you wish to make on that chart?

Mr. WALL. These four maps give you a graphic picture of the change that has occurred in interest rates from 1913 to 1939. In the first map you will note the wide area marked by black which represents the average interest rate on farm mortgages of 7.8 percent and over. The next area varied from 7.3 to 7.7 percent, and the very lightest area is under 5.3 percent. You will notice there is a very small amount of that.

The CHAIRMAN. When you are discussing interest rates with relation to this map, you are talking of the interest rates paid to all sorts of lenders?

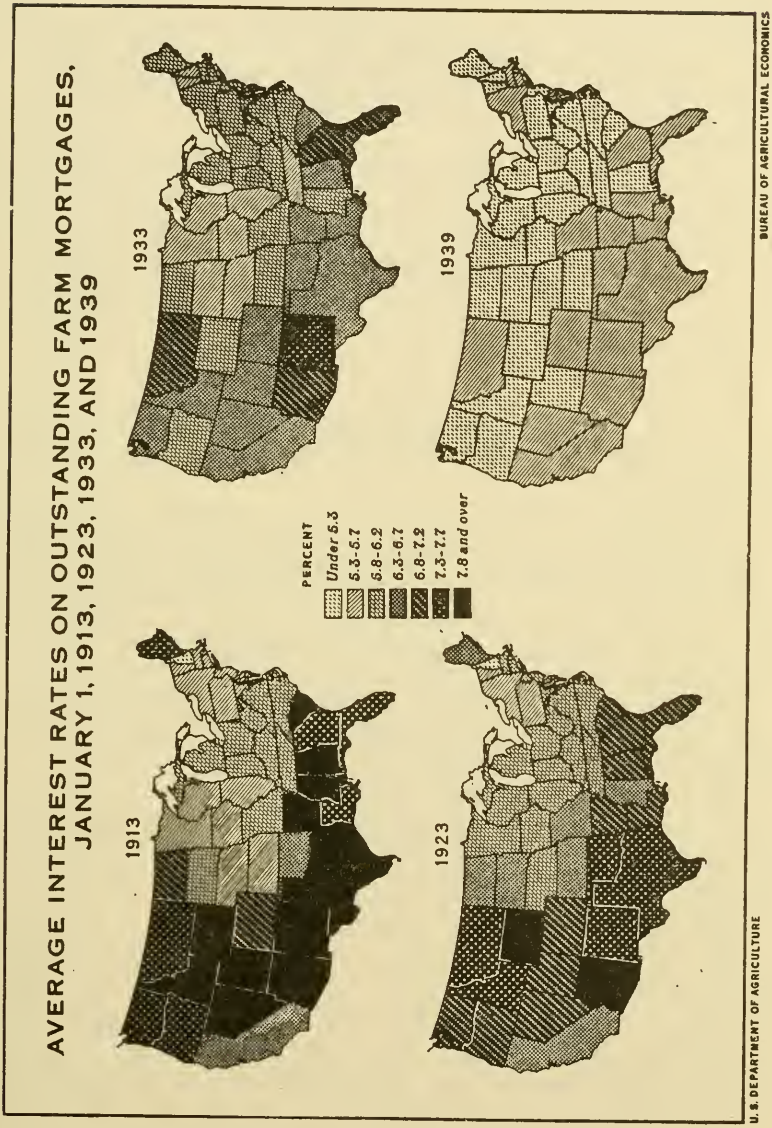
Mr. WALL. On the farm-mortgage real-estate debt.

The CHAIRMAN. And you are not discussing the interest rate paid to life insurance companies alone?

---

[1] See "Exhibit No. 2270," appendix, p. 15498.

EXHIBIT No. 2272



Mr. WALL. No; this is all mortgage debt. As we approach 1923, you will note a decrease in this intense area, indicating a lowering of the interest rates over most of this area (heavy dotted). As we proceed, in 1933 that becomes even more apparent, and in 1939 you see a great increase in the area representing an interest rate of less than 5.3 percent.

The CHAIRMAN. I observe from the map that it wasn't until 1933 that the interest rate in Wyoming dropped below 7.8 percent.

Mr. WALL. That has always been a high-interest-rate State.

Mr. HENDERSON. Is that because of the value of the land out there, or the risk of the borrower?

Mr. WALL. There are three major factors involved, I think, in this graphic reduction in interest rates, particularly in the West and Southwest. One is the risk factor. In the earlier period it was still very much of a pioneer country in many parts of those areas, with a gradual aging of those regions somewhat similar to that which occurred in the Midwest from 1880 to 1900. In the 1880's, in the Midwest, you had high interest rates and by 1900 those had gone down to fairly reasonable levels.

Mr. HENDERSON. Was that on account of the increase in the value of the land?

Mr. WALL. That is partly it. The greater development of the areas, more stable income, and greater financial resources within the areas themselves all contributed to that particular phase in the reduction of interest rates.

Mr. HENDERSON. Are you going to discuss somewhere the relation between the total value of farm property and the mortgage debt?

Mr. WALL. In 1935 the total mortgage debt represented about 24 percent of the value of farm lands and buildings. That compares with a ratio of about 9 percent in 1910.

Mr. HENDERSON. How about the period of the highest amount of farm debt, in the mid-twenties?

Mr. WALL. That was about 20 percent around 1923.

Mr. HENDERSON. Would you say that a decline in the value of farm lands has been somewhat responsible for the decline in the debt?

Mr. WALL. Yes; I would say that was certainly an important factor because it reduced the security behind the loans, and of course the declining land values—to the extent that they reflected decreased farm income—in turn reduced the amount of funds available to the individual farmers for paying the mortgage interest.

(Representative Williams assumed the Chair.)

Mr. GESELL. Taking this reduction of interest rates that has taken place over this whole period from '13 to '39, can you tell us what the principal factors have been for that period?

Mr. WALL. I started to develop the point that there had been an aging of the high risk areas, and in addition to that, there have been two other important factors. One of these is the increase in the volume of loans held by centralized lending agencies which have made loans at a lower interest rate. I am speaking here primarily of the land banks in the Western areas and Southern areas. In other words, as the land banks took over a larger proportion of the total mortgage debt at a rate of interest lower than that available from other lenders, it had the effect of reducing the average rate of interest.

Then in more recent years, there has been a third factor, an actual reduction in the rate of interest charged by practically all lending agencies. This is in part reflected by the reduced interest rates provided by Congress on Federal land bank and Land Bank Commissioner loans, which brings the rate for Federal land banks down to 3½ percent, and for Land Bank Commissioner, to 4 percent.

So that in this whole period of lower interest rates, you have the three factors at work: the aging of the Western and Southern communities, particularly the Southwest; the increase in the amount of loans held by the centralized lending agencies, which as a rule have lower interest rates than local lending institutions; and, since 1933, an actual reduction in interest rates charged by all principal lenders.

Mr. GESELL. Have you information, Mr. Wall, which will show the amount of the farm-mortgage debt held by the principal lender groups over the period from 1920 to 1933?

Mr. WALL. If you will turn to the next chart——

Mr. GESELL (interposing). Is that the chart I show you now?

Mr. WALL. Correct.

Mr. GESELL. I wish to offer this chart for the record.

Acting Chairman WILLIAMS. It may be received.

(The chart referred to was marked "Exhibit No. 2273" and appears on p. 14866.)

Mr. GESELL. Have you some comments which you wish to make on that chart?

Mr. WALL. I would like to suggest that we consider the next table in connection with this chart, giving the figures on which the chart is based.

Mr. GESELL. I would like to offer that table.

Acting Chairman WILLIAMS. It may be received.

(The table referred to was marked "Exhibit No. 2274" and is included in the appendix on p. 15501.)

Mr. WALL. The black bars reflect the total mortgage debt which is the same series that we considered in a previous chart.[1]

Mr. GESELL. That is just a graphic representation of the figures which are on the very first table that we put in? [2]

Mr. WALL. That is correct, Mr. Gesell.

You will note that in this earlier period these four groups of lending agencies held a relatively small proportion of the total mortgage debt, whereas in the period during the twenties, the four groups of agencies held a considerable portion, and this proportion has been increased in later years.

Mr. GESELL. That means that back in 1910, Mr. Wall, the debt was held mostly by individuals, does it, or people in the locality?

Mr. WALL. That is correct, the local individuals within the communities, and private investors in other sections of the country. At that time there was quite an extensive system of mortgage brokers who would obtain loans in their local territories and, through salesmen or other outlets, dispose of them in areas of surplus funds.

---

[1] See "Exhibit No. 2271," supra, p. 14862.
[2] See "Exhibit No. 2270," appendix, p. 15498.

Mr. GESELL. So that as you proceed across the period of years, and the relative amount held by these individuals decreases, it means a rise in institutional holdings of mortgages.

Mr. WALL. Yes; I think that is one of the outstanding characterizations we can make of this whole period, the shift in the mortgage indebtedness from local individuals and small investors into the portfolios of large specialized lending institutions.

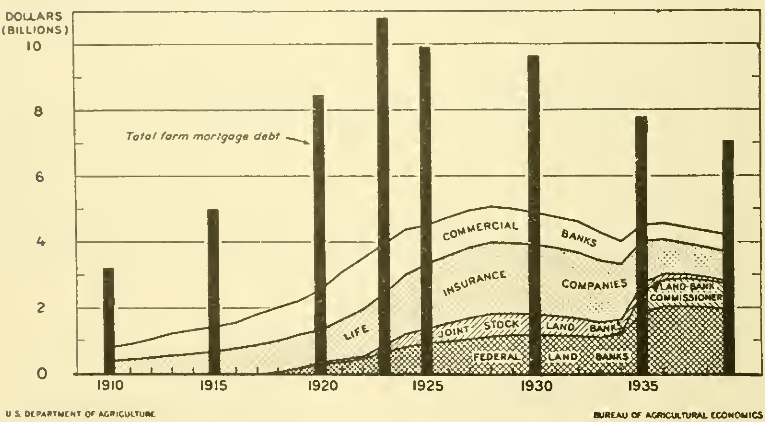
(Senator O'Mahoney resumed the Chair.)

Representative WILLIAMS. But there still remains a substantial part of those loans in the hands of private individuals or local institutions; isn't that true?

Mr. WALL. That is correct. I would say, in 1939, that about 40 percent would be in the hands of individuals and others and 60 percent in the hands of specialized lending institutions.

EXHIBIT No. 2273

TOTAL OUTSTANDING FARM-MORTGAGE DEBT AND AMOUNT HELD BY PRINCIPAL LENDER GROUPS, 1910-39



Mr. GESELL. The table supporting that chart would indicate that in 1910 individuals held around 75 percent and at the present time they hold only about 40 percent.[1]

Senator HERRING. That was a part of the purchase price of farms that were sold; it wasn't a loan. Those farmers sold at a big price and the seller retained that amount of the purchase price.

Mr. WALL. That is particularly true in that period of 1919 and 1920.

Senator HERRING. Yes.

Representative WILLIAMS. During the twenties there was a very substantial part of it owned by individuals, according to your table, perhaps we could say 60 percent?

Mr. WALL. It was as high as 70 percent.

If I may take up this period from 1910 to 1923, which was a period of increase in mortgage indebtedness, I might point out that at the beginning of the period you had only life insurance companies and commercial banks as your major institutional lenders.

---

[1] See "Exhibit No. 2264," appendix, p. 15501.

The CHAIRMAN. Have you made any segregation of the interest charges required by the various types of lenders?[1]

Mr. WALL. We have, Senator.

The CHAIRMAN. You are going to develop that later on?

Mr. WALL. Unfortunately I don't have them with me. I can put them in the record if you wish.

The CHAIRMAN. I think it would be very interesting because, as this chart indicates, from 1910 to 1917 commercial banks and life insurance companies were practically the only lenders upon farm real estate.[2] That is to say, they were the only lenders of sufficient amounts to get into this chart.

Mr. GESELL. Only institutional lenders, you mean, Senator.

The CHAIRMAN. Yes; that is what I mean; exactly.

Then beginning in 1917, the joint stock land Banks and the Federal land banks came into the picture, and it would appear from the chart that, although a large new source of farm mortgage funds had appeared, there was not any substantial diminution, if indeed any, for several years, of the amount of mortgages held by commercial banks and life insurance companies; isn't that correct?

Mr. WALL. That is correct. That was a period of wide-spread credit expansion in all lines.

The CHAIRMAN. So that from 1917 until some time after, or at least until 1930, the operation of the Federal land banks and the joint stock land banks were really not in competition with life insurance companies and commercial banks, so far as actual results were concerned. They weren't taking any business away from them, in other words.

Mr. WALL. There was some shifting which I will develop in just a moment as I go along.

In 1913, the Federal Reserve Act provided authority for National banks to make loans on farm mortgages, so that in this earlier period, it was primarily State and private savings banks that held these farm mortgages, and as a matter of fact, national banks didn't increase their real estate loans appreciably until after 1920.

Of course, as has already been mentioned, in 1917 you had the lending operations of the joint stock land banks and the Federal land banks, but you will note that until 1921 there was no appreciable increase. From the latter part of 1919 to 1921, the constitutionality of the Federal Farm Loan Act was in question and there was very little lending activity by these two group of institutions.

However, beginning in 1921, '22, and '23, there was a very substantial increase in the demand for mortgage loans. The applications to the Federal land banks, joint stock land banks, and life insurance companies increased tremendously, and at that time there began the shift of some loans from the commercial banks to life insurance companies, Federal land banks, and joint stock land banks.

Mr. GESELL. During what period did that shift start?

Mr. WALL. The peak of mortgage loans by commercial banks was reached in about 1922, and the increase in commercial bank loans in 1920 and '21 represented primarily the taking of additional security on loans that had been contracted as short-term loans when the price

---

[1] See table on "Interest charges payable on farm mortgages held by various lender groups, United States, for selected years," which was subsequently supplied for the record and appears in appendix, p. 15500.

[2] See "Exhibit No. 2273," supra, p. 14866.

level had been much higher. Gradually these were either foreclosed, liquidated, or refinanced with other agencies. During the period up to 1928, you had life insurance companies expanding their loans very rapidly, as well as both the Federal and joint stock land banks, yet the total mortgage indebtedness was going down from '23 on, so that obviously was a period in which vast amount of mortgage indebtedness was being shifted from private individuals and commercial banks.

The CHAIRMAN. You don't mean to say the total farm indebtedness, or at least institutional indebtedness, was going down. That didn't begin to go down as far as institutions were concerned in 1923.

Mr. WALL. No, the total mortgage indebtedness reached a peak in 1923, but from that period on, the amount of indebtedness held by the institutional lenders increased, which obviously means that a portion of the outstanding indebtedness was being shifted to the institutional lenders.

The CHAIRMAN. In other words, you are having a shift from individual lenders to corporate lenders or institutional lenders, of one kind or another?

Mr. WALL. That is correct, sir.

Representative WILLIAMS. Is that rapid rise in farm indebtedness from '20 to '23 due to the fact that a number of new mortgages were made or an increase of existing mortgages? In other words, was there an increase in the number of mortgaged farms in the country during that period?

Mr. WALL. Yes, there was. There were several factors at work during that period.

As I mentioned earlier, there was considerable refinancing of short-term loans obtained from commercial banks. At the end of 1920, commercial banks held personal and collateral loans to farmers of around $3,800,000,000 and by the end of 1923 that had been reduced fully a billion dollars. While mortgage indebtedness was rising from '20 to '23, we can't draw from that the conclusion that the total indebtedness of farmers was increasing because there was this refunding of short-term indebtedness into long-term indebtedness.

Representative WILLIAMS. There was an actual increase in the number of farms mortgaged during that period?

Mr. WALL. That is correct.

Representative WILLIAMS. What is the number now; what is the percentage of farms in this country mortgaged now?

Mr. WALL. The total percentage of farms mortgaged is around 34.5 percent.

Representative WILLIAMS. What was it back in that period—in the twenties, '20 to '23; have you that figure?

Mr. WALL. We don't have those figures for all farms, but we do have them for owner-operators, and the percentage of farms mortgaged by owner-operators is much higher than for all farms, because there is a greater frequency of indebtedness on owner-operated farms than on tenant farms.

The CHAIRMAN. The percentage of owner-operators is steadily declining, is it not?

Mr. WALL. Yes; there has been a slight decrease in that.

The CHAIRMAN. Isn't it more than a slight decrease?

Mr. WALL. In some areas it has been quite appreciable. For the country as a whole, if I recall my figures correctly, the percentage of tenancy in 1930 was about 42.3 or 42.4, and in 1935, 42.1.

The CHAIRMAN. You could go back further than that. If I remember correctly, in 1880 more than 70 percent of all farm operators were owners of their own farms.

Mr. WALL. That is quite true. There has been a very marked increase in tenancy over a long period.

The CHAIRMAN. Whereas in 1930 that had been reduced, you say, until it was considerably less than 50 percent.

Mr. WALL. In a certain area.

The CHAIRMAN. For the country as a whole.

Mr. WALL. The data supplied by the Bureau of the Census show that the United States percentage of tenant farms in 1935 was 42.1. Subsequent surveys made by the Department show that there has not been a great deal of change since that time, although that is, in a sense, a fictitious figure. Inasmuch as there has been a shift, particularly in the South, from cropper farmers to laborers, which automatically puts that land into the ownership category, it doesn't depict the true situation.

The CHAIRMAN. These facts that we are now discussing emphasize the steady increase of the problem of the tenant farmer. They also emphasize the fact that a larger and a larger percent of lands which have been mortgaged are coming into the ownership of the institutions which have made the loans, in some instances into the ownership of life-insurance companies and in other instances into the ownership of the Federal agencies which are administering the Farm Credit Administration program.

Mr. WALL. I think that will be quite obvious when we take up one of the latter tables, which shows a total investment of over $1,000,000,000.

The CHAIRMAN. So that while you are showing a reduction in this chart of the amount of money loaned on farms to individuals and a shift to institutional loaning, we are also showing a shift of ownership from individual operators to landlords of one kind or another?

Mr. WALL. That is true, and it is particularly marked in certain areas.

Representative WILLIAMS. As I understood from the figure—am I correct?—you gave me a while ago, it was 34 percent of all farms in the country that are now mortgaged.

Mr. WALL. That is right.

Representative WILLIAMS. In arriving at that figure, what do you consider a farm, what area, what size?

Mr. WALL. The definition that is usually followed is that adopted by the Census for defining a farm. I believe it is 3 acres or more, with an income of $300, that is, approximately.

Representative WILLIAMS. Approximately 3 acres?

Mr. WALL. It must have a farm income of at least $300.

Mr. HENDERSON. Getting back to that period after 1920, Dr. Wall, you say that part of the increase in the farm mortgage indebtedness was due to the conversion of short-term loans to mortgage debt. I think you gave a figure of about $3,800,000,000.

Mr. WALL. That is approximately correct.

Mr. HENDERSON. Well, was there any conscious fiscal policy at that time that was responsible for that conversion?

Mr. WALL. With the sharp drop in farm prices following 1920, commercial banks in agricultural areas were faced with a very stringent position. There was a big reduction in the income flowing into agricultural areas, yet prices and fixed charges were quite high, which caused depleted reserves, forcing them to borrow very extensively from correspondent banks and from the Federal reserve banks. There was every pressure on their part to liquidate these loans by having the borrower refinance with some other agency, and that was one of the major factors causing individual borrowers to refund those loans into long-term mortgage loans.

Senator GILLETTE. Mr. Chairman, may I ask a question?

I wish to amplify just a little on the question that Mr. Chairman O'Mahoney asked a moment ago. This chart shows, of course, a substantial increase in the percentage of farm-mortgage indebtedness that is handled by the Federal land banks, the Land Bank Commissioner, and what is left of the joint stock land bank.[1] The previous chart showed substantial interest rate reductions in substantially the same period.[2] Have you now with you any information by which you can enlighten us as to whether these interest reductions reflect only the entrance of the land banks and similar agencies in the field, or whether there was a corresponding reduction in the rates charged by the insurance companies and commercial banks?

Mr. WALL. I would say that the major factor is the injection of the Federal land banks into the picture, taking over a portion of the mortgage debt at a lower rate of interest.

Senator GILLETTE. Undoubtedly that is true, but do you have anything to show us whether there was any corresponding reduction in the interest rates of the commercial institutions?

Mr. WALL. Just a very slight reduction, not very large, Senator, except since 1933. There has been a reduction in the rates of most lenders, of practically all lenders, during that period.

Senator GILLETTE. Do you have any information by which you can help us to know whether or not there is increased competition on the part of this type of agency in securing the cream of the farm loans at the present time as against the cooperative credit institutions?

Mr. WALL. That problem varies a great deal from area to area. Life insurance companies, of course, concentrate their lending activities primarily in a restricted area. In the State of Iowa, for instance, they held approximately 42 percent of the total mortgage debt in 1929, whereas in Montana they held only 6 percent. Land banks, on the other hand, in the same year held only 6 percent of the debt in Iowa and in Montana they held 17½ percent.

Mr. GESELL. Now, Mr. Wall, we have still the last period shown on this chart to consider, do we not?[3]

Mr. WALL. That is correct.

Mr. GESELL. The outstanding thing there seems to be the decrease in the amount of the debt held by life insurance companies and the sub-

---

[1] See "Exhibit No. 2273," supra, p. 14866.
[2] See "Exhibit No. 2272," supra, p. 14863.
[3] See "Exhibit No. 2273," supra, p. 14866.

stantial increase in the amount held by the Federal land banks and the joint stock land banks.

Mr. WALL. Beginning in 1933, when the Farm Credit Administration was set up, you had a somewhat liberalized basis of lending. There was a very marked shift in the loans to the land banks, not only of life insurance companies and commercial banks, but of individuals and all others as well. In the period from 1933 to about 1939, the financing by the Land Bank Commissioner and the land banks accounted for about 33 percent of the reduction in life insurance company loans during that same period. The effect of a larger proportion of the total debt in the hands of the land banks and the Land Bank Commissioner, particularly with the low interest rate authorized by Congress, has had a tendency to reduce the total interest charges very materially. If you will refer to that first table, you will see that annual interest payments have decreased from a peak in 1922 of $680,000,000 to $357,000,000 in 1938, a decrease of around 47½ percent.[1]

The commercial banks in recent years, from about 1936, have shown a slight increase in their outstanding loans. This has been characteristic primarily of banks in the Midwest, whereas in other sections of the country they have not shown any material increase. The amount of recordings by life insurance companies, or the actual amount of loans purchased as indicated by the surveys presented yesterday, I believe, show an increase in the amount of life insurance loans actually made, although the total amount outstanding has decreased slightly in the last couple of years.

Mr. GESELL. You referred to the fact that life insurance companies have been particularly active in only restricted areas of the country. Those figures are percentaged in the table entitled "Farm Mortgage Debt Held by Life Insurance Companies." Is that correct?

Mr. WALL. That is correct.

Mr. GESELL. I should like to offer that at this time.

The CHAIRMAN. The exhibit may be received.

(The table referred to was marked "Exhibit No. 2275" and is included in the appendix on p. 15502.)

Mr. GESELL. As I read that table, it would appear that the low area is in the North Atlantic States. Is that right?

Mr. WALL. That is true.

Mr. GESELL. There is no instance where the farm mortgage held by life insurance companies is as much as 1 percent of the total for that area. Is that correct?

Mr. WALL. Correct.

Mr. GESELL. And the high appears to be in the West North Central States.

Mr. WALL. In the East North Central and West North Central States together, in 1928, about 78 percent of the total life insurance company farm loans were on real estate in that region. My 1939 that proportion had decreased to about 72 percent.

Mr. GESELL. I notice that in the West North Central States in the years 1933 and 1934, for example, the insurance companies held

[1] See "Exhibit No. 2270," appendix, p. 15498.

well over a third, or somewhat over a third, of the entire farm mortgage debt of that area.

Mr. WALL. That is right.

It may be interesting to note that about 62 percent of all life insurance companies hold farm real estate loans in some amount or other, although the bulk of those loans is concentrated in a relatively small number of companies.

The CHAIRMAN. That table would indicate, as for the West North Central, that the insurance companies started in 1910 with 19.9 percent of the total farm mortgage debt, and from 1927 to 1934, inclusive, they held more than one-third of the debt in that area, but that since 1938, and for 1939, too, their proportion now is lower than what it was in 1919.

Mr. WALL. That is true. During nearly the entire period of the twenties, the life insurance companies were increasing their position as the leading institutional holder of farm mortgage loans, and for the country as a whole, held about 22 percent of the total mortgage debt in 1928. From that period down to about 1933, their holdings of farm mortgages declined about as rapidly as the total indebtedness declined. From that period on, with the shifting of loans to the land banks, and with the conversion of loans into acquired farms, their proportion of the total debt in the United States has decreased to about 12.6 percent.

Mr. GESELL. Of course, it is true that in comparing figures for 1910 and 1939, although the amount of farm mortgage debt held by the companies is approximately the same, the interest of the companies in the farm picture, so to speak, is much greater by reason of the substantial increase in their holdings of farm land.

Mr. WALL. That is true, and eventually that will increase their volume of outstanding loans, so that it is possible that the proportion of their farm mortgage debt will increase as the acquired farms are transferred into individual farm ownership.

The CHAIRMAN. It is always interesting to note, I think, if I may interrupt, that in 1910, when for the whole United States the life insurance companies held 12.1 percent of the entire farm mortgage debt, their total holdings amounted to $386,961,000, whereas in 1939, when their holdings were 12.6 percent, only one-half of 1 percent more than they held in 1910, their total holdings amounted to $887,-336,000, or almost—well, it is considerably more than twice as much.

Mr. GESELL. Now, the Chairman raised a question, Mr. Wall, with respect to tenancy. Taking these areas, in which areas has there been the greatest increase in farm tenancy over the period covered here? In other words, what I am trying to get at is, is there any relation between where the life insurance companies invest, and an increase or decrease in farm tenancy?

Mr. WALL. The life insurance companies, as well as other lending institutions, have acquired more farms in the West North Central States than they have in any other region, and there has also been quite an appreciable change in the tenancy situation in that particular region.

Mr. GESELL. Has it gone up or has it gone down?

Mr. WALL. From 1930, when the percentage of tenancy was 39.9 there has been an increase to 42.6 percent.

The CHAIRMAN. What are those figures again?

Mr. WALL. 39.9 as compared with 42.6, an increase of about 10 percent. There has also been an increase in the East North Central States and the Middle Atlantic States.

Mr. GESELL. Now, what is the increase for the country at large as compared to this increase of about 10 percent in the West North Central States?

Mr. WALL. There has been rather a slight change—about 42.1 percent in 1925, and for 1930 it was approximately 42.4 percent. That is accounted for in part by an increase in the number of owner-operated farms in the New England area and in some other sections of the country, where farms have been sub-divided near large urban centers.

Mr. GESELL. It would appear from what you say that farm tenancy has increased the sharpest in the areas where the life insurance companies have been lending the heaviest.

Mr. WALL. You can say it in that way, or you can say it is in the areas where there has been the heaviest acquisition of farms by lending agencies. It has occurred with agencies other than life insurance companies.

Mr. GESELL. You mean there have been other institutional lenders in this same West North Central area, and that the increase in tenancy can't be attributed entirely to the insurance companies?

Mr. WALL. That is true.

Mr. GESELL. I understand that. You say then that would be a result of institutional lending service that has brought about a sharp increase?

Mr. WALL. I think, if we can consider the next chart in that connection, we might be able to bring out some of the points that we are now discussing.

Mr. GESELL. That is a chart entitled "Forced and Voluntary Sales of Farms, 1926–39"?

Mr. WALL. That is right.

Mr. GESELL. I wish to offer that chart for the record.

The CHAIRMAN. The chart may be received.

(The chart referred to was marked "Exhibit No. 2276" and appears on p. 14874. Statistical data on which this chart is based are included in the appendix on p. 15503.)

Mr. GESELL. All of these charts and papers were prepared under your direction with the figures indicated on the chart?

Mr. WALL. Yes; that is right, or within the department.

In considering this chart, which deals with forced and voluntary sales of farms during the period from 1926 to 1939, one of the important factors to bear in mind is the difference in the intensity of the agricultural distress between the different regions. If you will take the middle area there, for instance the West North Central States, you will note that there is a much higher ratio of forced sales as compared with the United States averages.

There are two factors that account for this high rate of forced sales in this group of States. In this area the percentage of farms mortgaged prior to the depression and the ratio of debt to value on mortgaged farms was much higher than for the United States as a whole. With the impact of the depression and the sharp drop in income, it was a very logical development from this set of circumstances that there would be more debt distress in these areas. That is characterized by a much higher rate of acquirements of farms by lending agencies in this particular Midwest region as compared with other areas.

Mr. HENDERSON. This is the area within which there was the greatest amount of resistance to foreclosure, is it not?

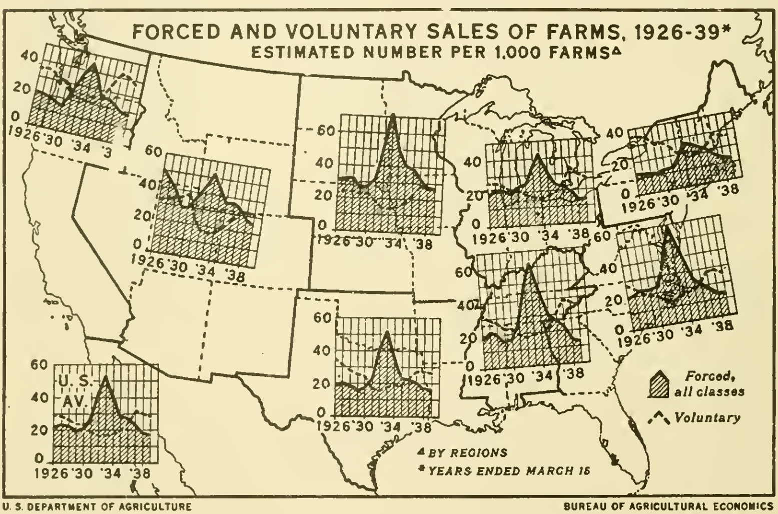
Mr. WALL. I think that is right.

Mr. GESELL. Have you any other comments you wish to make on this chart?

Mr. WALL. I think we can pass on.

Mr. HAYES. I noticed that, except in the North Atlantic States, there is a decided drop in other regions in the percentage of total debt held by life insurance companies. Would you say the chief contributing factor, recognizing there are others, to that decrease has been the

EXHIBIT No. 2276



acquisition by the insurance companies of land through forced sales?

Mr. WALL. That, plus the shift of their loans to the Federal land banks and the Land Bank Commissioner.

Mr. HAYES. Which of those three elements would you say is the greatest factor?

Mr. WALL. I don't have exact information on that point, but they are roughly equal, I would say.

Mr. HAYES. Thank you.

Mr. HENDERSON. Seldom do v have at the committee table someone who is responsible largely for turning down the line of a chart. I think you will probably find that in the West North Central States that line turned down at about the time Governor Herring issued his proclamation. Isn't that right, Governor?

Senator HERRING. That is when it started down the line. [Laughter.]

Mr. GESELL. Now, the next table you wish to discuss is the table entitled "Farm Foreclosure Sales"?

Mr. WALL. Yes.

Mr. GESELL. I wish to offer this table for the record.

The CHAIRMAN. The table will be received.

(The table referred to was marked "Exhibit No. 2277" and is included in the appendix on p. 15504.)

Mr. WALL. In connection with this table, I would also like to have you bear in mind what I have just said about the regional variations in forced sales. You will note that this table shows a rather high rate of acquirements or foreclosures by life-insurance companies as compared with other groups of lending agencies. However, we must bear in mind that the life insurance holdings are primarily concentrated in the Midwest, in the region where you have had a large volume of forced sales resulting from a high ratio of debt to value in the earlier period and a higher percentage of farms mortgaged than is to be found elsewhere in the country. I believe that——

Mr. GESELL (interposing). I assume some of those factors you have mentioned are possibly the results of the lending policies of the insurance companies in the first place, are they not?

Mr. WALL. To the extent that they have loaned a large amount per acre or in relation to value, that is probably true. I think it is equally true to say that all lenders in that period were fairly liberal in their loan valuations and, particularly, many of them failed to make distinctions as between the quality of land in a given area.

Mr. GESELL. What I was trying to discuss with you was whether or not these high rates of foreclosures for insurance companies, as shown on this table, are purely the result of the area in which the companies have to lend or the result of their lending policies?

Mr. WALL. I presume that both factors are involved, but taking the other lending agencies who have their loans in all areas of the country—including certain regions where the rate of foreclosure is low—you get a lower average than you would get if you took the same States for those lenders that represent the chief lending field of the life insurance companies.

Mr. GESELL. Would insurance companies still show the highest in those areas? Supposing you had this table prepared for the State of Iowa, for instance, would the insurance companies show the highest?

Mr. WALL. I don't have any exact figures with me as to that.

Senator HERRING. May I say private owners would show the highest. Farm Credit Administration would show second.

Mr. GESELL. Have you prepared figures which would show for individual States what the rate of foreclosure of these various loaning groups has been? [1]

Mr. WALL. I would be very glad to get the records for you.

---

[1] See table entitled "Percentage of total farm-mortgage debt held, January 1, 1930 and 1936, and percentage of total distress farm transfers accounted for, 1930–35, by various lender groups, for selected States" subsequently submitted for the record and appearing in appendix, pp. 15631, 15632.

Mr. GESELL. I think it would be good to have the exact figures.

The CHAIRMAN. Well, there is nothing to indicate, is there, that any of the lenders, including the insurance companies, really desired to foreclose. The acquisition of these lands was not a matter of choice, was it, on the part of any of these lending agencies?

Mr. WALL. No; it reflects the severe economic changes that took place in the agricultural areas. In many cases the farms were actually abandoned by the owners. In other cases the owners became too old, and couldn't carry on. In order to conserve the investment of the lender it was necessary to take it over. In other cases they had simply borrowed more than they could hope to repay, and it was probably a better thing for them to let it go and start out with a lower burden of debt.

Representative WILLIAMS. Is there anything in these figures here to indicate that there was one of these groups more liberal in their attitude toward the owners, the mortgagees and others, to indicate a lenient tendency to extend the time and give them more consideration, perhaps lower the rate of interest, in order that the farm owner might save the farm? Is there anything in that to indicate, among these groups, that there was any difference in the manner in which they treated the farmer?

Mr. WALL. There have been great differences in the policies of different lending agencies, and it is probably unfair to make any broad generalization for as diverse a group of lenders as the life insurance companies, for instance. In many cases they have granted extensions as liberal as the Federal land banks. Certain companies may not have followed that policy, and it varied amongst individual companies. You find some individual lenders who have been very lenient, others who have adopted a rather arbitrary policy in handling them.

Representative WILLIAMS. That would depend on the individual in each group rather than these institutions as groups?

Mr. WALL. I think that is correct, except where you have definite authorization to the Federal land banks and Land Bank Commissioner to follow certain policies in the way of extensions and of granting funds for extending the loans as provided by Congress.

The CHAIRMAN. Congressman Williams will recall that table 176 in the report on operating results shows that, as far as the 26 largest life insurance companies are concerned, there was a total of $40,777,000 worth of defaulted farm mortgages in what was denominated as work-out cases; namely, cases in which an opportunity was being given to the defaulting mortgagor to retain his farm.[1]

Mr. HENDERSON. Dr. Wall, in these areas where the life insurance companies concentrated their lending, was there any difference in the loan policy of insurance companies as against, for example, the Federal land banks and Land Bank Commissioner and the commercial banks? Did they have a more liberal policy? Was there greater competition between insurance company loans, or between all insurance companies and all commercial banks and the Federal land banks?

Mr. WALL. In the twenties the life insurance companies were able to maintain their volume of loans in the choice area; that is, the Middle West, and even increased it, and the Federal land banks

[1] See Hearings, Part 10–A, p. 176.

did not get a very large portion of the total debt. For instance, in the State of Iowa, the Federal land banks in 1929 held only 6 percent of the total mortgage debt, whereas insurance companies held 41.7 percent.

I think it is very interesting to draw certain general conclusions relative to the mortgage movement in the twenties. With the rapid expansion of Federal land bank loans, a larger part of that took place in the Southern and Western States in the twenties, and the life insurance companies were able to maintain and even expand their holdings in the Midwest.

Now, in this refinancing period that followed 1933, the Federal land banks made a much larger increase in taking over the debt in the Midwest as compared with the South and West. Of course, the life insurance companies were reducing their holdings.

Mr. HENDERSON. Did that represent a change in policy on the part of the Federal land banks and the Land Bank Commissioner?

Mr. WALL. Of course, the Emergency Farm Mortgage Act of 1933 authorized the making of Land Bank Commissioner loans which provided for loans up to 75 percent of the normal value of the property including personal property, which was a higher percentage in relation to actual sales value——

The CHAIRMAN (interposing). That was a result of the policy of Congress to provide opportunity for the owner to work out his debt.

Mr. WALL. That is correct.

The CHAIRMAN. These figures also do indicate that the Farm Credit Administration came in to save the farm operator or owner where his cause was most desperate, and that the life insurance companies were holding on, so far as they could, in the areas where the farms had traditionally been of a higher value.

Mr. WALL. That is true. There was virtually no sort of mortgage credit in '32 and '33 until the Farm Credit Administration came into the picture.

The CHAIRMAN. No more loans were being made, and the farmer-operator who wanted to hold on to his farm had to turn to the Government?

Mr. WALL. That is correct.

The CHAIRMAN. Because private individuals and so-called private institutions were not loaning any more money when the farm problem had become so acute.

Mr. GESELL. The next chart, Mr. Wall, is entitled "State Mortgage Relief Legislation," is it not?

Mr. WALL. That is a continuation of the same picture that we are discussing of the acute distress in agricultural areas.

Mr. GESELL. I would like to offer the chart for the record.

The CHAIRMAN. It may be received.

(The chart referred to was marked "Exhibit No. 2278" and appears on p. 14878.)

Mr. WALL. I don't believe it is necessary to spend much time discussing this exhibit except to point out two or three developments. During this period moratorium legislation was passed by various State legislatures. It generally took the direction of either a postponement of the foreclosure for a definite period of time, or it represented the power delegated to the courts to fix selling prices on foreclosed lands, or to extend the redemption period. In some cases there was definite legislation prohibiting or modifying the legal provisions relative to deficiency judgments.

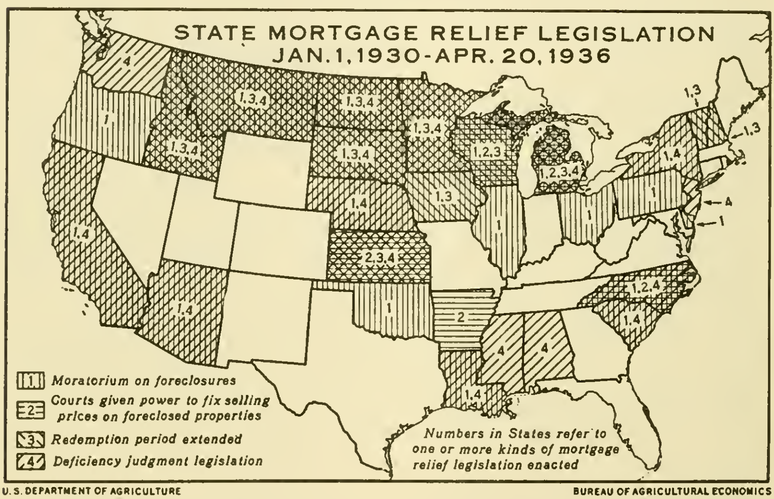
The CHAIRMAN. This was all the result of an attempt by Government—States, in this instance—to protect the farm owner?

Mr. WALL. That is quite obvious.

Mr. GESELL. The next table is a table which is entitled "Estimated Amount of Proceeds of Federal Land Bank and Land Bank Commissioner Loans, May 1, 1933—January 1, 1937, Used to Refinance First and Junior Mortgages Held by Life Insurance Companies and by All Lenders, and Amount of Farm-Mortgage Loans Held by Life Insurance Companies and All Lenders, January 1, 1933."

Mr. HENDERSON. Is there any mistake, Dr. Wall, in the chart? Aren't there any figures on Wyoming?

EXHIBIT No. 2278



The CHAIRMAN. I might say for the information of Commissioner Henderson that Wyoming had a State farm loan act long before the Federal Government act.

Mr. WALL. This refers only to legislation enacted in that period. Some States already had certain provisions that took care of that.

Mr. GESELL. I would like to offer this schedule.

The CHAIRMAN. It may be received.

(The table referred to was marked "Exhibit No. 2279" and is included in the appendix on p. 15505.)

Mr. GESELL. This table, Mr. Wall, shows the amount of loans of these various agencies used to refinance loans held by life-insurance companies and other lenders; is that correct?

Mr. WALL. That is correct.

Mr. GESELL. I notice that some 20 percent, 20.3 percent, of the funds were used to refinance loans held by life-insurance companies.

Mr. WALL. That is correct.

Mr. GESELL. That should be taken into consideration, I presume, in relation to the figure showing that the insurance companies held 21.6 percent of the loans?

Mr. WALL. Yes. In other words, a slightly smaller percentage of the proceeds of Federal land bank and Land Bank Commissioner loans was used for refinancing life insurance company loans than the proportion of the total debt that insurance companies held.

Mr. GESELL. Have you any comments which you wish to make on this exhibit?

Mr. WALL. I think in general the table shows quite clearly the concentration of life insurace companies in certain regions, and also breaks that down into the States which have the largest amount of life insurance investments in the lower half of the table. At the right side of the table there is a column entitled "Percent Which Loan Proceeds Used to Refinance Mortgages of Life Insurance Companies and All Lenders Are of Mortgages Held January 1, 1933." There again the life insurance companies have a slightly smaller percentage than all lenders.

Mr. GESELL. Have you any figures as to the kind of mortgages which were refinanced, life-insurance company mortgages which were refinanced and included within this table? Were they good loans, were they loans in distress, or what kind of loans were they?

Mr. WALL. The type of loans that were taken over represented primarily loans in distress, and yet at the same time a large proportion of those loans were very high-quality investments. The fact that the life insurance companies were concentrating in what had been considered a high-grade loan area would indicate that the increase in the proportion of debt held by the Federal land banks in the West North Central States would mean that they really had increased the quality of their loans through the system as a whole.

Mr. GESELL. Do you know what percentage of the loans taken over were loans in distress?

Mr. WALL. I have no figures on that point.

Mr. GESELL. Now, if that completes your comments on that table, the next table is entitled, "Acquired Farm Real Estate Held by Leading Lending Agencies," is it not?

Mr. WALL. That is correct.

Mr. GESELL. I wish to offer this table for the record.

The CHAIRMAN. The exhibit may be received.

(The table referred to was marked "Exhibit No. 2280" and is included in the appendix on p. 15506.)

Mr. GESELL. Have you some comments you wish to make on this table?

Mr. WALL. The table shows a very rapid increase in the farm real estate holdings of leading lending agencies following 1929, and particularly heavy rates of acquirement in 1933 and 1934. In comparing the data for the five different groups of agencies shown there, certain significant points should be brought out, I believe, at this time. First is the difference in policy of the lending agencies in disposing of acquired real estate. For instance, the Federal land banks and the Federal Farm Mortgage Corporation have followed a policy of disposing of farm real estate as quickly as they can, so that their total real estate in relation to total acquirements is not nearly as large as that shown for life-insurance companies. In connection with joint-stock land banks, these institutions have been in process of liquidation since the Emergency Farm Mortgage Act of 1933, and they have made every effort to reduce their real-estate holdings quite rapidly. You will note that the peak of their holdings was in 1934, at which time they were approximately 86 million, and they have been reduced to 54 million in 1939.

Data for insured commercial banks, which are available only since 1936, show a policy of rapid disposition.

The three State credit agencies, involving South Dakota, North Dakota, and Minnesota, have had an extremely high rate of acquirement, and these three agencies are in process of liquidation. They are making every effort to dispose of their properties, although you will note that the total is still continuing to increase, although at a relatively slow rate in recent years.

Now, the refinancing program of the Farm Credit Administration has made it possible for other agencies to sell some of their properties, and where borrowers are in position to obtain a loan from the Land Bank Commissioner——

The CHAIRMAN (interposing). In other words, the smaller institutions are liquidating, but the life insurance companies and the Federal Government are increasing their holdings.

Mr. WALL. Well, the three State credit agencies——

The CHAIRMAN (interposing). I included them as among the smaller organizations because they are obviously State organizations and are smaller. So those three State credit agencies are increasing, not liquidating, aren't they?

Mr. WALL. They are in the process of liquidating their organizations. They are not making new loans.

The CHAIRMAN. But their holdings are increasing.

Mr. WALL. That is correct.

The CHAIRMAN. So that the holdings of the three State agencies, of the Federal Government, and of the life insurance companies are increasing, whereas commercial banks are disposing of their real estate as are also the joint stock land banks.

Mr. WALL. I might call your attention to the fact that in the last year life insurance companies have shown the first decrease in their outstanding holdings since this series began.

The CHAIRMAN. In 1938 and '39 both there has been a decrease.

Mr. WALL. That is correct.

The CHAIRMAN. That is true.

Representative WILLIAMS. Is there anything in your studies to indicate the size of the farms that have been acquired by the life insurance companies and that are being held and operated by them?

Mr. WALL. I believe that information is available in the comprehensive survey prepared by the Securities and Exchange Commission.

Mr. GESELL. We have no classification in "Exhibit No. 2250" of the size of the farms held. We do have a classification of the size of the mortgages which have been made, Congressman, and that may indicate, to some extent, what you want.

Representative WILLIAMS. It has frequently been charged—at least I have heard it—that they have acquired a great number of very large farms and are holding and operating those, and I was wondering whether the record showed that.

Mr. WALL. We have some information relating to 1934 which shows the average size farm held by life insurance companies to be around 234 acres, as I recall it.

Mr. GESELL. Table 172 of "Exhibit No. 2250"[1] shows that of farm mortgages owned, classified by size, the greatest amount of mortgages of the 26 companies rests in the classification 10 to 25 thousand.

Has that completed your comments on this table?

Mr. WALL. Yes.

Mr. GESELL. The next table is entitled, "Farm Investment of Life Insurance Companies", is it not?

Mr. WALL. That is correct.

Mr. GESELL. I wish to offer this table as an exhibit.

The CHAIRMAN. The exhibit may be received.

(The table referred to was marked "Exhibit No. 2281" and is included in the appendix on p. 15506.)

Mr. WALL. I might mention at this point——.

Mr. HENDERSON (interposing). Before you go any further, this table Mr. Gesell has referred to, table 172, shows that, according to size, the insurance-company holdings are greatest in the 10 to 25 thousand dollar mortgages.[2] That would mean—what is the average value of farms in the United States? Do you have that?

Mr. WALL. I don't have that point right at hand, but I might have a comment to make on that particular point that you have raised.

Mr. GESELL. Mr. Howe has just called my attention to the fact that we do have the figures that Congressman Williams wants in "Exhibit No. 2250." At table 190 we show the farm real estate owned, classified by size, of the 26 largest companies. It shows there that the companies own a total of $544,960,000 of real estate, table 190, and that $260,000,000——[3]

The CHAIRMAN (interposing). Won't you qualify that, Mr. Gesell—the 26 largest—because the figures which the witness is giving us apply to all insurance companies.

Mr. GESELL. Yes. For the 26 largest companies, out of $544,000,000 of farm real estate owned, $260,000,000 is in farms of the 10 to 25 thousand dollar classification. That would indicate that both the mortgages and the farms held are greatest in that 10 to 25 thousand dollar classification.

Mr. HENDERSON. You had a comment?

Mr. WALL. In answer to your question on the average value of all farms, in 1935 it was $4,823. That would probably be about $5,000 according to present values, and the point I was going to make in response to your question was that the life-insurance loans, on the whole, have been quite a bit larger than, say, the average Federal land-bank loans, because they have been concentrated in an area where land values were higher.

Mr HENDERSON. And they did, in the twenties, loan a larger amount than the government agencies would loan. That is, their appraisals were higher, isn't that true?

---

[1] See Hearings, Part 10-A, p. 172
[2] Ibid.
[3] Ibid., p. 190.

Mr. WALL. That would probably be true in certain areas.

Mr. HENDERSON. Doesn't that account for the fact that the Federal agencies had such a small percentage as against the insurance companies in Iowa and States like that?

Mr. WALL. There were a number of factors that influenced that particular situation. The life insurance companies preferred the larger loans and the Federal land banks made loans in all areas, areas where the values of farms were small and where the loans would naturally be small. That would affect your national average.

Mr. GESELL. You were about to discuss the table entitled, "Farm Investment of Life Insurance Companies," "Exhibit No. 2281."

Mr. WALL. As the chairman has already indicated, this table refers to all insurance companies in contrast to the S. E. C. study which deals with the 26 largest companies. This brings out the very rapid reduction in debt from $2,139,000,000 in 1929 to a total of $887,000,000 in 1939, and on the other hand, a substantial increase in the amount of real estate owned from $88,000,000 in 1929 to a peak of 713,000,000 in 1937.

Now, the real estate at the present time is about equal to 33 percent of the loans held in 1929, and the increase in such holdings since 1933 is about equal to 39 percent of the decline in the loans from 1933 at which time the refinancing program of the Farm Credit Administration came into the picture. I think that probably will bring out and answer the question that you raised earlier, whether 33 percent represented Federal land bank loan refinancing and 39 percent of the decline reflects the increase in real estate holdings.

The CHAIRMAN. Both of these tables, this one [1] to which you are now referring and the preceding one [2] in which was shown the acquisition of farm real estate by the Federal land banks as well as by the life insurance companies, all tend to demonstrate quite clearly that the individual farmer is being swallowed up by organized government and by the organized institutions engaged in the lending field.

Mr. WALL. Insofar as that refers——

The CHAIRMAN (interposing). In other words, life insurance companies and the Federal Government through its various agencies are rapidly becoming the largest owners of farm lands to the disadvantage of the individual.

Mr. WALL. It is a development following the adverse economic conditions affecting the farmers.

The CHAIRMAN. Oh, yes, I am not trying to seek the causes, or attributing any cause to any desire upon the part of the Federal Government to take over farms, or any desire upon the part of the insurance companies to take over the farms. This is a condition that exists.

Mr. WALL. That is perfectly true.

Representative WILLIAMS. What percent of the farms do they own?

Mr. WALL. Taking four groups of lending agencies, the Federal land banks, life insurance companies, joint stock land banks and the State credit agencies, at the beginning of 1938 they had about 28,000,000 acres of land, which represented not quite 3 percent of all acres in farms, but for individual States and regions that per-

[1] See "Exhibit No. 2281," appendix, p. 15506.
[2] See "Exhibit No. 2280," appendix, p. 15506.

centage is higher. For instance, in the West North Central region the percentage of acres held by these agencies was about 6 percent, and in South Dakota it went up to about 11 percent.

Representative WILLIAMS. Have you got that in value as well as in number?

Mr. WALL. Yes.

Representative WILLIAMS. What percentage in value do they own of farm lands of the country?

Mr. WALL. Let me correct myself, I do not have those figures in values. They could be computed and put in the record, however.[1]

Mr. HENDERSON. The percentage of value would be, of course, much higher.

Mr. WALL. Yes; that is true.

The CHAIRMAN. Could you get those figures for us?

Mr. WALL. Yes, I would be glad to.

The CHAIRMAN. If you will do that, we will put them in the record.[1]

Mr. WALL. The average investment is about $35 an acre for these 4 agencies.

Mr. GESELL. That completes the presentation of Mr. Wall, and I think perhaps it is a good time for adjournment.

The CHAIRMAN. I wonder if any members of the committee would desire to question Mr. Wall this afternoon.

Apparently you have illuminated the problem quite thoroughly, Mr. Wall. We are very much indebted to you, sir.

The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:20 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:30 p. m. upon the expiration of the recess.

The CHAIRMAN. The committee will please come to order.

Mr. GESELL. Mr. Murray, will you take the stand, please?

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MURRAY. I do.

TESTIMONY OF WILLIAM G. MURRAY, PROFESSOR OF AGRICULTURAL ECONOMICS, IOWA STATE COLLEGE, AMES, IOWA

Mr. GESELL. Will you state your full name, your address, and your occupation, please?

Mr. MURRAY. William G. Murray of Iowa State College, Ames, Iowa.

I am at the present time professor of agricultural economics, Iowa State College.

Mr. GESELL. How long have you been there, Mr. Murray?

---

[1] See table entitled "Acquired farm real estate held by leading lending agencies, by Farm Credit districts, January 1, 1939," which was subsequently submitted for the record and appears in appendix, p. 15506.

Mr. MURRAY. I have been there at different times since 1925.

Mr. GESELL. Will you state what your experience has been in the field of farm mortgages and farm land?

Mr. MURRAY. In the fall of 1925 when I went to the Iowa State College, the first job they gave me was to go to the courthouse and look into the farm-mortgage situation. I have been looking at it ever since, and it continues to be as fascinating as it was that first day. Unfortunately, we have had a lot of bad experiences in the meantime. My studies in farm credit have included not only farm mortgages but farm appraisals, and a year out with the Farm Credit Administration in their economic work in farm credit, and at different times I have made special studies on appraisal and farm management for some of the insurance companies.

Mr. GESELL. You mean you have been employed specially by insurance companies for studies of that kind?

Mr. MURRAY. Yes.

Mr. GESELL. What degree do you hold?

Mr. MURRAY. A bachelor's degree from Coe College, in Cedar Rapids, a master's degree from Harvard University, and a doctor's degree from the University of Minnesota.

Mr. GESELL. Well, now, I want to ask you some questions this afternoon with respect to the Iowa farm problem, particularly as it relates to problems arising out of the lending policies and farm management policies of institutional holders. First of all, can you give us some idea of how important the life insurance companies are in the general Iowa mortgage and farm land picture?

Mr. MURRAY. For the majority of the years since 1920, they have had the largest volume of farm mortgages of any institutional lender. As you have heard, Iowa has been the center of farm-mortgage investment by insurance companies. At one time, in 1928, they had about $500,000,000 invested in farm mortgages in Iowa. That represented about one-fourth of all the life insurance company farm-mortgage investments, and it represented approximately 40 percent of all the farm mortgages in the State of Iowa.

So the insurance companies have been a big factor in the farm-mortgage picture in Iowa, and the farmers of Iowa are very much interested in the policies of the insurance companies as a result.

The CHAIRMAN. To what do you attribute the fact that the insurance companies occupy so large a place in the Iowa farm-debt picture?

Mr. MURRAY. There are two reasons. One of them is a little bit of pride, I guess, we in Iowa claim to have the largest amount of grade A land in the United States. Another one is that insurance companies like to make large loans, with a relatively short distance between those loans; that is, if they can make a $15,000 loan 6 miles from town, it is much better than having to drive 15 or 20 miles to make a $2,000 loan.

The CHAIRMAN. Then the factor of the efficiency with which these loans can be served is an important one in this concentration in Iowa?

Mr. MURRAY. I would say so. After all, making farm loans is a profitable business if you can make a large volume at a low expense.

Mr. GESELL. Now, Mr. Murray, could you trace for the committee how the life insurance companies went into the farm mortgage field in Iowa, taking the period of acquisition up to 1928 and giving some idea of the methods and practices pursued?

The CHAIRMAN. Before the question is answered, may I ask that, at the suggestion of Senator Norris, you make clear whether you are referring to life insurance companies only, when you use the words "insurance companies"?

Mr. MURRAY. Life insurance companies are the majority of the lenders, when I refer to insurance companies. There are some additional companies which are lending besides the life insurance companies.

Mr. GESELL. Additional insurance companies?

Mr. MURRAY. Yes. We have other insurance companies, but they are a small percentage. Our figures have not distinguished between life insurance and other insurance companies, because the other insurance companies were such a small portion of the total, but your point is well taken that we do include all insurance companies.

Mr. GESELL. Now, with respect to this period of acquisition, Mr. Murray?

Mr. MURRAY. Starting about 1921, after the drop in farm prices, there was a large amount of available financing to be done in the State of Iowa, because people who had bought land in the land boom were anxious to refinance that indebtedness. At that time the insurance companies were finding that their investment funds were expanding and they had money to invest. There were also in the State of Iowa local correspondents and local mortgage brokers who were also interested in finding outlet for farm mortgages and they made contact with the insurance companies. The result was a big increase in farm-mortgage lending by insurance companies during the period of about 1921 to 1928.

Most of the mortgages that went East went East through loan correspondents or mortgage brokers.

Mr. GESELL. Tell us a little more about how the loan correspondents or mortgage brokers operate?

Mr. MURRAY. I will have to give you my observations of that from a distance. I have never been employed by a loan correspondent and I don't know exactly how they operate, but we do have the records that they charge commissions, and that the larger the loan, of course, the larger the commission.

The CHAIRMAN. How did you obtain these records?

Mr. MURRAY. The records we got from the courthouses and by, of course, asking farmers.

The business that we found on the books included those mortgages that were made by local mortgage brokers and sold to eastern insurance companies. The mortgages were first made out to this local mortgage company and they in turn assigned the mortgage to the insurance company. In that way the insurance company, if it was a company down East did not have to have any staff to speak of in the State.

The CHAIRMAN. That system is now being followed by the R. F. C. with respect to some of its financing, isn't it?

Mr. MURRAY. I couldn't tell you as to that, Mr. Chairman.

I will say that that practice of using loan correspondents has largely diminished, and that a good many of the insurance companies are now putting branch offices and their own field staff out to get loans rather than to buy loans directly from the correspondents.

Mr. GESELL. What was the reason you mentioned these correspondents? You said they received a commission based upon the size of the loan. What was the effect of that on the general situation?

Mr. MURRAY. Well, from our observation, the charging of commissions was not sound.

Mr. GESELL. Why not?

Mr. MURRAY. The temptation to loan money on commission is to loan as much as you can, and if I drive out to see John Jones and get him to take a loan, and if he is interested in getting a $10,000 loan and my commission is 1½ percent, that is $150, if I can get him to take a $20,000 loan and build a new house or something of that kind, I can earn $150 extra by talking him into that larger loan.

Mr. GESELL. Who made the appraisal of the lands in the case where the loan was made through the correspondent?

Mr. MURRAY. I may be getting into difficulty because I don't know enough about the practices of all the insurance companies. This much is true. The insurance companies were not taking as much interest in appraisals in those years when they were expanding as they are now. We have noted a very healthy change in attitude on the part of insurance companies and other lenders, including the Federal land bank and private investors, in making more examination of the fundamental security underlying the mortgage loans.

Mr. GESELL. Well, now, what terms were these mortgages made at during this period of acquisition? Were they long-term mortgages or short-term mortgages?

Mr. MURRAY. The majority of loans made by insurance companies during this period of the twenties were 5-year loans.

Mr. GESELL. Is that short or long for out in that area?

Mr. MURRAY. Those are short-term loans, of course, and they are traditional for our part of the country. Since the frontier days, the farmer in Iowa hoped that he could pay off his mortgage in 5 years. Up until 1890 or 1900 he could do that, but after 1900 he couldn't do it in 5 years.

Mr. GESELL. I should imagine these short-term loans were to the advantage of the correspondent.

Mr. MURRAY. They were, in that every time the 5-year period expired, another visit to the farmer and the renewal of the loan, or placing the loan with some other insurance company, meant another commission. I want to say, however, that that situation has changed. As you gentlemen noted this morning on the interest rate map,[1] there is another thing that happened. That is that not only are the farmers today getting the advantage of a lower rate, but the companies themselves in many cases are absorbing the commission.

Mr. GESELL. That is because of their branch office system?

Mr. MURRAY. It is because of the competition in order to get business.

Mr. HAYES. Dr. Murray, does the rate for renewals vary at all from the rate for the original loans?

---

[1] See "Exhibit No. 2272," supra, p. 15500.

Mr. MURRAY. That depends on the competition.

Mr. HAYES. I am speaking of the time during the early expansion, in the twenties.

Mr. MURRAY. As far as we can gather, and the files of the correspondents were not available to us, the farmers had to pay a commission regardless of whether they were making a renewal or new loan. In fact, I know of one loan where only an extension was granted, but to get that extension for 5 years, the man had to pay 2 percent.

Mr. HAYES. Is that the usual commission?

Mr. MURRAY. No. At that particular time, however, money was scarce. That was 1931.

Mr. GESELL. What further comments have you to make about this period of acquisition?

Mr. MURRAY. One thing that we found that we feel was wrong about the situation, looking back—and this is hindsight—was that there was a tendency to put a lid on the top loan of, say, $100 an acre, but that that maximum became pretty widespread, and everybody was making $100 loans on land in some cases that didn't merit the $100 an acre loan.

The CHAIRMAN. When you say "we," whom do you mean?

Mr. MURRAY. I mean the men who are engaged with me in studying the farm mortgage situation in Iowa, and to some extent I may be reflecting the attitude of farmers in the State; that is, at the agricultural experiment station, when we say "we," we often mean the State in terms of the farmers.

The CHAIRMAN. Was this a study carried on by the university?

Mr. MURRAY. These studies which I am using as a basis for my testimony were made by the Agricultural Experiment Station at Ames, Iowa.[1] We went to different parts of the State and gathered this material from court-houses and from information we could gather from correspondents and other people who were willing to give us information.

The CHAIRMAN. How large was the sample from which you make these deductions?

Mr. MURRAY. We—I shouldn't say "we" again——

The CHAIRMAN (interposing). That's all right, as long as we understand what you mean.

Mr. MURRAY. I went to the courthouse in Story County and I took a record of every mortgage that had been recorded there from

---

[1] Iowa Agricultural Experiment Station Bulletins:
Murray, W. G.—Corporate land, foreclosures, mortgage debt, and land values in Iowa, 1939. Research Bulletin 266. Ames, 1939.
Murray, W. G., Englehorne, A. J., and Griffin, R. A.—Yield tests and land valuation. Research Bulletin 252. Ames, 1939.
Murray, W. G.—Farm mortgage foreclosure in Southern Iowa, 1915–36. Research Bulletin 248. Ames, 1938.
Murray, W. G., and Bitting, H. W.—Corporate-owned land in Iowa, 1937. Bulletin 362. Ames, 1937.
Murray, W. G., and Meldram, H. R.—A production method of valuing land. Bulletin 326. Ames, 1935.
Murray, W. G., and Brown, W. O.—Farm land and debt situation in Iowa, 1935. Bulletin 328. Ames, 1935.
Murray, W. G., and Bentley, R. C.—The agricultural emergency in Iowa—IV Iowa. Farm mortgage situation. Circular 142. Ames, 1933.
Murray, W. G.—Prospects for agricultural recovery—II. Refinancing farm mortgages in Iowa. Bulletin 311. Ames, 1933.
Murray, W. G.—An economic analysis of farm mortgages in Story County, Iowa, 1854–1931. Research Bulletin 156. Ames, 1933.

the beginning of the courthouse until 1931. That included some 25,000 mortgages. That was one study that we made. We included every mortgage made in that county. Then we went into 5 other counties in the State and studied the mortgages in selected townships, and then we went to every courthouse in the State and gathered information on the location of land owned by institutional lenders, so that we have a complete check which we have made every 2 years since 1933 of the location of all land owned by institutional lenders.

The CHAIRMAN. The reason that I queried you about the meaning of the word "we" as you used it was that frequently we have noted a disposition to attribute to the committee conclusions which are reached by the witnesses, and I wanted to make it clear that by "we" you didn't mean the Temporary National Economic Committee or the Securities and Exchange Commission.

Mr. MURRAY. I understand

Mr. GESELL. I might say there is before each member of the committee some of these reports which Mr. Murray refers to, that will give some idea of the scope and character of the studies that were made.

Mr. MURRAY. I want to go back again to the fact that a limitation of $100 an acre was put on loans in Iowa by insurance companies and the Federal land bank, and I think also by the joint-stock land banks. This resulted, with the competition of lending, in loans at too high a value on some of the lower valued land in the State. There had been too much of a feeling that all of the land in Iowa was of the same quality. That fact, or that disposition to think of that, is being dissipated gradually and I think most of the insurance companies as well as the Federal land banks are very conscious of that.

In fact, in the last 3 or 4 years there has been an amazing revolution in the attitude of lenders toward their problem. We have found the insurance companies and the Federal land bank very receptive, very anxious to get all the information they can, on the income-paying possibilities of the land in various parts of Iowa. They are interested in new types of appraisal that will bring out those facts. They have profited by the experience that they have had.

They have, however, not yet found a way, a solution for the maximum loan on the best land. I would like to see a maximum loan on the lower-valued land rather than on the high-valued land.

Mr. GESELL. What were some of the other problems of this period of acquisition?

Mr. MURRAY. Well, as I have said, there was sharp competition. There was a tendency for loan correspondents to go out and get loans from each other if possible, to go to the courthouse and find out what the interest rate was on the loan and go out and tell the man he could refinance with some other company if he wanted to by getting a loan from them at maybe a lower rate.

We can say, I think, that the correspondent system which provided for a commission on the basis of the amount loaned put a pressure to get money out. Anyone whose job it was to place loans made money in terms of his commissions.

Mr. GESELL. Most of the loan correspondents were wiped out in the depression, were they not?

Mr. MURRAY. Yes. I should qualify that. They weren't wiped out exactly but the insurance companies in many cases found that they needed to have branch offices rather than correspondents if they were to look after their work in the territory. Some of them still retain correspondents, I believe, to look after their work, but, in the main, our observation from the college is that the correspondents have been replaced in many instances by branch offices, and that brings out what we think is a desirable change in that the men who put out the money should be on a salary basis and the business of appraising and putting out money should be a salaried, professional type of activity.

Mr. GESELL. Was the use of this correspondent system such that frequently insurance companies away from the scene had to depend pretty largely upon the correspondent, both for the quality of loan and all the other factors involved? They have very little way of checking themselves?

Mr. MURRAY. I couldn't answer to that exactly, but I would say this, that I don't think the companies who bought from the correspondents had thought much about the problem except that they were buying these mortgages from this loan correspondent who was located right out in the territory.

Mr. GESELL. Was there a tendency for the loans to concentrate in certain areas in a State?

Mr. MURRAY. Yes; there was. Very few loans were put in the lowest valued area of the State. We have an area along the east and in the southeast where there is a considerable amount of timber. In some of those areas the insurance companies were not interested in placing loans, but on land that in some cases was just as good, in fact, land that was not as good as some of this rough land, they would be willing to make loans, but on this timber and rough land they preferred not to enter those particular areas.

The CHAIRMAN. Was there local competition for these loans?

Mr. MURRAY. In many cases there was local competition for the loans.

The CHAIRMAN. What was the degree of it?

Mr. MURRAY. Particularly in the eastern part of the State there were families who had funds to invest, there were banks who had money, and either the individuals themselves made the loans or the banks would make the loan and assign the loan to older people in the community who had funds.

The CHAIRMAN. What was the circumstance that led to the expansion of the loans by the life insurance companies rather than by individuals or commercial banks?

Mr. MURRAY. After 1921, the State was hit pretty hard by the depression from the land boom of 1919–20 and private individuals and commercial banks in the State had all they wanted, and more. And they were anxious wherever possible to get outside funds.

Mr. GESELL. In fact, the insurance companies refinanced the loans of commercial banks and other lenders during the period from '22 to '28, did they not?

Mr. MURRAY. They did.

The CHAIRMAN. So in a sense it might be said that the life insurance companies were bailing out the individuals and the commercial banks during that period, is that right?

Mr. MURRAY. That would be substantially correct; and then during 1933 and '34, Congress provided an agency to come in and bail out the insurance companies.

The CHAIRMAN. And the Farm Credit Administration performed the same service.

Mr. HENDERSON. Who is going to bail the Government out?

Mr. MURRAY. That is a question I don't exactly have the answer to.

Mr. HENDERSON. To put it less facetiously, basically the product of the lands is going to bail out the debt, isn't that it? Doesn't it rest on the question of whether the farmer gets an adequate return for what he produces?

Mr. MURRAY. My answer to that question might be along these lines. I was engaged by the Farm Credit Administration last fall to make a special study in Nebraska. I went out to Nebraska and found that a lot of the loans out there by the Federal land bank and Land Bank Commissioners were in a position where the man couldn't pay. There was under way a movement to work out some arrangement for those men. There was no agency available to bail out the Federal land bank and the Land Bank Commissioner so the Federal land bank and Land Bank Commissioner arranged themselves to work out a way to bail themselves out by means of a scale of payments for the farmer that were in line with what the farmer was able to make.

The CHAIRMAN. In other words, an effort was made to allow the farmer to work out his loan.

Mr. MURRAY. That is right.

The CHAIRMAN. So that the Farm Credit Administration has been endeavoring to keep the farmer on the land and to make it easy for him to pay out the loan.

Mr. MURRAY. In fact, the Farm Credit Administration practically had to do that because there was no agency to come and take over their loans.

Mr. HENDERSON. Getting down to the fundamentals of the thing, with the level of debt now on farm property, and with the interest rate at the present low level, given a satisfactory agricultural situation, the mortgaged property can bail itself out, isn't that correct?

Mr. MURRAY. Except in certain areas, and I don't believe you can generalize on the situation except to say that in many areas the situation is satisfactory but that in other areas it is not.

Mr. HENDERSON. Let me see if I understand what you mean. Even if you have what some of the farm organizations are contending for—I am not going to try to take any sides as between the different groups—do you mean that there are still some areas so debt-ridden that they couldn't meet their terms?

Mr. MURRAY. I mean that there is land in some of those areas where the debt at the present time is too heavy.

Mr. HENDERSON. It just can't be supported by a reasonable price level for agricultural commodities?

Mr. MURRAY. Largely because those areas have been particularly hard hit.

The CHAIRMAN. You don't mean to assent to what Commissioner Henderson just said, that these debts couldn't be paid off at a reasonable price level. What you mean is that at the present price level they can't be paid off.

Mr. MURRAY. That would be a question of the interpretation of "reasonable."

The CHAIRMAN. The farm income has not yet been raised to the level at which it was before the depression, has it?

Mr. MURRAY. That is right.

The CHAIRMAN. That is correct. Is it not possible that if we succeeded in raising the farm income to the level prior to the depression, that this problem would gradually work itself out?

Mr. MURRAY. Yes.

The CHAIRMAN. Fundamentally, as Commissioner Henderson says, it is a question of production at proper prices which will have to be solved before the Farm Credit Administration can be bailed out.

Mr. MURRAY. That is right.

Mr. PIKE. Isn't there more than that to it? You say they have been hard hit? You must include by that the physical deterioration, erosion of land. No price of farm products is going to bail out an area where the soil has been ruined by one method or another.

Mr. MURRAY. I want to allude to that problem a little later in one section of Iowa where I think there still is a definite problem, because that area has depreciated because of erosion, and because the insurance companies and other lenders still own a large percentage of the land in that area. They own a larger percentage than they do in other areas.

Mr. PIKE. Worn-out land isn't going to be bailed out by a reasonable price of farm products. More has to be done than that

Mr. MURRAY. A special problem area is what it is.

The CHAIRMAN. Do you think I would be justified in saying that the life insurance companies, holding as they do a perfectly tremendous amount of farm land in complete ownership, and holding mortgages upon a very much larger amount, are more deeply interested than probably any other institution except the Farm Credit Administration in helping the farmer to solve the farm problem?

Mr. MURRAY. I believe you are right, and we have had indications of that from the insurance companies who come to us for information and are anxious for us to help them.

Mr. GESELL. Well now, if that completes what you had to say on the period of acquisition, can you tell us a little of what happened in recent years, during the period of liquidation, we might call it?

Mr. HENDERSON. Before we get there, I don't think I got a satisfactory answer, or a complete one—we will put it that way—Mr. Murray. Let me see if I can phrase it another way. At the present time the level of farm income is below that of the rest of the community relative to 1929. Assuming that we got back to the 1929 farm income, with a pretty general dispersion and diffusion of that income, in your opinion even with the lower amount of farm debt, the quite drastically reduced interest rate, and the more favorable terms of the mortgages that exist, there are some lands in Iowa which would still need to have some attention paid to the principal amount. It would have to be reduced. In other words, the burden of debt would still be too heavy.

Mr. MURRAY. In answer to that question, I would say that there would be very little land that would come under that classification.

It would be more a problem of selling and reconditioning those farms that had deteriorated during the time when they were held by corporate lenders or private investors who had to take them over, during the time when tenants were on those farms.

Mr. Henderson. That would mean, in another way, then, if the Government continues its general policy toward farm credit, and if other things that I gather you are going to speak about later are done, and there is time to work it out, pretty generally the product of the land, with a satisfactory price out there, will bail out the mortgage debt.

Mr. Murray. That is right.

Mr. Henderson. That is what I was getting at.

Mr. Murray. And we have had a terriffic liquidation at that.

Mr. Henderson. I am trying to find out whether, with reasonably good conditions for farmers, the liquidation, the drastic liquidation, is at an end.

Mr. Murray. I can say that in the State of Iowa, in 1938, our study showed only 550 foreclosures, whereas in 1937 there were 1,375, indicating that the liquidation was practically complete. This year there will be a few more foreclosures, that is in 1939, excuse me, because the moratorium ended in March of 1939, but the liquidation in general is practically complete.

We still have, however, as I said earlier, some problems left with land which has depreciated during the process of foreclosures.

Mr. Gesell. You are talking particularly, I suppose, about the land in the drought areas?

Mr. Murray. The land in those sections of the State, yes; which has suffered from either erosion or drought.

Representative Williams. Do I get the impression from what you have said that there are a number of loans in Iowa on farm lands valued at $100 an acre, a loan of $100 an acre?

Mr. Murray. Yes, sir; and there were loans at $100 an acre on which the interest was paid right through the depression period.

Representative Williams. Are those general farm loans, covering general farming conditions?

Mr. Murray. Yes, sir.

Representative Williams. Covering what area?

Mr. Murray. I have a chart here. This chart shows the value of land in different sections of the State, and this general area is the better area of the State in terms of land values.

Mr. Gesell. That is about the central area you are pointing at?

Mr. Murray. I recall a loan when I was on the Debt Conciliation Committee of $100 an acre right in here, and that man never had any delinquency at all on his loan, and he was getting all his income from farming.

Representative Williams. How many acres would a loan of that kind cover? Was it a very small body or an extensive body?

Mr. Murray. I would say it was an average loan on 160 to 240 acres in that territory. It wasn't in the best territory, as we will show a little later, where the companies had their trouble. It was in the areas that were not quite as good.

Mr. Gesell. Well now, will you discuss this period of liquidation, in order that we can——

Representative WILLIAMS (interposing). I am not clear about this yet in my own mind and I want to make it clear, because I think it is a matter of some importance. Now, those loans are made at $100 per acre; upon what percentage valuation do they figure them?

Mr. MURRAY. Insurance companies and the Federal land bank, who made those loans, were making them on the basis of a 50-percent valuation. The land was worth $200 an acre, and from the period 1922 to 1930 there were a great many loans made on that valuation.

Representative WILLIAMS. And those loans didn't have any trouble?

Mr. MURRAY. Many of them did, but there were, as some of the insurance companies I think can testify, many of those loans that came through.

Representative WILLIAMS. What percentage of them, would you say, did come through, of that character of loan? That is a rather remarkable statement to me—is the reason I make that inquiry.

Mr. MURRAY. We have no check on the percentage of the loans that came through, because we don't know in every case just how many loans were made. But let me give you this picture: In the State, with about 45 percent of the land mortgaged and with the mortgaged land mortgaged on the average for about $80 an acre, there was only a relatively small percentage of the State that actually went through foreclosure.

I think I can get those figures, as to the actual number of farms that went to foreclosure.

I will have to give you the figures in this form: 12 percent of the land in Iowa owned by corporations as of January 1, 1939, whereas in 1930 about 45 percent of the land in the State was mortgaged for $80 an acre.

Senator HERRING. Dr. Murray, would you not say there is much less distress in the $100-an-acre loans than there was in the $30-an-acre loans?

Mr. MURRAY. Yes.

Representative WILLIAMS. What kind of mortgages were those back in the twenties? Were they just straight direct mortgages covering a period of 5 years, not amortized in any form?

Mr. MURRAY. No.

Representative WILLIAMS. What form are the mortgages in now?

Mr. MURRAY. There are still some of the 5-year mortgages, but a good many are made for longer terms of years. I should change my statement to say that the Federal land-bank loans that were made during those years were for longer terms, of course.

Representative WILLIAMS. Yes; I understand they were all made for 30 or 35 years, but it was not the practice in those days for the banks or the insurance companies to issue or accept an amortized mortgage?

Mr. MURRAY. The farmers, according to many of the lenders, and I think maybe supported by the facts, didn't prefer the longer term loans in all cases.

Representative WILLIAMS. It was simply not the practice at all, was it?

Mr. MURRAY. That is right; and whether or not it was because the lenders preferred it or the borrowers preferred it, I cannot say.

Representative WILLIAMS. When did that form of mortgage come into general use?

Mr. MURRAY. The 5-year mortgage?

Representative WILLIAMS. I mean the longer term amortized mortgage.

Mr. MURRAY. There are a few illustrations of it back before the Federal land bank was started in 1917, but very few. Since the Federal land-bank introduction into the field, the long-term amortized loan has grown in popularity. Some of the insurance companies are offering this type of credit at this time.

Representative WILLIAMS. Is it true that most of them are in that form now?

Mr. MURRAY. No.

Representative WILLIAMS. Still the straight 5-year mortgage?

Mr. MURRAY. Yes.

Mr. GESELL. Now, with respect to this period of liquidation, Dr. Murray, can you tell us a little about what has happened since 1928 or 1930?

Mr. MURRAY. To give you a little impression of what happened in Iowa in 1930, there were estimated to be 1,500 foreclosures in Iowa. In 1931, as you will recall, the price of corn began to go down and difficulties increased. There were 3,400 foreclosures in that year. In 1932 it went to 6,400 foreclosures. In 1933 there would have been more, but in February of that year a moratorium on foreclosures occurred and the result was in 1933 the total number of foreclosures was only 3,700. It dropped from 6,400 in 1932 and since that time it has dropped off until, in 1938, as I will repeat, there were only 550.

You might be interested in who was foreclosing. Our estimate for 1930 showed that 27 percent of all the foreclosures were made by insurance companies. In 1931, 38 percent were made by insurance companies; in 1932, 46 percent; in 1933, 51 percent; in 1934, 67 percent of all the foreclosures were by the insurance companies.

Representative WILLIAMS. That seems to be a kind of progression, increasing all the time. The question is: What percentage of mortgages did they own?

Mr. MURRAY. They owned 40 percent of the mortgage debt in 1928, or thereabouts.

Representative WILLIAMS. These percentages are given in numbers, as I understood it.

Mr. MURRAY. This is the percentage of all the foreclosures that were put through the courts.

Representative WILLIAMS. In number? not in amounts.

Mr. MURRAY. Yes.

Representative WILLIAMS. What percentage of them in numbers did they own?

Mr. MURRAY. I can't give you those figures. I have never broken them down, but I would say substantially they would agree.

Mr. GESELL. Agree with what?

Mr. MURRAY. They would agree with the percentage of the debt.

Mr. GESELL. Oh, you mean they held about 40 percent of the farms?

Mr. MURRAY. They had about 40 percent of the debt and in 1934 their foreclosures in numbers were 67 percent of all foreclosures.

The reason for that is that the insurance companies were late in starting foreclosures, because most of them were first mortgages.

Representative WILLIAMS. The point I have in mind and was making inquiry about was whether they were more rapid and more ruthless in their foreclosures than others.

Mr. MURRAY. It is difficult, of course, to say anything about that, with this exception: You can say that since they held first-mortgage security it was not until 1931 that most of their mortgages would come into difficulty, so it was logical that their foreclosures would not start until the depression deepened.

We found in working with the moratorium cases that you couldn't generalize about insurance companies. We found that the companies that had home offices in the Corn Belt, for example, were quicker to realize the situation than the ones that were farther away, which was natural, because the ones in the East who had bought their loans from correspondents were not nearly as well acquainted with the situation, whereas we had to write to the home offices in some cases in the eastern companies and have their executives come out and see what the situation was—as members of the Debt Conciliation Committee, I am speaking now.

With the companies who were located locally in the Corn Belt, generally speaking, there was very little cause for moratorium, because most of those companies were acquainted with the problem.

Mr. GESELL. Do I understand you to say there wouldn't be any need for moratorium if the mortgages were held by the local companies?

Mr. MURRAY. I think that is a rather broad statement. I can't quite agree with all of it, but I can say that the circumstances would lead to a conclusion approximating that.

Mr. PIKE. You mean a legal moratorium. There would have been a sort of classic, private moratorium.

Mr. MURRAY. That is right. Each insurance company realized that there was no use of its taking over the land. Why take over the land if you have a good operating farmer on there? He is the best bet you have if you can keep him in ownership. The idea of the moratorium was that it was a receivership period in which the man had a chance to get back on his feet.

Representative WILLIAMS. Did the insurance companies get into any worse condition than the others? Did they have a poorer grade of loans?

Mr. MURRAY. No; they didn't have a poorer grade. I think in some cases they probably had a better grade of loan. Of course, that is tied up with the amount they loaned per acre.

Mr. GESELL. I understood you to say in those figures that the insurance-company foreclosures expressed in percentage of all foreclosures increased even during the period of moratorium.

Mr. MURRAY. That is right.

Mr. GESELL. Did you find the insurance companies were agreeable to the moratorium and cooperated with it, or were they opposed to it?

Mr. MURRAY. That changed over time. I think a great many of them were on the fence at first. Some of them were probably hostile. At least they indicated as much. But after a year or two, most of them were coming over. In fact, some of them hated to see it go because it dumped a lot of farms into their laps they would have been able to work out maybe if the moratorium had not ended in 1939—the moratorium principle has worked out so well in the receivership period because the farmer has a chance to come back, has an opportunity, with good prices and good crops, to get back on his feet.

Mr. GESELL. I gathered from what you said that the local companies were giving the farmer that opportunity without foreclosing on the land and that many of the companies from outside, not being as familiar with the situation, were not adopting that practice.

Mr. MURRAY. They were not as quick to adopt that practice.

Senator HERRING. Let me say at this point that when the original proclamation was issued forbidding farm foreclosures, three insurance companies disregarded it. All the others accepted it and stopped foreclosure, as Dr. Murray will recall.

Mr. GESELL. Do you recall that, Mr. Murray?

Mr. MURRAY. Yes, I recall the fact we had some difficulty with some of the companies in getting them to accede to the moratorium in our work with debt conciliation cases, and I ought to add probably for the record at this point, I was chairman for a brief period of the Debt Conciliation Committee in the State.

Mr. GESELL. Did the companies cooperate with the work of the Debt Conciliation Committee?

Mr. MURRAY. Again I will say that it was a question of time in some cases, to get them to come around to see what we felt was the proper attitude to take with respect to working the cases out. However, I want to say that in some companies the cooperation was exceedingly fine. We had some of the best possible cooperation.

Representative WILLIAMS. As I understood the figures you gave, there was an increase in the percentage of foreclosures on the part of the insurance companies.

Mr. MURRAY. That is right.

Representative WILLIAMS. Ranging from the years 1932 to 1937.

Mr. MURRAY. 1932 to 1934. Excuse me. My figures I gave you were from about 1930 to 1934, our last figures on the percentage of the number.

Representative WILLIAMS. Now the plain question is whether the other lending institutions, whether their percentage of foreclosures increased in the same manner.

Mr. MURRAY. The private investors; no; because they in many cases were out of the picture earlier. Some of the private people had second mortgages and they had been cleaned out, so to speak, earlier. The Federal Land Bank during this period was so busy with their refinancing plan, that their foreclosures in many cases were held up. I think the figures for recent years would show that the Federal Land Bank foreclosures have increased relatively to what they were in that period that I quoted.

Mr. GESELL. Now, during this period, was there quite a bit of scaling down of the debt by the various lending groups?

Mr. MURRAY. The Federal land banks, of course, were doing the refinancing and did not scale down at all; that is, they didn't enter in as a party to any scale-downs. Therein was the difficulty because if we had a man with a Federal land-bank mortgage who needed a scale-down, there was no way of getting it. Congress provided one remedy by reducing the rate on his loan to 3½ percent, which helped out. The insurance companies, by and large, on many of their loans in Iowa were not willing to scale, and not willing to scale because they said the land value in Iowa would come back, and it did, and in many cases it was only a question of time. We had banks and private investors, on the other hand, who were willing to scale and were much more cooperative in the scaling down process because they were interested in getting cash. The insurance companies naturally were not interested as much in getting cash.

Mr. GESELL. Now, are there any other general observations which you wish to make about this period of liquidation?

Mr. MURRAY. I believe that covers that period, unless there are some other questions.

Mr. GESELL. Now, I want to show you, Mr. Murray, some charts and tables which, it is my understanding, were prepared under your direction or with your cooperation, and ask you if you will identify these.

Mr. MURRAY. I do.

Mr. GESELL. First, with respect to the series relating to corporate land, foreclosures, mortgage debt and land values in Iowa, have you some comments which you wish to make?

Mr. MURRAY. I would like to make some comments on that, because it shows the large interest that the insurance companies have in the State of Iowa. The material is included in the first bulletin, on page 310.[1] It shows the heavy concentration of corporate holdings in insurance companies.

Mr. GESELL. I think I might at this time offer these schedules and charts for the record, all three of them at this time, as "Exhibits Nos. 2282, 2283, and 2284."

(The charts referred to were marked "Exhibits Nos. 2282, 2283, and 2284" and are included in the appendix on pp. 15507 to 15512.)

Mr. MURRAY. On January 1, 1939, the insurance companies owned, according to the records in the courthouses, 2,752,000 acres in the State of Iowa, an acreage which is slightly more than 8 percent of all the land in the State of Iowa, or represents about 8 counties out of our 99. That is the reason, gentlemen, why we are interested in the policies of the insurance companies in Iowa.

You will notice also that the next largest holder of real estate in the State of Iowa of the corporate lenders are deposit banks which only hold 1 percent. That gives you some impression of the fact that the insurance companies are the largest single group of institutional lenders in our State.

Mr. GESELL. One percent for the deposit banks compared with what for the insurance companies?

Mr. MURRAY. 8.1 percent.

Now I would like to bring you up to date by turning to page 312 in that same bulletin, and to show you where the increase in corporate land has occurred since 1937.[2] You will notice that the corporations, including the insurance companies, have increased their holdings in western and southern Iowa, and you will also notice on the opposite

---

[1] Murray, W. G., Corporate land, foreclosures, mortgage debt, and land values in Iowa, 1939. Research Bulletin 266. Ames, 1939.
[2] Ibid.

page that is the area where erosion is a particularly serious problem in our State. Consequently we have a problem there of that land being resold to owner-operators on a basis where they can operate that land successfully.

Numerous representatives of insurance companies have told me that they have had little difficulty in selling their better land, but it is the land that has been eroded or is in bad shape for other reasons, which has become the real problem in the State.

This area in the West and the South is not only the one of heavy erosion, but it is also the area where the drought has taken its heaviest toll.

The CHAIRMAN. May I interrupt, Professor Murray, to ask, what is the character of the land investment and mortgage companies shown in this exhibit that you have handed in?[1]

Mr. MURRAY. Those companies represent a miscellaneous group, including companies formed by men in banks to take land out of the asset columns of the bank statements. They include some private companies formed by men who thought they could make some money in lands. They organized and bought some land under a name like the Corn Belt Investment Co., or the Home Investment Co.

The CHAIRMAN. Would it be fair to assume that most of these were local Iowa corporations?

Mr. MURRAY. That is right.

The CHAIRMAN. Owned and operated by Iowa citizens?

Mr. MURRAY. With a few exceptions. I know of some investment trusts back East that for a long time have owned land in Iowa as an investment.

The CHAIRMAN. Now, with respect to the deposit banks, are those also primarily or in most instances owned in Iowa?

Mr. MURRAY. Not entirely. We find every once in a while a bank from Vermont or Massachusetts, a savings bank, or some banks in Illinois or other places back East that have invested money in Iowa mortgages and have had to take over the land later.

The CHAIRMAN. Exclusive of the insurance companies, what proportion of these landholdings would you say was held by non-Iowa corporations?

Mr. MURRAY. Probably not more than 25 percent, excluding the Federal land bank and the joint-stock land banks.

The CHAIRMAN. Of course, the Federal land bank could also be regarded as an absentee owner.

Mr. MURRAY. Not entirely, in that we feel out there that our stock in the National Farm Loan Association represents an interest in the Federal land bank.

The CHAIRMAN. So that, you think, makes it a local institution?

Mr. MURRAY. Partially. We have hopes that the Federal Land Bank system will eventually work out so that it will be owned by the farmers.

The next exhibit I would like to present has to do with the location of the insurance companies' holdings in the State of Iowa.[2] As I said previously we have gone to each courthouse in the State of Iowa and taken off a record of where the insurance company land is

[1] "Exhibit No. 2284," appendix, pp. 15510–15512.
[2] "Exhibit No. 2282," appendix, pp. 15507, 15508.

held. You will find that located in Bulletin 362, on page 101.[1] You will also see that on the top one of the maps which are on the easel.

Mr. GESELL. I am afraid that will have to be nearer if we are to see the dots.

Mr. MURRAY. Those who have the bulletins can see it by looking at the chart on page 101.

I wanted to have that chart of the location of insurance companies compared with the chart which shows the value of land in Iowa. From that you will observe that the insurance companies own the largest proportion of their holdings not in the best territory, but in the twilight zone between the best territory and the poorest territory.

They own a large proportion of their holdings in southern Iowa, in parts of western Iowa, and in northern Iowa. Those are areas which are not as good as the best land, and not as poor as the lowest-value land.

This same picture can be presented for other lenders. The insurance companies are not the only ones that have learned the lesson of the variation in income paying power, but they had the largest volume of loans so they were the ones that were most extensively engaged in taking over real estate in those sections.

Next, I would like to present charts showing the foreclosures in 31 southern Iowa counties.

Mr. GESELL. That appears in Research Bulletin 248, does it not?[2]

Mr. MURRAY. That is in Bulletin 248, on page 256. We went to the courthouses in the 31 counties in southern Iowa and we took a record of every foreclosure that had occurred in those counties from 1915 through 1936, and that first chart shows how the foreclosures in the beginning were largely by private investors, and how later they were largely by insurance companies.

I was unable to give you the figures for Iowa as a whole, but here are the figures for the 31 southern Iowa counties, indicating the percentage which the insurance companies foreclosed.

After 1934, you will notice, the proportion which the insurance companies had was reduced somewhat. In 1936 they had 39.3 of all the acres foreclosed in that territory.

I would like to bring your attention to a situation in southern Iowa which I think is important. The last chart on that bulletin is on page 259. It is the middle chart on page 259, and it shows the heavy concentration of foreclosures in one area of southern Iowa, an area of lower land values.[3]

I would like to suggest a comparison between five counties in that low-value area, and five counties to the west of that area in a better land area.

Mr. GESELL. That is shown on this schedule which is before the committee, entitled "Relationship of Farm Mortgage Debt to Farm Value as Revealed by Foreclosures in 5 High- and 5 Low-Value Counties in Southern Iowa 1915–1936, and Acreage Sold and Deeded by Corporations in These Same Counties January 1935 to January 1939," is that correct?

---

[1] Murray, W. G., and Bitting, H. W., Corporate-Owned Land in Iowa, 1937.
[2] Murray, W. G., Farm Mortgage Foreclosures in Southern Iowa, 1915–36. Ames, 1938.
[3] See "Exhibit No. 2283," appendix, pp. 15509, 15510.

Mr. MURRAY. That is correct.

Mr. GESELL. I should like to offer this schedule for the record at the present time.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 2285" and is included in the appendix on p. 15512.)

Mr. MURRAY. I would like to point out the five low-value counties are located directly in the southern part of Iowa, and the high-value counties are located in the southwestern corner of the State. The insurance companies loaned an average of $94 an acre on those five high-value counties, or thereabouts, as revealed by the foreclosures which they had in those high-value counties. They had an average debt per acre of $63 in the low-value counties, but the point to bear in mind is that they loaned, evidently, more in proportion to the value in the low-value counties.

Mr. GESELL. In other words, they overloaned in those low-value counties?

Mr. MURRAY. If you consider the correct loan as made in the high-value county, they were too high in the low-value counties. For example, comparing the 1925 values according to the census, they loaned 55 percent of the value in the high-value counties and 68 percent in the low-value counties.

Now, the result of that was this: In 1939 the corporations owned 9 percent of the land in the high-value counties and 25 percent of the land in the low-value counties.

Mr. GESELL. So that as the result of the lending policy of overloading on the low-value lands they have come to be the principal owners of the low-value property?

Mr. MURRAY. I should add to that statement——

Mr. GESELL (interposing). Is that correct? That was supposed to be a question.

Mr. MURRAY. I would add to that statement that they have overloaned in that territory and have had to take over a larger proportion of land in that territory than the other territory, but that they are not the only ones that have experienced that situation. The Federal land bank and the joint-stock land banks had the same experience. And that leads up to another problem which is current in the State of Iowa, and that is the fact that the land in those low-value areas is not selling as rapidly as the lands in the better areas, even though those five high-value counties are in the drought area.

Mr. GESELL. That as a result gives you in effect more absentee ownership of the land that needs the closest attention and has the greatest need of an owner-operating relationship?

Mr. MURRAY. That is correct.

Mr. HENDERSON. Is that necessarily so? I mean, it might seem that what that land needs is someone who can put some additional money in there. Certainly insurance companies are in better shape to put money in than someone who goes in and operates it right on the margin.

Mr. MURRAY. That is right; the insurance companies have put a lot of money into that land. They have fixed up the buildings and in many cases the tenants are anxious to have the insurance companies continue as the landowner, but the difficulty is that the insurance companies have those farms for sale. Every year the tenant on one of those farms is subject to termination of the agreement.

The farm may be visited by anybody at any time to determine whether or not it is to be sold, and the farmer who is operating that farm is constantly under possibility of having to move the next year, and that means that land where there is erosion, and where there are difficulties in handling it, is not under stable ownership in terms of a long-term program.

Mr. HENDERSON. What is your Iowa insurance law with relation to an insurance company holding property?

Mr. MURRAY. Five years.

Mr. GESELL. They have been holding it longer in many cases?

Mr. MURRAY. They have been getting a renewal of that privilege of holding it 5 years, but the situation has changed somewhat. At least, from the newspaper reports, the present commissioner of insurance is asking the insurance companies who now apply for an extension of 5 years to have a definite plan of sale; at least he is not anxious, according to the newspapers, to extend that period of 5 years.

Mr. HENDERSON. What period is the usual extension?

Mr. MURRAY. All that I know about is the common knowledge that it is a renewal for 5 more years.

Mr. HENDERSON. But the period for which the tenant actually gets a contract is usually 1 year; is that it?

Mr. MURRAY. Because the insurance company may sell that farm any time during that year. The farms are all for sale.

Mr. HENDERSON. You have two things, then: you have the attitude of the Iowa insurance commissioner and you have the desire on the part of the insurance company to get out of the land-holding business, working against a long-time rehabilitation of the farms. Isn't that it?

Mr. MURRAY. That is right. The insurance companies, however, are not interested in a long period of rehabilitation, because that is very expensive with tenant operation.

Mr. HENDERSON. They can't, can they, with the nature of their obligations? That is, the general construction of insurance company holdings is that they are not permitted to hold any land unless it is taken in foreclosure. It isn't contemplated that an insurance company be an absentee owner corporation.

Mr. MURRAY. At the present time it is not. The attitude of the insurance companies is that they are interested in getting out of their land holdings, and the insurance commissioner has the same feeling, that they should get out as soon as they can, reasonably.

Mr. HENDERSON. What do you think they ought to do?

Mr. MURRAY. Well, there is one question in my mind. I have never seen any evidence on this, but I am wondering if it would be possible for an expansion of the use of the contract of sale to tenants. Some of the companies, we understand from local observation, are using that and are selling to tenants on a small margin. Some of the other companies, particularly the ones in the east, do not favor, evidently, that particular type of sale.

Mr. HENDERSON. Well, now, if you were an insurance company and honestly believed you were going to have an increase in the price level, you wouldn't want to have a contract of that kind, would you?

Mr. MURRAY. Well, I would be up against this, that maybe that farm isn't making me much income there now with a tenant on there from year to year not knowing he could stay, and if I could sell that farm to a tenant he would be willing to take an interest in that farm and want to preserve the topsoil.

Mr. HENDERSON. I can see your attitude from the viewpoint of Ames, Iowa, somebody interested in Iowa. What I am getting at is the viewpoint of the insurance company. One of the reasons why the insurance company is a good reservoir for any kind of security is that, with a few exceptions, it is not a trader. It is expecting to hold it to maturity, and it staggers its maturities to meet its obligations. As I see it, you are caught, as far as your own citizens are concerned, in a conflict between the type of lender and what his attitudes necessarily have to be on account of the necessities of his business and the rehabilitation necessary for Iowa.

Mr. MURRAY. Of course, if the insurance companies held all their land off the market in terms of a speculation that prices would be higher and then they could sell——

Mr. HENDERSON (interposing). Then who can sell?

Mr. MURRAY. Insurance companies could sell at the higher price if they felt they were going to be higher, but insurance companies haven't taken that position. They are interested in getting out of the real-estate business in the State, but they are not getting out as rapidly in the lower-valued areas, and my suggestion is that maybe the use of these contract sales, plus maybe a revaluation of that property—I don't know, but I am wondering if they have that property down on the basis where the farmers could buy it.

Mr. HENDERSON. Maybe you have something there. Maybe it is a necessity for them to realize what they have hold of, if they have an asset that isn't worth as much as they have carried it at on their books. Is that what you are suggesting?

Mr. MURRAY. I am suggesting a revaluation to determine whether or not that is the reason why they haven't been selling those farms in those areas as rapidly as in other areas and I submit this table, that in these five low-value areas the value of land has dropped much more than it dropped in the high-value areas.[1] Now, whether or not these insurance companies have all realized that this property has depreciated because of erosion or not is a matter on which I can't judge. I think it would be a question of determination.

Mr. HENDERSON. And whether they have realized, also, that under the present ad hoc basis, with erosion working day and night, the value is likely to get lower?

Mr. MURRAY. That is the point that I wanted to make a little while ago, that maybe even though they thought prices were going up, maybe selling the land even at a lower price might save them money, in view of the fact that the farm won't be worth as much 2 or 3 years from now as it is today.

Mr. GESELL. Well, now, which of the companies are moving their real estate off the fastest out in that neck of the woods? Is it the eastern companies or the western companies?

Mr. MURRAY. I couldn't say as to that, because I haven't the

[1] See "Exhibit No. 2285," appendix, p. 15512.

figures, but I can say this, that our observation is that those companies that are using the contract of sale, selling on a small down payment, getting the lands in the hands of the owner-operator, who as I said before is interested in maintaining the property, those companies, I believe, are in the main, with some exceptions, the companies with home offices out in the Corn Belt with few exceptions. It seems to me the situation is pretty much the same as it was earlier in the depression. The eastern companies realized later on how to cooperate on the moratorium. Maybe the same thing is true of these contracts of sale, that some of the companies in the Middle West have found that that is a way to get the land over into the hands of the owner-operator.

Mr. HENDERSON. Well, there is always a risk there, too, isn't there, Dr. Murray? You use one of the familiar ways of concealing a lack of value in an asset to get some kind of a contract that you can drop in at a face value. You are up against another potentiality, that an insurance commissioner has to watch.

Mr. MURRAY. But I ask you—not ask you, I wonder—if the farm now at its price, not selling, is any better asset than that same farm sold to an owner-operator who is interested in keeping the topsoil where it is?

Mr. HENDERSON. Does your insurance commissioner look at what the value is? Does your insurance department keep pretty well in touch with the nature of the studies that you are doing?

Mr. MURRAY. He has quoted some of our studies at different times; yes. I can't say as to the way in which he conducts his office, as to an examination of values.

Mr. GESELL. I might call the committee's attention to tables 180 and 181 of "Exhibit No. 2250."[1]

The CHAIRMAN. May I interrupt. The roll is being called for a vote on an amendment, and Senator Norris and I will have to go.

(Representative Williams assumed the Chair.)

Mr. GESELL. Tables 180 and 181 of "Exhibit No. 2250," when compared on a percentage basis, show that the companies with the greatest percent of real estate, farm real estate under contract of sale, are the companies domiciled in the West. Bankers' Life of Iowa heading the list at 33.9 percent, followed by Union Central, Equitable, Lincoln National, and Northwestern Mutual, the sixth company being Prudential and the seventh being the John Hancock.

I should like to offer this schedule, which is simply a computation based on the other two tables,[2] for the record.

(The schedule referred to was marked "Exhibit No. 2286" and is included in the appendix on p. 15513.)

Acting Chairman WILLIAMS. In the disposition of these lands, are they under just a sales contract or do they sell them and take a mortgage back on them?

Mr. MURRAY. It is done both ways. Usually, according to our information, where a contract is taken, the title remains with the insurance company or with the Federal land bank, and in this connection the Federal land bank has sold a large proportion of its hold-

---

[1] See Hearings, Part 10–A, pp. 180 and 181.
[2] Ibid.

ings in the State of Iowa on contract, retaining title, and as soon as the present owner, under this contract, pays down a certain proportion of his amount on his contract, he gets a deed.

Acting Chairman WILLIAMS. But it would be rather difficult to make a sale and take back a mortgage, part with the title on the part of the company, and take a mortgage back on the same basis of valuation on which the original mortgage is made.

Mr. MURRAY. The case where the outright sale is made is where the man usually pays down 25 percent; they give him the title, and he gives a purchase money mortgage for the difference.

Acting Chairman WILLIAMS. They don't require the 50 percent payment?

Mr. MURRAY. They use various practices. Each insurance company usually has a different contract, a different method of sale.

Acting Chairman WILLIAMS. I thought perhaps the law in some cases regulated that. Do the Federal land banks do that?

Mr. MURRAY. The Federal land banks do that. They sell to a farmer, and after he has paid down a percentage, as I understand it, according to their own interpretation, they can give him a deed and take back a purchase money mortgage for the difference.

Acting Chairman WILLIAMS. In other words, they make a loan then, and the mortgage is taken for 75 percent of the value instead of 50 percent.

Mr. MURRAY. That is correct.

Acting Chairman WILLIAMS. And that is the practice with insurance companies, too, is it?

Mr. MURRAY. I believe it is.

Mr. PIKE. That is usually a smaller principal amount than the original amount.

Mr. MURRAY. That is correct. If they had loaned originally, say, $90 an acre, had $100 invested in the farm, and sold the farm for $95, with a down payment of $20, it would mean they would take back a purchase money mortgage of $75, whereas originally they would have had that $90 loan.

Acting Chairman WILLIAMS. Do they resort to the deficiency judgment in any cases?

Mr. MURRAY. Deficiency judgment in Iowa is quite common and is used mainly for the purpose of obtaining the income from the farm during the year of redemption. If an insurance company has a judgment of $10,000, they may bid in the farm at $9,000, obtain a deficiency judgment of $1,000, and use that as a basis of obtaining a receiver who will then be in a position to collect the rent during the year of redemption.

Acting Chairman WILLIAMS. Is their right under the deficiency judgment limited to the collection of that out of a particular year's rent, or is it a general judgment against the owner that may extend for a period of 10 years and be collected out of any assets which he has?

Mr. MURRAY. I am not informed as to that, but I would say that it could be. I don't believe it specifically says that, as far as I know. There has been some deficiency judgment legislation in Iowa which I am not able to report.

Mr. HENDERSON. Undoubtedly the contract of sale, as far as the State of Iowa's purposes are concerned, is one of the best things possible, because you have then, someone who has an ante in the land; he is looking forward to staying there for some time, and his whole future is tied up with whether that land actually gets more valuable and actually produces. Isn't that it?

Mr. MURRAY. That is substantially correct. We feel that land which is constantly on the market by insurance companies, the Federal land bank and the joint stock land banks, or other lenders is not in a stable condition, because those men who are operating it are operating it continuously under conditions which are not satisfactory for a long-term program.

Mr. HENDERSON. They are probably mining it instead of farming it; isn't that it?

Mr. MURRAY. There is a temptation to do that. If you are only going to be on there 1 year, and you don't know whether or not you would have a chance to buy it, maybe because you couldn't pay the down payment, there would be a temptation to say, "Well, the best thing for me to do is to take as much as I can get."

Now, the insurance companies and the Federal land bank are striving to do a good job of farm management, to rehabilitate this property, but it is expensive. A field force is expensive to operate.

Acting Chairman WILLIAMS. They are not getting much income out of it, are they?

Mr. MURRAY. That varies. From the reports that we get from insurance companies, we infer, at least, that the income from their better land is even higher in some cases than what they got on the mortgage, but that on some of the poorer lands the reverse is true, that their income is very low.

Mr. HAYES. Do the companies generally endeavor, with respect to the poorer-grade lands, to maintain the property itself in a good condition, to make improvements of a permanent nature, even though they are renting that to tenants?

Mr. MURRAY. That is correct. I think all of the insurance companies are interested in maintaining their investment.

The difficulty is, if you have a tenant on the farm and his livelihood depends on that farm, and he is operating that farm for only 1 year, his best interest is to farm it not in terms of a long-term program but of a short-term program.

Mr. HAYES. He has certainly no incentive to do anything which would make for permanent improvement.

Mr. MURRAY. That is correct.

Mr. GESELL. Let's see if we can pull this together a little, Dr. Murray. What we are getting at here are the various problems raised by absentee corporation ownership of farm lands. Now, we have one factor you mentioned, which is the increase in tenancy and the unstable nature of the farm community which results from that. Then I believe you mentioned farm management, one of the problems in the field of farm management.

Mr. MURRAY. In order to manage the property sufficiently, probably 50 farms to a man would be sufficient. But the trouble is, that is too expensive, and that is another reason why insurance-company or Federal land-bank operation of holdings would probably not be economic in the long run.

Mr. GESELL. How many farms does the usual insurance company have per one manager?

Mr. MURRAY. I imagine that——

Mr. GESELL (interposing). I want to know what you are told.

Mr. MURRAY. I don't have any figures, but from our reports from individual managers, in many cases young men who have graduated at the college at Ames who are out now managing farms——

Mr. GESELL (interposing). That sounds like a pretty good source to me.

Mr. MURRAY. Their reports back to us are anywhere from 75 to 125 farms that they manage.

Mr. GESELL. Is that about the same number as the Federal farm land banks have?

Mr. MURRAY. That has changed recently, because the Federal land banks are now using their local secretaries to assist them in handling their real estate, but before that time I believe between 75 and 100 to 125 was the number of farms that was often given to a field man. That meant the men who did that work really had very little time to spend with the individual farmer.

Acting Chairman WILLIAMS. What do they do? I just wanted to ask you, what are their duties?

Mr. MURRAY. To collect the rent, for one thing.

Acting Chairman WILLIAMS. Of course, that is one thing. Is that all?

Mr. MURRAY. And that is a very important thing, of course.

Acting Chairman WILLIAMS. Do they have to make several trips to get it?

Mr. MURRAY. Not usually. I think the experience that most of the men report is that they have a very fine relationship with the tenants. You must understand that there is a terrific competition for farms in Iowa, and the insurance companies have been able to choose between tenants, and as a result they have had that kind of cooperation, but the job of managing a farm is considerable these days. You have to work out a program, you have your rotation, your compliance with the Government program, you have all the improvements to make on the farm, and various things which come up from time to time in the handling of grain and the arrangements with respect to livestock and provision for livestock.

Acting Chairman WILLIAMS. Do they do all that and the tenant has nothing to say about it?

Mr. MURRAY. The agreement is usually made in the lease. The field man of the insurance company represents the landlord, the insurance company, and of course, the field men report to us that sometimes they can't even get a night's sleep, because the tenants will be around asking for this or for that, and as a result the field men are very busy with various things connected with the landlord's obligation in managing the property.

Mr. HAYES. That comes down to only 3 or 4 days per year per farmer, including Sundays.

Mr. MURRAY. That is correct, and there are a lot of things to be done on a farm. In fact, I don't think a field man is a man who spends very much time in leisure. I think he is a pretty busy man.

Mr. PIKE. Do the usual terms involve cash rents, not shares?

Mr. MURRAY. Most of the farms in Iowa are rented for a share of the grain and cash for the hay and pasture.

Mr. PIKE. But with discretion on the part of the owner as requiring certain types of cultivation, certain types of soil preservation to comply with Government regulations?

Mr. MURRAY. That is correct.

Mr. PIKE. So pretty detailed power as to farm management lies with the owner under those leases, then?

Mr. MURRAY. That is correct.

Mr. PIKE. So that probably the cash revenue would be much less than if he were free and open to go at it for a year?

Mr. MURRAY. I didn't quite get that last.

Mr. PIKE. The cash rental would be less than if you told the tenant: "Here you are for a year; go ahead and get what you can out of it, and I will take half, or a quarter, or a third, whatever it may be." The tenant can't, as Commisisoner Henderson suggested, thoroughly mine his farm.

Mr. MURRAY. Oh, no; they are prescribed; they have to meet the specifications of the Government program or if they are not in the Government program, the insurance company would provide certain fields that were to be put into legumes. The insurance companies have certainly leaned over backward in trying to get the farms into legumes and into crops that would conserve the soil, but the difficulty is the set-up, the fact that the tenant out there is only there for 1 year.

Mr. PIKE. Of course, it is an impossible set-up.

Mr. MURRAY. That is what we hope will eventually result from owner-operator management.

Mr. GESELL. We have three things—tenancy, deterioration of the land, and the lack of close management supervision—as problems which arise out of absentee corporation ownership. What else can we add to that?

Mr. PIKE. How about the absentee ex-Iowan who is in Hollywood? That has been spoken of quite a little bit in the last 15 or 20 years. It was a problem before the institutions got hold of these lands, wasn't it?

Mr. MURRAY. We have cases of that kind. Some of them, of course, are familiar with the situation; some of them had to come back to Iowa to live.

Mr. PIKE. I was thinking some of them returned; yes.

Mr. HENDERSON. I have been wondering about that. You know Cal Coolidge said about the farm belt, "They hired the money, didn't they?"

Now, what happened to all this money that the insurance companies put up?

Mr. MURRAY. Do you mean what happened to the $500,000,000 worth of loans they had in Iowa?

Mr. HENDERSON. Yes; we haven't spoken about that at all. The insurance companies put up some of my money, and some of everybody's money; they put up $500,000,000 or more during the twenties. What happened to that money?

Mr. MURRAY. They still have about 190 million.

Mr. HENDERSON. No; but the original mortgage—when you take a mortgage, what you usually get is money. Did a lot of fresh money go in there to people who owned it—was it like what they used to do in the twenties with a family-owned corporation where you go around and get them to sell a part of it to people? Was this a case where they were letting the general public in on a little bit of ownership of the Iowa land, or was it refinancing of mortgages, or what?

Mr. MURRAY. It was mostly refinancing of mortgages owned by individuals, mortgages owned by commercial banks, and cases where people owned short-time debts that were not mortgages. They came out of the land boom without much in the way of cash.

Mr. HENDERSON. What I am trying to get at is, Who got the insurance company's money? The farmer didn't get it, particularly; the banks got it. There was three billion eight in the beginning of the twenties, according to the testimony this morning. The insurance companies refinanced part of that. Now, that money has been gotten and spent for, well, farm machinery, and the like. Was that money lost, did it wash out in the disappearance of the price level? Was it sort of a subsidy to make up for the failure of the farmer to get his parity during the twenties? Have you any ideas on that?

Mr. MURRAY. Our figures show that a great many private investors, private individuals and commercial banks, got out of the farm-mortgage business, or sold their farm mortgages, and the insurance companies provided the money to do that.

Mr. HENDERSON. Yes; I got into the mortgage business and now I am an absentee owner because I have an insurance policy. That is what happened. The money I was paying into the insurance company in the twenties went for a lot of refinancing.

Mr. MURRAY. That is right.

Mr. HENDERSON. Not to send people to Hollywood, is that it, or to California?

Mr. MURRAY. No; but there were a lot of people with mortgages on Iowa land who were interested in getting cash.

Mr. HENDERSON. That was the purchase-money mortgage, wasn't it?

Mr. MURRAY. Yes; they might have had a mortgage for $15,000 and the insurance companies would refinance $10,000 of that as a first mortgage, and you keep back a second mortgage of $5,000; later on you probably couldn't collect your interest on the $5,000 and you had to foreclose and you were one of the private investors who foreclosed during the years 1921–30.

Mr. HENDERSON. No; I was one of the prior ones. I foreclosed at the beginning of 1930.

Mr. MURRAY. I see, you have the money in the insurance company which made the $10,000 loan and then in 1931 the interest on that wasn't paid, so that then the insurance companies came in at that period and had to foreclose. So we get the period from 1920 to 1930 when the second-mortgage holders of the land boom foreclosed and were cleaned out.

Mr. HENDERSON. Well, that second mortgage was like a lot of the binder stuff in Florida, that is all that was. It represented values that were based upon an inflated price structure and land value structure, isn't that correct?

Mr. MURRAY. That is correct, and so also will the insurance company loans in many cases if we don't get back to the level of the prices in the 1920's in certain areas of the State.

Mr. HENDERSON. But who got the money originally?

Mr. MURRAY. I would say that private investors, private individuals, banks who held short-term debts, and other individuals, would be the main recipients of those insurance company funds. The total debt did not increase during that period, it went down.

Mr. HENDERSON. I know.

Mr. MURRAY. So it was more refinancing than it was the addition of new funds into the picture. The local banks were hard pressed. Our local banks in many cases were up against insolvency from the period 1922 on. The record of their portfolios as revealed by various studies shows they had in many cases notes that had no mortgage back of them, that they represented funds they had advanced to farmers.

Mr. HENDERSON. And the farmer got the money?

Mr. MURRAY. The farmer got the money and mortgaged his farm in order to pay off the bank.

Mr. HENDERSON. But he had gotten the money in the first place.

Mr. MURRAY. He may have invested it in various things. He was in the land boom.

Mr. HENDERSON. I still want to know who got this money. I think I am getting a pretty good idea. You had a period during the war, wasn't that it, in which you got inflated land values as a result of inflated agricultural prices?

Mr. MURRAY. That is correct, and in 1919 and 1920, also.

Mr. HENDERSON. And in that period farmers went into debt something like $4,000,000,000 to the banks. As I recall Mr. Wall's testimony this morning, it was about three billion eight at the beginning of the 1920's. Now, the banks started to get in trouble, were under pressure, and somebody had to bail them out, and you had the pressure of a governmental policy in the early 1920's pressing down on the banks and they didn't always have to be told from Washington what their condition was. They knew when they ought to get these short-term loans over onto somebody else. Some of them took mortgages, and then gradually the insurance companies came in and they took over the loan. And then later the Federal agencies came in and bailed out part of the insurance companies, but the part they didn't bail out the insurance companies still have, are stuck with now, as owner-operators, corporate operators, or as mortgages they are trying to work out.

Now, a lot of it goes back to the conditions during the war and immediately following that in the inflation, isn't that it? Aren't we paying in this for part of that inflation?

Mr. MURRAY. That is correct.

I might give you an illustration of where some of your money may have gone. I know one local bank that helped a man finance the purchase of a 320-acre farm which cost about $90,000 and they put up $65,000. A little later, around 1923 or 1924, this bank needed a little extra cash, so they arranged a first mortgage on that farm for $31,000 which they sold to an insurance company, and they kept the second mortgage of thirty-two or three thousand dollars. Of course, when the depression came in 1933, the local bank, with its second mortgage of $33,000, was wiped out. The insurance company had the first-mortgage loan. The land is worth about the $32,000 and would handle just about that much debt.

Mr. HENDERSON. Who got the $58,000, the difference between the 32 and the 90?

Mr. MURRAY. The insurance company in this case either owns the farm or has the first mortgage on the farm. The farmer lost the $30,000 cash he put up. The bank lost $30,000 in the cash they put up.

Mr. PIKE. The fellow that sold to him in the first place was pretty lucky, wasn't he?

Mr. MURRAY. Yes; if he didn't buy another farm. [Laughter.]

Mr. HENDERSON. I think we have a sufficient answer. What if the companies don't go back in on the lending?

Mr. MURRAY. That is one of the problems we feel is very important. In some of the areas the insurance companies right now are competing actively for loans. They want loans.

Mr. HENDERSON. All insurance companies?

Mr. MURRAY. Not all of them but a number of them do and they are willing to pay the commission themselves in order to get the business in the better territory where experience has proved that their loans have held up.

In this low-value territory, however, where the problem is more acute, there it appears that the insurance companies will probably not continue to lend. They may decide to go back in there, but I doubt it, because it is hazardous territory, they have discovered.

Mr. HENDERSON. Is that territory that ought to be farmed?

Mr. MURRAY. It is territory that ought to be farmed, but it is more hazardous than the best territory.

Mr. HENDERSON. Don't we have agricultural surpluses?

Mr. MURRAY. Certainly we have, but that gets into the whole question of the farm program.

Mr. HENDERSON. Certainly it does, that is what I am getting at. This isn't an isolated matter. It does get into the whole problem of the economics of that territory.

Mr. MURRAY. All right, we have areas in Iowa, there are areas surrounding Iowa in South Dakota and Nebraska and Kansas, other areas, where they have had this same problem where the insurance companies, if they have had poor experience, are not going to go back in. Who is going to refinance those areas? They are not areas that should go out of cultivation.

Mr. HENDERSON. Why not?

Mr. MURRAY. They are above the margin and they offer a return, but they offer a return only if properly managed under semihazardous conditions, and those semihazardous conditions include the risk from erosion and drought.

Now, it seems to me that that puts the problem up to the Federal credit agencies in some respects, the problem of the Farm Credit Administration and the Farm Security Administration, and it makes possible their considering those areas as areas in which they can render a real service, but a service which will have to be taken on with considerable amount of study and care.

Mr. HENDERSON. Do you think they ought to bail me out?

Mr. MURRAY. As insurance company policyholders, it seems to us that the insurance companies do not need to be bailed out. What they need to do in those cases is to sell those farms to owner-operators if possible on terms which the owner-operators can pay.

Mr. HENDERSON. Take their licking, in other words?

Mr. MURRAY. It can be put that way.

Mr. HENDERSON. That is the way it is, isn't it?

Mr. PIKE. You have to get down to a realistic price basis to move their goods.

Mr. MURRAY. The insurance companies state that if the drought and the conditions will abate for a period, that they can move most of that.

Mr. PIKE. Have they made any arrangements for that, however?

Mr. MURRAY. I don't know as to the drought. We have been hard hit in certain sections, but I will say this, that in this southwestern corner of Iowa where there have been large amounts of difficulty from drought, they have still sold more land in that territory than they have in other sections of that drought territory. It is in the areas where the values have dropped so much where they have had the most difficulty. We feel in the college, from our studies, that eventually the sale by contract might be supplemented by an enlarged tenant purchase program in which the Farm Security could cooperate with the Farm Credit Administration in working out loans to men who want to own and operate that type of security. At the present time, there is no cooperation as far as I can see between the Farm Security Administration and the Farm Credit Administration except that they are both in the Department of Agriculture. It seems to me that the Farm Security Administration, which is interested in making owners out of tenants, could avail itself through some authorization by Congress if necessary of the funds which the Farm Credit Administration is able to borrow in the investment markets, to provide at least up to 75 percent of the amount needed to finance those tenants. At the present time, the Farm Security Administration in order to set up an owner-operator out of a tenant must use all appropriated funds, I understand, and appropriated funds as we have been told in the newspapers are difficult to get, and so far the appropriated funds for the tenant purchase program are a drop in the bucket.

Acting Chairman WILLIAMS. You ought to have been here a couple of weeks ago when we were trying to get the twenty-five million for these tenant farmers and didn't get a cent.

Mr. MURRAY. Why can't that money be obtained mostly through the investment markets of the insurance companies who are willing to invest in obligations such as the Federal land-bank bonds and bonds of the Farm Mortgage Corporation?

Mr. GESELL. You mean in effect, then, that Uncle Sam ought to come in and bail out the insurance companies. That is what it comes down to, doesn't it?

Mr. MURRAY. Not necessarily. There are other farms owned in these territories——

Mr. GESELL (interposing). Just a moment. On the point we have been talking about, with respect to the farms that would be refinanced through the program you have just suggested, it would amount to that, wouldn't it?

Mr. MURRAY. If they are bought from the insurance companies, yes, but I don't see that is necessary.

Acting Chairman WILLIAMS. Why don't the insurance companies do that instead of the Government?

Mr. MURRAY. That is what we have been trying to get. We have been suggesting that.

Acting Chairman WILLIAMS. You haven't had any cooperation from them?

Mr. MURRAY. Yes. They are interested in doing just that, but so far they can't sell in that territory.

Mr. GESELL. At the prices they set.

Acting Chairman WILLIAMS. Yes. At the prices they want, they can't sell them. Now, you wouldn't sell them to the Government at a higher price?

Mr. MURRAY. No. But I might say there are other farms besides the insurance company farms in that area that need to be financed, and there are young farmers coming along at all times that need financing in that territory.

Acting Chairman WILLIAMS. The point in my mind is, if the Government can do it, why don't the insurance companies do it?

Mr. MURRAY. The insurance companies can do it with their farms. We have additional farms owned by other investors, and there the tenant purchase program, it seems to me, could be expanded to take care of these other areas because the insurance companies are not going to make new loans in that territory probably.

Acting Chairman WILLIAMS. They could do that as far as their own farms are concerned now, and these other agencies of different kinds, who own those farms could do the same thing?

Mr. MURRAY. That is correct.

Acting Chairman WILLIAMS. If they would, and reduce the price to a point where the tenant could pay for it and make a living for himself.

Mr. MURRAY. Of course, in not all cases is it possible to do that, because in some cases people are not able to finance the sale. If they are private individuals they might not be able to finance the sale of a tenant up to 75 or 100 percent of the value of the real estate.

My point is, if the insurance companies go out of those areas, who is going to continue to lend there?

Mr. GESELL. That was the question which Mr. Henderson asked you.

Mr. MURRAY. The Farm Credit Administration and the Farm Security Administration represent two agencies that could lend there, that are in a position to lend there.

(Senator O'Mahoney resumed the Chair.)

Mr. HENDERSON. You are going to catch me either way, as I see it. You are going to catch me from either standpoint, the money I have in the insurance companies, or you are going to catch me as a taxpayer.

Mr. MURRAY. That depends upon——

Mr. HENDERSON (interposing). If the farm agencies borrow the money from the insurance companies, the only way they are going to get it back to pay the bond off is by taxing you and me and everybody else; isn't that right?

Mr. MURRAY. I don't see why that is true necessarily, because these bonds will represent mortgages on these farms which if they are properly appraised in these areas and revalued on the basis of income ability of those farms can be handled and pay out.

Mr. HENDERSON. Isn't that the center piece of the thing then, getting them on a proper basis?

Mr. MURRAY. I think so.

Mr. HENDERSON. Then when you are talking about appraisal on farm prices and their relationship to industrial prices, what do you assume as to farm income and the present level of income exclusive of the benefit payments? Do you assume the present level with the same benefit payments, or do you assume a third condition of present income with a larger benefit payment, or do you assume that there is going to be a better adjustment of prices as between farm and industrial?

Mr. MURRAY. Most of the assumption is on the basis of present prices with better production than they have had in those areas in recent years.

Mr. HENDERSON. You mean higher production.

Mr. MURRAY. Higher production than in the drought areas.

Mr. HENDERSON. But if you get higher production, then the prices are going down.

Mr. MURRAY. That is generally true, but these are problem areas where that is too small a factor to have much effect.

Mr. HENDERSON. You mean you can handle this situation and let the rest of them go that are in the same condition.

Mr. MURRAY. No; the rest of the farmers in the territory of other parts of Iowa, for example, are not in position to be worried about the situation so far as the price situation is concerned, and their debts. We have very few foreclosures.

Mr. HENDERSON. I think that is a rather restricted point of view. It seems to me we have been hearing that most areas are complaining about price-debt ratio.

Mr. MURRAY. In the main part of Iowa I can say that you wouldn't have that complaint. The production has been good and the loan of 57 cents a bushel on corn is sufficient to pay the debt, the interest on the debt. But the problem still remains on these other farms.

Mr. HENDERSON. If you get that 57 cents you are getting into some of my money, too, as a taxpayer. That is what I was getting at. What I am trying to get at is, How are we going to get a good firm basis out there? As I gather, you are talking about some more jugglery of the credit of the owner of the piece of paper and the like and you are assuming that you are going to have 57 cents on corn. Is that it?

Mr. MURRAY. That is right, somewhere around, say, 50 cents for corn. On that basis we need refinancing in some of these areas where, as I said, the insurance companies have decided not to invest their funds.

Now, you have got to have regular investment channels in some of those areas to take care of the recurrent needs for farm credit.

Now, there is a set-up here in Congress, a tenant purchase program. The Federal land-bank system, when it was started in 1917, had as its main purpose financing the ownership of land by tenants; so also the Land Bank Commissioner loans in 1933 and in 1934 and in later years, as it has been continued, the idea back of these loans was to provide for ownership of farms by tenants, lending up to 75 percent. And now you have the tenant purchase program, lending up to 100 percent, and if there were ever areas where this financing was needed, it is in these problem areas where the insurance companies have had the experience and they don't want to reenter those areas.

Mr. GESELL. In other words, the insurance companies, because of the requirements which they are obliged to follow in the handling of their trust funds, having once been burned in this area, are probably not going to go back in, and the only way that the people there can be benefited is by somebody bailing out the insurance companies or somebody putting in money from the Federal Government. Is that what it comes down to?

Mr. MURRAY. That is what it comes down to, with the exception that the insurance companies can sell the land themselves.

Mr. GESELL. If they are willing to take a licking.

Mr. MURRAY. Well, whether or not there is a licking all depends on the revaluation of their assets so they can sell it.

Mr. GESELL. You think the land is overvalued, don't you, Mr. Murray? Doesn't that table[1] that we put in bear this out pretty strongly?

Mr. MURRAY. It has been overvalued in the past. As to why they haven't been selling their farms recently in the areas, I can only hazard an opinion.

The CHAIRMAN. When you say the land has been overvalued, do you mean to imply that the loans are greater than the actual present value?

Mr. MURRAY. In many cases, yes.

The CHAIRMAN. So that the lenders, in many cases, couldn't sell the land for the face value of the loan and come out even?

Mr. MURRAY. That is correct.

The CHAIRMAN. Now, in what proportion of the cases is that true?

Mr. MURRAY. Well, that is largely true in these low land value areas, where the insurance companies, as far as the insurance companies are concerned, in about, say, one-fourth of the territory—that is for Iowa. I can't say as to South Dakota or some of the other areas.

The CHAIRMAN. One-fourth of the territory? What proportion of the loan?

Mr. MURRAY. I have no information as to what volume of loans—except as our figures do show, for example, in those 31 southern Iowa counties, judgments on actual insurance company mortgages represented in the period from 1915 to 1936, $43,000,000.

The CHAIRMAN. Has your study gone far enough to enable you to express an opinion as to whether or not, as a whole, the lands which are subject to mortgage to life insurance companies in the State of Iowa will support the amounts pledged?

[1] See "Exhibit No. 2285," appendix, p. 15512.

Mr. MURRAY. Our studies probably have not gone far enough to support a definite statement on that count. We could say this, the present loans outstanding by insurance companies very largely are being paid, the interest is being paid, and the value of the land supports the loan.

The CHAIRMAN. And in a great majority of the cases, is that the fact?

Mr. MURRAY. That appears to be the fact, and I imagine your S. E. C. special study records will reveal more on that point as to delinquent interest in the State of Iowa, which we consider at the present time is very low.

The CHAIRMAN. That is particularly true with respect to those high-value areas?

Mr. MURRAY. That is right.

The CHAIRMAN. Now, you are discussing the low-value?

Mr. MURRAY. The low-value areas where it is a question of revaluation. I don't want to imply how much revaluation is necessary. The only thing I would be interested in seeing would be a revaluation to determine whether that is a reason why they can't sell the farms as rapidly in those areas.

Mr. HENDERSON. You think the insurance companies should make that move?

Mr. MURRAY. It is probably out of my field to say so. If I were outside of the college and on this Debt Conciliation Committee, that would be a different matter, but from the college the facts appear they are not selling the farms as rapidly in those areas as they are in the better areas.

The CHAIRMAN. Is that because they can't get the loan value or because they can't get the appraised value, or because they can't get the going value—or rather, the going value is not a correct statement, but the value at which they were originally brought into the mortgage picture?

Mr. MURRAY. That is the question which I think should be studied, if it is a question of revaluation and the price was, say, reduced somewhat, whether or not more farms would be sold.

The CHAIRMAN. Did you study that question?

Mr. MURRAY. I have not studied that question.

Mr. GESELL. Let me get at it this way. Just one more question, Mr. Murray. Who is having the most trouble in the low-valued areas, the local companies or the eastern companies?

Mr. MURRAY. Well, neither one of them is having trouble as far as I know, but I do think that the Federal Land Bank and some local companies are selling more farms in those areas, from our observation.

Mr. GESELL. That means one of two things. Either the local companies are more realistic about land values or they make fewer mistakes in the loaning on the original mortgages. Which is it?

Mr. MURRAY. Probably more realistic in the sense that they are selling more in terms of contract sales with a smaller down-payment.

Mr. GESELL. That further substantiates the fact that some of the big Eastern companies which are in there in the farm picture are not being realistic about taking the losses that are bound to occur on this low-valued land.

Mr. MURRAY. Either that or the fact that they are waiting for higher prices probably, or are interested in some other policy.

Mr. GESELL. They have already run in many cases, I believe you said, beyond the 5-year period which is set by the statute and are having to get special extensions?

Mr. MURRAY. There may be cases of that kind. There probably are.

Senator HERRING. I would like to ask Dr. Murray: Is it true that some of these farms, or many of the farms, the Farm Credit Administration are now selling are farms they took over when they scaled down and refinanced the insurance company loans and they, therefore, have price at which they can sell them without loss?

Mr. MURRAY. The last part of that I didn't get, Senator.

Senator HERRING. The Farm Credit Administration, as you know, refinanced a lot of these loans that we scaled down, on which they accepted the scale-down. Now they have them at a price at which they can put them on the market and sell without loss, do they not?

Mr. MURRAY. That is correct. Then, in some cases, they have found that they had to take a subsequent loss. In other words, one of the things which bolsters our thought that maybe a revaluation is necessary is that since 1933 many of the loans made in southern Iowa have turned out where the foreclosure has not allowed any equity for the Land Bank Commissioner or second mortgage holder, which is another reason, we think, why the Farm Security Administration and the Farm Credit Administration might get together in that territory and be of real service to that kind of area.

Mr. GESELL. I have no further questions of Mr. Murray.

The CHAIRMAN. I am sorry that I was absent during the latter part of this examination. May I ask, Mr. Gesell, whether you went over the tables on pages 180 to 183 with Mr. Murray? [1]

Mr. GESELL. I submitted a schedule based on tables 180 and 181, showing which companies had the greatest percentage of the farm land they held under contract of sale,[2] and there the figures point out that it is the companies in the Corn Belt which head the list in the disposal of their farm properties. That was the only reference made to those particular schedules.

The CHAIRMAN. Well, to give a complete picture it would be necessary, would it not, to combine tables 181 and 183 so that we would have both the lands which are under contract of sale and the lands which have been sold?

Mr. GESELL. Yes; it would be necessary to do that, particularly if we wanted to get back of the situation as it existed as of September 1, 1938.

Mr. KADES. Dr. Murray, isn't it true that to the extent insurance companies are purchasing Government bonds, the proceeds of which are used for loans to tenant farmers, insurance companies are participating in the rehabilitation program?

Mr. MURRAY. That is correct, and I feel that it is a real opportunity there if the Farm Credit Administration could cooperate in some way with the Farm Security Administration, so that the tenant purchase loans, up to 80 or 90 or 100 percent of the value, could be

---

[1] See Hearings, Part 10-A.
[2] See "Exhibit No. 2286," appendix, p. 15513.

provided for these areas, but at the present time the Farm Credit Administration cannot assist the Farm Security Administration. All of the Farm Security Administration funds have to come from appropriations and the Farm Credit Administration has the opportunity to go into the investment markets and obtain funds.

The CHAIRMAN. Of course, the Farm Credit Administration, when it goes into the securities market and offers its securities to investors, is under some obligation to make certain that there is a return, and it is not as free in making loans as the Farm Security Administration would be.

Mr. MURRAY. Mr. Chairman, that might be handled in this way, that if I as a tenant wanted a loan, the tenant purchase people could get me a Federal land bank loan for 50 percent of the value of the farm that I wished to purchase, the Land Bank Commissioner could get an additional 25 percent, and then the tenant purchase agency added the extra 10 percent that would be necessary, we will say, to make possible the purchase, in that way the tenant purchase agency would be taking that third mortgage equity, or the smaller amount, and providing an opportunity for the Farm Credit Administration to provide, we will say, the main part of the funds needed by the Farm Security to finance the purchase of farms by tenants.

In the State of Iowa the tenant-purchase program is almost a drop in the bucket because their funds will go such a short way.

The CHAIRMAN. Congress by law limited the amount of interest that the land banks could collect on farm mortgages. That proposal was resisted by the Farm Credit Administration upon the ground that it would not enable the Farm Credit Administration to earn a sufficient amount from the borrowers to pay the expenses of administration and pay the interest upon the securities, and therefore that it would result in making the Farm Credit Administration dependent not upon the commercial loans it was making, but upon appropriations by Congress.

Mr. MURRAY. My answer to that would be that the difference would only be the rate which is now charged by the Federal land bank at 3½ percent, and the rate charged by the Farm Security at 3 percent, and I think the average tenant, if he was given an opportunity to borrow through the tenant-purchasing program, even if he had to pay the 3½ percent required by the Federal land bank, would be such that they could go ahead and finance a lot more farms, if the Farm Security could use the first-mortgage and second-mortgage funds of the Farm Credit Administration.

The CHAIRMAN. Would it not be a sounder policy to so stimulate farm production and farm prices as to enable the farmer to operate on a profit than it would be to reduce interest rates and depend upon appropriations out of the general fund of the Treasury to carry the load? The system does not become self-operating if it is dependent upon appropriations. It must depend upon production if it is going to stand up of itself.

Mr. MURRAY. I think that is true, and I think that at the present time, when it seems to be difficult to get appropriations for the tenant purchase program, and at the same time, when insurance companies have money to invest, it seems unreasonable that there couldn't be some way worked out between the Farm Security Administration and the Farm Credit Administration, to get together, since they are both in the Department of Agriculture, to finance the man who wants to buy a farm. You have two organizations, as I understand it, the tenant purchase program has a set of appraisers and the Farm Credit Administration have a set of appraisers. Now, what is the necessity for two Government organizations doing practically the same thing?

The CHAIRMAN. Well, of course, there is a difference. One of these agencies, the Farm Credit Administration, operates upon the basis of actual production and actual value. The other, the Farm Security Administration—and let me say I am thoroughly in sympathy with what it is trying to do—is operating as a relief organization, and makes loans not so much for the purpose of or with the expectation of having these loans repaid with interest as for the purpose of establishing people upon the farm.

Now, it is a very fortunate fact that the clients of the Farm Security Administration, at least up until last year, were making a very splendid record in repayment, but actually the two agencies are working with different motives, and there is some reason to believe that they should not be confused.

Mr. MURRAY. I think that point is well taken, except that after all, on the tenant purchase part of the program it would seem logical that if the Farm Security Administration, operating independently, could use three-fourths of the funds that it needs, or even one-half, if that is all they can use, from the Farm Credit Administration, it would make it possible for the Farm Security Administration to refinance, or to set up, far more tenants than they are able to do under the present program.

The CHAIRMAN. That is very true, but what you are proposing, Professor, is to take a fund which has been set up upon the basis of sound values and sound interest returns, and to use it for a social objective in which the return is not of such immediate moment.

Mr. MURRAY. It may be that there is a social motive back of the Farm Security, and I understand that there is a good deal of that, and yet it seems to me that the Farm Credit Administration should have some of that same motive as far as their first-mortgage loans are concerned, that after all——

The CHAIRMAN (interposing). Of course, the Farm Credit Administration had that motive in the commissioner's loans which were shown upon the table this morning as representing a very substantial proportion of the advances which were made after 1933, where concessions of really important extent were able to enable the borrowers to remain upon the land.[1]

Mr. MURRAY. Mr. Chairman, in the State of Iowa we have had an unusually good record, I think, on the tenant-purchase loans, and we found in many cases that the young men who had been chosen appeared to be very likely prospects for substantial farm owners. Now, in those cases where those men are buying those farms, there has been a good deal of discussion made as to just how much they would have to pay for those farms, and they have come to us at the college and asked us how to appraise those farms or how to

[1] See "Exhibit No. 2274," appendix, p. 15501.

help advise them on appraising those farms, and we have discussed the problem with them, and we are heartily in accord with the method that they are following and it is our supposition that they are driving pretty hard bargains, that they are not setting those tenant farmers up with a very heavy debt that they can't pay. They are trying to buy the farms on the basis of what those tenant farmers will be able to pay. If that is true, there is no reason, as we see it, why the Federal land bank and the Land Bank Commissioner couldn't finance at least part of that money and make possible setting up far more tenants than are now being set up under the Farm Security program.

The CHAIRMAN. It would make it all a social movement instead of an investment movement.

Mr. MURRAY. The way we see it, the Federal land-bank system was a social movement. The Land Bank Commissioner loans were a social movement intended not for investment.

The CHAIRMAN. Oh, yes. They were intended for investment purposes, and were intended to be self supporting.

Mr. MURRAY. That is correct.

The CHAIRMAN. When you make them dependent upon appropriations to carry them, then they are no longer self-supporting.

Mr. MURRAY. That is correct. But our idea was that they were an investment as far as obtaining the money was concerned, but the funds were to be used for people who would be interested in becoming owner-operators. They were mainly devoted to providing for the maintenance of farm ownership, or the making possible of farm ownership by tenants.

Mr. KADES. Dr. Murray, if the Government were to lend through one of its agencies to tenant farmers at the rate of interest which the Government pays on the debt, and were to pass the benefit of that low rate on to the tenant farmer, would that aid materially in making the program a self-liquidating program, such as that suggested by the chairman?

Mr. MURRAY. As far as I can see, it would, although I don't see that it is necessary to lower the interest rate on Federal land-bank loans and Land Bank Commissioner loans to these tenant purchasers; that is, I think their operations would support the rates now being paid.

Mr. KADES. Then what deters insurance companies from lending at those rates?

Mr. MURRAY. There is nothing that deters them except the expense of lending in those areas, the problem of obtaining funds in competition with the Federal land bank and the Land Bank Commissioner, because at the present time the Land Bank Commissioner and the Federal land bank are set up to lend in those areas, and have a large amount of capital provided by the Government as well as by the borrowers.

Mr. KADES. Well, the insurance companies also have a large amount of capital, haven't they?

Mr. MURRAY. But the capital that they have they expect some rate of return on. The Government is not receiving any return on the $125,000,000 of capital that they put into the system in 1932.

Mr. Kades. I am confused, but I thought you just said that you didn't think it was necessary to have the interest lower than it is at the present time?

Mr. Murray. No; but I do feel that since all this capital has been put in, and there is a subsidy at the present time being provided on Federal land-bank loans, which would continue under this new plan——

Mr. Kades (interposing). Do I understand you correctly, then, that the interest rate is approximately at the correct point at the present time, provided there is a subsidy with which to repay some of the interest?

Mr. Murray. Maybe I could clear the point up by saying that at the present time the rate charged on the contract mortgage rate of interest is 4 percent on Federal land-bank loans, but that the Government is making up the difference between that and 3½ percent.

Mr. Kades. I understand that. Now, then, does that mean, in your opinion, that 4 percent or 3½ percent is the correct rate or is not the correct rate, or the rate at which the borrower will be able to pay his debt service?

Mr. Murray. That is a matter on which I couldn't say as to the difference. I should think either at 3½ or 4.

Mr. Kades. In either event the borrower would be able to purchase the land and pay off the debt incurred in the purchase of the land?

Mr. Murray. It appears that he would, depending, of course, on future conditions and on whether the farms are bought right. They are making an attempt through the Farm Security Administration to buy those farms at that price at which the borrower would be able to repay on a reasonable basis—in fact, the Farm Security Administration does provide for principal payments right along in addition to regular payments.

The Chairman. Are there any other questions?

Then Professor Murray may be released.

Mr. Gesell. That completes the examination.

The Chairman. We are very much indebted to you, Professor.

Mr. Murray. I have enjoyed being here very much.

(The witness, Mr. Murray, was excused.)

The Chairman. The next witness will be?

Mr. Gesell. Mr. Glen Rogers, of the Metropolitan Life Insurance Co.

The Chairman. The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 4:40 p. m., a recess was taken until Friday, February 16, 1940, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, FEBRUARY 16, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to adjournment on Thursday, February 15, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman), King, and White; Representatives Sumners (vice chairman) and King; James V Hayes, Henderson, Kades, Lubin, Pike, and Brackett.

Present also: Representative Vincent F. Harrington, of Iowa; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; and Helmer Johnson, attorney, Securities and Exchange Commission.

The Chairman. The committee will please come to order.

Mr. Gesell. The first witness this morning will be Mr. Limber; and with the permission of the committee, Mr. Helmer Johnson will examine Mr. Limber.

The Chairman. That will be quite satisfactory, I am sure.

Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Limber. I do.

(Mr. Pike assumed the Chair.)

TESTIMONY OF RALPH C. LIMBER, SECRETARY, FARM MORTGAGE CONFERENCE, NEW YORK, N. Y.

Mr. Johnson. Will you state your name for the record, please?

Mr. Limber. Ralph Clark Limber.

Mr. Johnson. What is your occupation, Mr. Limber?

Mr. Limber. I am secretary for the Farm Mortgage Conference.

Mr. Johnson. How long have you held that position?

Mr. Limber. Since 1934.

Mr. Johnson. And what did you do before that?

Mr. Limber. Before that time I was an employee of the Metropolitan Life Insurance Co., and served also as a statistician to the Farm Mortgage Conference.

Mr. Johnson. Will you tell us what the Farm Mortgage Conference is?

Mr. Limber. The Farm Mortgage Conference is a loose and informal organization of life-insurance companies that hold farm mortgages, and who are associated together for a study of their foreclosure and farm real estate problems.

Mr. JOHNSON. When was this conference organized?

Mr. LIMBER. In December 1929.

Mr. JOHNSON. By whom?

Mr. LIMBER. I can give you the names of the companies.

Mr. JOHNSON. Let me put it this way: Were you connected with it at the time of its organization?

Mr. LIMBER. No; I was not. I did not participate in the original discussions that led up to the organization nor did I attend the early meetings.

Mr. JOHNSON. For what purpose was it organized, Mr. Limber? You came into it early.

Mr. LIMBER. As I said a moment ago, it was organized for the purpose of studying the problems of the foreclosure period and for the collection of statistical data.

Mr. JOHNSON. You say it is a very loose organization. Does it have any constitution or rules of operation?

Mr. LIMBER. No; it has not.

Mr. JOHNSON. The principal purpose, then, of this conference is a statistical organization? It serves to collect statistics?

Mr. LIMBER. That is correct.

Mr. JOHNSON. Mr. Limber, I show you a chart entitled "Amount of Farm Foreclosures Commenced, Farm Real Estate Acquired, Cost and Selling Price of Farm Sales Approved by Thirteen Companies."[1] Was that prepared by the Farm Mortgage Conference?

Mr. LIMBER. It was.

Mr. JOHNSON. It was prepared from data submitted by the member companies, was it not?

Mr. LIMBER. That is correct.

Mr. Chairman, may I say a word in explanation of this chart? This chart shows the cost of farms approved for sale, compared with the total selling price of farm sales approved. I should like to explain what is included in that term "cost." It includes, besides the actual out-of-pocket outlays of the insurance companies, a certain very important item which was not an out-of-pocket expense. That was the due and uncollected interest from the time the loan became delinquent until the property was acquired.

That represents a very considerable item in the cost figures used here. According to various studies I have made, it amounts to 12 or 14 percent of the total cost.

(The vice chairman assumed the Chair.)

The VICE CHAIRMAN. What is that 12 or 14 percent of the total cost?

Mr. LIMBER. The amount of due and uncollected interest during the time the loan was delinquent and in foreclosure. That, I say, is included in the cost figure used in this chart.

Mr. JOHNSON. I may say that this chart shows that during the first half of 1932 farm foreclosures in these 13 companies rose to over $70,000,000. By the first half of 1938 it was down to less than 10 millions. Of farms sold, the selling price in no period equaled the

[1] "Exhibit No. 2287," infra, p. 14923.

cost of the farms sold. The cost, as Mr. Limber just stated, included certain items of acquisition cost.

Mr. LIMBER. It included certain items which were not out-of-pocket costs, something the companies never had.

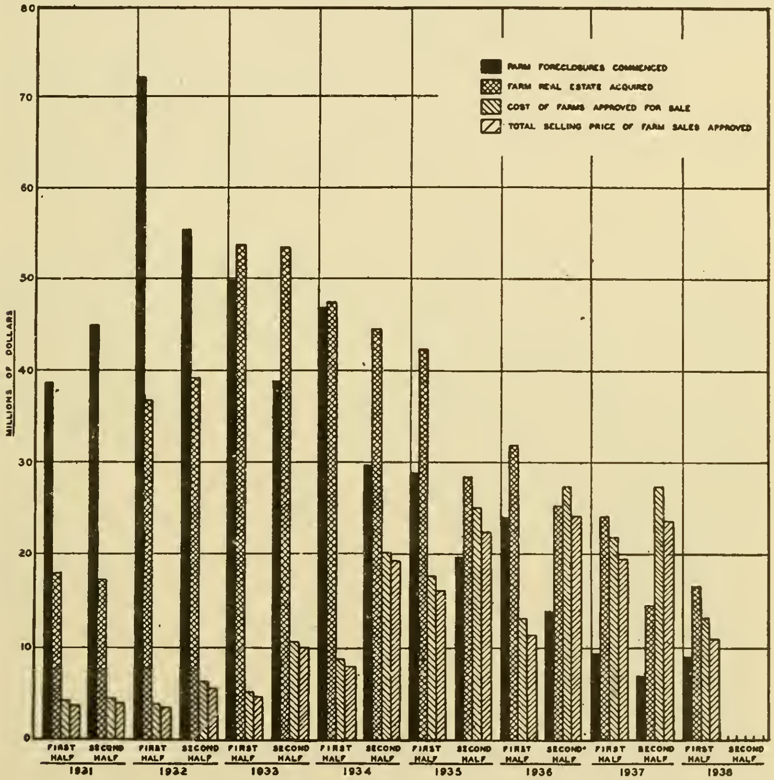
Mr. PIKE. They represented accruals against the properties which were never collected? You added them to the cost of the properties in the chart?

EXHIBIT No. 2287

Source: Farm Mortgage Conference, June 30, 1938.

FARM MORTGAGE CONFERENCE

AMOUNT OF FARM FORECLOSURES COMMENCED, FARM REAL ESTATE ACQUIRED, COST AND SELLING PRICE OF FARM SALES APPROVED BY THIRTEEN COMPANIES



Mr. LIMBER. That is correct.

Mr. PIKE. And if you would have paid taxes, they would have been out of pocket?

Mr. LIMBER. That cost, of course, includes all direct out of pocket expenses, such as taxes advanced prior to foreclosure.

The VICE CHAIRMAN. Have you anything to show the accumulation of charges after the time the loan became delinquent, and the amount of money that ought to have been paid where you have had to take over the property?

Mr. LIMBER. I have certain studies upon that point. The general conclusion that I have reached is this, that from the time the loan becomes delinquent up until the time the property is acquired, including this accrued and uncollected interest, the amount of the increase over the principal loan is about 18 percent, and a very important item in that increase is the accrued and uncollected interest. As you know, there is a long period between the time the loan first becomes delinquent and the time the companies or any other institutional lender acquires title to it.

The VICE CHAIRMAN. If I am not interrupting, during the interim between the time when the loan becomes delinquent and title is acquired by another owner, are you receiving any revenue from the farm, or are you covering that phase of it?

Mr. LIMBER. Up until the time the property is acquired, from the time it becomes fully delinquent, there is no revenue, I believe.

Mr. JOHNSON. How were these figures reported to you, Mr. Limber? Were these extra costs, these items you include as costs, included with the figures that were reported to you?

Mr. LIMBER. If I understand you correctly, they were. I can read the definition which was appended to our heading for the column of cost. Do you wish to hear that?

Mr. JOHNSON. If you please.

Mr. LIMBER. The form upon which the member companies of the conference reported the farm sales from which that chart was made contained the column headed, "Actual cost to date of sale," and a footnote to that heading read:

> This includes maintenance, improvements and taxes, less income, as well as the capital invested on date acquired; that is, principal of loan, interest to date of acquisition, taxes, attorney's fees, costs, and any other actual expenses up to and including date of acquisition.

Mr. JOHNSON. I offer the chart for the record.

The VICE CHAIRMAN. It may be received.

(The chart referred to was marked "Exhibit No. 2287" and appears on p. 14923.)

Mr. HENDERSON. I gather from this chart, Mr. Limber, including these accruals there was no period covered by your chart in which the sales realization was equal to the total costs?

Mr. LIMBER. Defining cost in that way, that is true. Take out those accruals and the total selling price is equal.

Mr. HENDERSON. In other words, just about realized the mortgage loan, is that it?

Mr. LIMBER. They not only realized the amount of the unpaid principal of the mortgage loan but they also realized all other out-of-pocket costs.

Mr. HENDERSON. In effect what the farmer got rid of was his mortgage and some part of the accruals. The farm population involved here didn't get any return?

Mr. LIMBER. I am afraid I do not understand.

Mr. HENDERSON. It stands to reason if the farm at sale didn't bring the total of the cost, then there was nothing left for the farmer's equity.

Mr. LIMBER. I am speaking here of the cost and selling price of the farms as sold by the insurance companies after they had been acquired by the insurance companies. The original owner was out of the picture.

Mr. HENDERSON. Did he get any realization when he was taken out of the picture?

Mr. LIMBER. At the time of acquisition of the farm?

Mr. HENDERSON. Yes.

The VICE CHAIRMAN. He wouldn't, would he, because the insurance company only bids the amount of the debt. If anybody else wanted to go above it, he would get it.

Mr. LIMBER. That is not a question I am qualified to answer.

The VICE CHAIRMAN. I think I can answer it.

Mr. LIMBER. It is my understanding that some of these farms were deeded over to the mortgagee, possibly including some consideration.

Mr. JOHNSON. If your method of calculating cost is included, I understand these accrued interest-tax items were not segregated in the figures that were furnished you?

Mr. LIMBER. That is correct.

Mr. JOHNSON. In other words, they furnished a lump-cost figure to you?

Mr. LIMBER. That is correct.

Mr. JOHNSON. So you really don't know how much these acquisition costs and the accrued interest costs were?

Mr. LIMBER. There are certain things which throw light upon that question. In the first place, I have what I consider to be very accurate figures upon the time which elapses between the time foreclosure is commenced and the time the property is acquired, by comparing actual cases. May I give you a few of those instances?

The VICE CHAIRMAN. In order to save time—isn't it a fact that speaking generally the insurance companies have loans on property, the loan becomes delinquent, the property is sold, and the insurance company primarly wants to get its money out of it, its out-of-pocket money, as you call it? They put this property up and bid it if they think it is worth the money, then they sell it for what they can get for it, but usually are glad to get their original investment out, their original loan?

Mr. LIMBER. That is a question of policy upon which I have no factual information.

The VICE CHAIRMAN. Well, I can help you out. They generally do. Sometimes when they get a good piece of property, they want to sell it for profit or they would like to make up the losses they have sustained on that piece of property. They can have all the charts on earth but there is about the situation. They do the best they can to get out and they take as little off as they can and if they get a good piece of property and think they can hold it a while and make some profit or recoup some losses they had on another piece of property they do. They do it just like John Smith or Bill Brown or anybody else who wants to save his business and get along—and charts don't help much.

Mr. JOHNSON. Mr. Limber, I show you 2 other charts. These were prepared by the Farm Mortgage Conference also, were they not?

Mr. LIMBER. That is correct.

Mr. JOHNSON. And like the other charts were prepared from data furnished by the member companies?

Mr. LIMBER. That is right.

Mr. JOHNSON. The first of these charts contains 2 maps of the United States. One map shows the total farm mortgage debt by States on January 1, 1935. The second map shows the percentage of insurance company holdings of the total debt of the same day. It appears that 36.6 percent of the total Iowa farm debt was held by insurance companies; 30.5 percent of that of Missouri, and 27.6 of that of Illinois.

The second chart shows by States the ratio of total foreclosures in December 31, 1935, to the total farm investments of member insurance companies on that date.

This ratio was as high as 72 percent in Montana, 70 percent in South Dakota, and 69 percent in North Dakota.

(Mr. Pike assumed the Chair.)

Acting Chairman PIKE. The title of that chart is misleading, don't you think, as it is written? The ratio of total foreclosures to farm investments, leaving out the insurance company.

Mr. JOHNSON. That should be "Ratio to investments of member companies in farm mortgages."

Mr. LIMBER. Which chart are you speaking of?

Mr. JOHNSON. I offer those for the record.

(The charts referred to were marked "Exhibits Nos. 2288 and 2289" and appear on pp. 14927, 14928.)

Mr. LIMBER. Mr. Chairman, may I examine those charts again? I looked at only the first one.

Did these two charts come from this bulletin,[1] Mr. Johnson? The chart is "October, 1937."

Mr. JOHNSON. Yes.

Mr. LIMBER. I think an examination of the text accompanying that discussion will make clear that those are not figures submitted to the conference and therefore do not represent the holdings of the members of these loans.

Mr. JOHNSON. Can you tell me where you got the figures?

Mr. LIMBER. May I examine the text of this statement? The statement here is—

> The total farm-mortgage debt and the total amount held by life-insurance companies, and the percentage of the total held by the latter, are shown by States as of January 1, 1935, in the maps above.

Those figures are quoted from a publication of the Bureau of Agricultural Economics.

Mr. JOHNSON. Well, you say they represent the industry as a whole.

Acting Chairman PIKE. That is the total farm-mortgage debt in millions of dollars, that is the one you are speaking of now?

Mr. LIMBER. I am speaking of the page containing the two charts.

Acting Chairman PIKE. That is the upper chart. That is in millions of dollars.

Mr. LIMBER. Both of those charts.

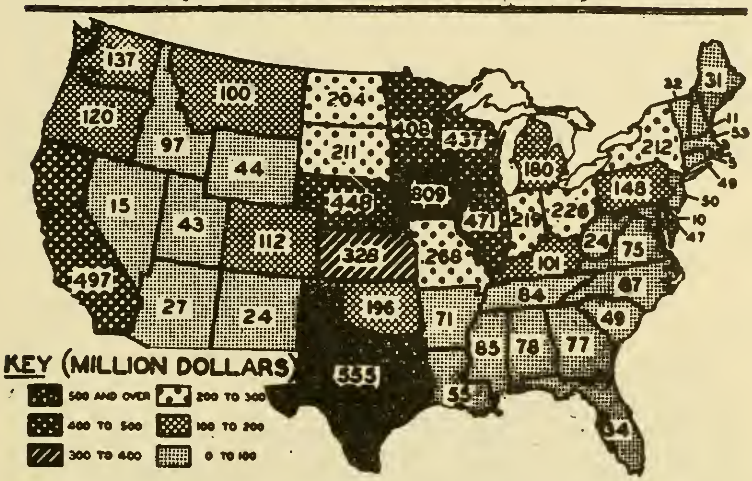
The second page, containing the single chart, headed "Ratio of total foreclosures to total farm investment," is based upon data submitted

[1] Farm Investors Bulletin, September 30, 1936.

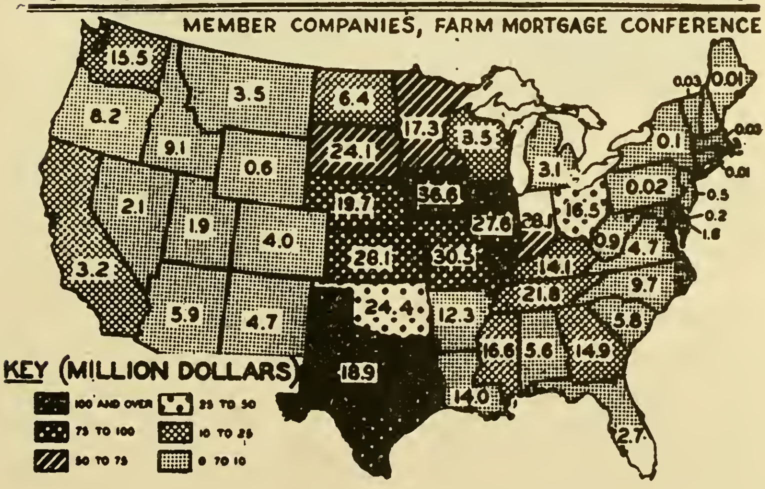
Exhibit No. 2288

Source: Farm Investors' Bulletin.

TOTAL FARM MORTGAGE DEBT
JANUARY 1, 1938
[FIGURES REPRESENT DEBT IN MILLION DOLLARS]



FARM MORTGAGE DEBT HELD BY INSURANCE COMPANIES
JANUARY 1, 1938
[FIGURES REPRESENT PERCENTAGE OF INSURANCE COMPANY HOLDINGS TO TOTAL DEBT]



to the conference by the member companies.[1] Concerning that part, Mr. Chairman, may I say a word? That was the ratio of total foreclosures to total farm investment as of that particular date.

(The Vice Chairman, Representative Sumners, assumed the chair.)

[1] "Exhibit No. 2289," infra, 14928.

Mr. PIKE. Do you mean to say that 72 percent of all the farm investment in Montana was under foreclosure in 1935? The title is thoroughly misleading, unless that is the fact.

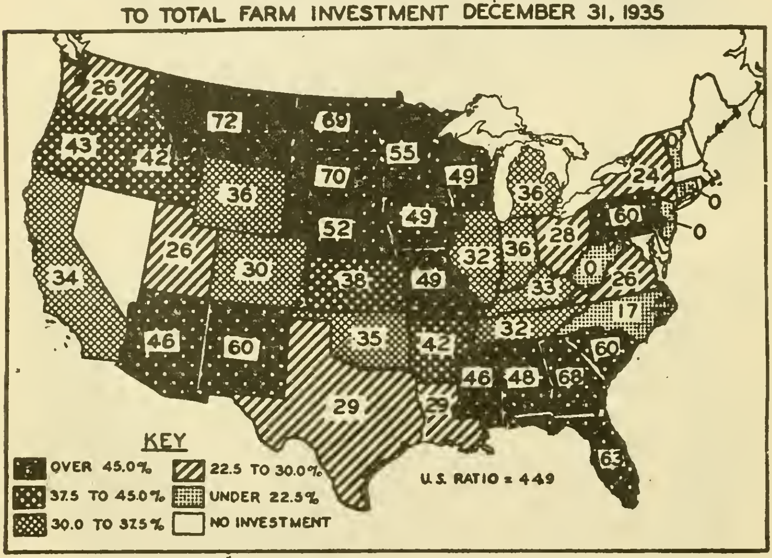
Mr. LIMBER. As of that date that is correct, but that date followed a long period of severe depression during which one set of influences were operating to increase the amount of total foreclosures, specifically the depression and the drought, and another set of influences were operating to decrease the total farm investment.

Mr. PIKE. I still don't believe it can be the fact. Let's take Pennsylvania, where, according to the chart, 60 percent of all the farm investment in 1935 represented foreclosures.

EXHIBIT No. 2289

Source: Farm Investors' Bulletin, September 30, 1936.

RATIO OF TOTAL FORECLOSURES DECEMBER 31, 1935 TO TOTAL FARM INVESTMENT DECEMBER 31, 1935



Mr. LIMBER. I believe that figure rests upon one or two companies in the state.

Mr. HAYES. I find myself suffering from the same difficulty as does Mr. Pike. Should this chart read as it does, or should it read, "Ratio of total foreclosures by farm-mortgage conference members to farm mortgages of conference members"?

Mr. LIMBER. That would be correct. We might also add, it is the amount of investment——

Mr. HAYES (interposing). Which is it, the total farm investment by all mortagees and the total foreclosures by all mortgagees, or is it limited to members of the Farm Mortgage Conference?

Mr. LIMBER. It is limited to the members of the Farm Mortgage Conference. Mr. Chairman, may I say also that that chart is based upon amount of investment; on the basis of the number, it would be considerably lower.

The VICE CHAIRMAN. May I ask you this question, whether or not there had proceeded, in 1935—and I don't know a thing about this—curtailing of loans and a period of collection of outstanding moneys so that these represent to some degree the remainder after a period of inaction insofar as making new loans and activities as far as getting in new money.

Mr. LIMBER. I understand, although I have collected no figures upon it, that new loans were made, but repayments, particularly if you include the amount of loans refinanced by the Farm Credit Administration, very considerably exceeded the amount of new loans being made during the years immediately preceding.

The VICE CHAIRMAN. May I ask one question to make that perfectly clear. That is, whether or not—I think I understand your answer, but I would like to have your mind directed to the question of whether or not this represented the remainder, what was left over, of a policy of curtailment of new loans and the accumulation to a considerable period of uncollectible loans? I think you probably answered that, but I would like to have you answer the question, having specifically in mind the question I have just asked, or do you know?

Mr. LIMBER. The loans included in that chart were the loans that were outstanding at December 31, 1935.[1]

The VICE CHAIRMAN. I understood that. What I am trying to get over, and I don't want to press the question if you don't know it, is whether or not they represent a lot of hangovers through a long period of poor collections, or represent current conditions? That question is pretty clear.

Mr. LIMBER. I have no data upon which I could answer.

The VICE CHAIRMAN. If you don't know, that is the answer.

Mr. HENDERSON. Does this mean that $72 out of every $100 of mortgaged property was delinquent?[2]

Mr. LIMBER. Referring to what territory?

Mr. HENDERSON. Montana.

Mr. LIMBER. No; that does not have reference to the delinquency upon outstanding mortgages. The total foreclosures included in that chart include these three things—the loans that are in process of foreclosure, the actual real estate, farm real estate owned outright, and also the farms that were sold with title retained—in other words, contract sales.

Mr. HENDERSON. What does that mean as to Montana—72 percent, then, of all mortgages made by members of the conference were either in the process of foreclosure, or had already been acquired? Is that it?

Mr. LIMBER. No; it does not. This is a cross-section as of a given time. The thing you have in mind is best answered in this way. Of the total mortgage holdings of 14 conference companies at the end of 1928, 29.2 percent were acquired during the succeeding 9 years. That applies to the country as a whole. I do not have that figure for the State of Montana. I can give you the exact figures underlying that percentage of 29.2 if you like.

The VICE CHAIRMAN. What I can't quite get myself is the practical value. I don't quite get the practical value of——

---

[1] See "Exhibit No. 2289," supra, p. 14928.
[2] Ibid.

Mr. LIMBER (interposing). I am sorry, Mr. Chairman, I didn't understand it.

The VICE CHAIRMAN. Maybe it isn't worth it.

Mr. HAYES. Directing your attention again to this chart[1] of the "Ratio of total foreclosures to total farm investment," can you tell us what the ratio of the farm investment of the member companies was to the total farm investment by insurance companies?

Mr. JOHNSON. We might get that this way, if I may interrupt Who are the members of your conference, Mr. Limber?

Mr. LIMBER. At the beginning of this year there were 15 companies. Would you like me to give you the names?

Mr. JOHNSON. Please.

Mr. LIMBER. Aetna, the Bankers Life Co., of Des Moines, the Connecticut General, the Connecticut Mutual, the Fidelity Mutual, the Lincoln National, the Metropolitan, the Mutual Benefit, the National Life, the Northwestern Mutual, of Milwaukee, the Penn Mutual, the Phoenix Mutual, the Provident Mutual, the Prudential, and the Travelers.

Mr. JOHNSON. Those are the largest insurance companies, in general, are they not, in the country, insurance companies that are farm investors?

Mr. LIMBER. A number of the largest insurance companies in the country are not included in this list.

Mr. JOHNSON. Do you know about what percentage of insurance farm investments those companies represent?

Mr. LIMBER. I can give you that figure. You are interested in the percentage of farm-mortgage holdings of all insurance companies. I do not have that figure as of the beginning of this year. I do not yet have the year-end figures for '39. As of the end of 1938, the figure was—and this includes another small company which was a member at that time—58.9 percent in terms of holdings of farm-mortgage loans. I can also give you the figure in terms of holdings of farm real estate, if you are interested.

Mr. JOHNSON. Could you, very briefly?

Mr. LIMBER. It is 55.8 percent of the total farm real-estate holdings of life-insurance companies as estimated by the Bureau of Agricultural Economics.

Mr. PIKE. Your association, then, represents somewhat over half the insurance holdings in each case?

Mr. LIMBER. Slightly over half.

Mr. JOHNSON. Mr. Limber, I show you a table prepared from publications of the Farm Mortgage Conference, a table entitled "Farm Sales as Reported by Farm Conference Members." You have checked the figures, have you not?

Mr. LIMBER. I have checked the take-off of this statement from parts issued periodically by the conference, and the take-off is correct. Mr. Chairman, may I say a word about this table? This table shows the cost and the selling price of farms sold by farm-conference members over a period of years. I want to make clear that the cost figure there is the cost figure as I defined it earlier in this discussion.

[1] See "Exhibit No. 2289," supra, p. 14928.

It includes the due and uncollected interest, and that due and uncollected interest accounts for all, or practically all, of the loss shown on this statement. It is a loss of something the companies never had.

Mr. Johnson. I offer this chart for the record.

(The table referred to was marked "Exhibit No. 2290" and is included in the appendix on p. 15513.)

The Vice Chairman. As a rule, do delinquent taxes accumulate along with delinquent interest?

Mr. Limber. Prior, you mean, to the time foreclosure is commenced?

The Vice Chairman. Yes. What I mean to say, does the company find itself confronted with a lot of delinquent taxes in those situations in which there is a lot of delinquent interest?

Mr. Limber. The companies, as I understand it, usually advance taxes on these properties, and according to an inquiry I circulated, on the average they have advanced taxes for an amount in excess, or at least approximately 1 year prior to the time that they commenced foreclosure.

Mr. Henderson. You are making quite a point, Mr. Limber, of the fact that in this cost figure there is this accrual amount which you say the company never advanced, and therefore, they didn't lose it. Is that what I gather you are saying?

Mr. Limber. I said it was not an out-of-pocket cost.

Mr. Henderson. It is not an out-of-pocket cost, but on the basis of what the insurance contracts are, it is a serious matter, is it not, to the insurance companies?

Mr. Limber. That is a question upon which I have no factual basis for testifying.

Mr. Henderson. How long have you been with this conference?

Mr. Limber. I have been secretary since 1934.

Mr. Henderson. What is the purpose of this conference, anyway?

Mr. Limber. The purpose of the conference, as I stated earlier, is purely fact-finding; also the conference meets four or five times a year, at which meetings we usually have speakers from various governmental agencies to explain their operations to us. We have had speakers from the Federal Adjustment Administration, from the Soil Conservation Service, from the Weather Bureau, from various other governmental agencies.

Mr. Henderson. This is for the 14 members, is that it?

Mr. Limber. For the membership.

Mr. Henderson. About 14.

Mr. Limber. This year, 15.

Mr. Henderson. Fifteen insurance companies. Do you take any part in the drafting of legislation which affects farm foreclosures?

Mr. Limber. No; we do not.

Mr. Henderson. Do you make any appearances before committees of State legislatures?

Mr. Limber. We do not.

Mr. Henderson. You have never appeared at all?

Mr. Limber. I have never appeared.

Mr. Henderson. Do you send them any statistics?

Mr. Limber. To State legislatures or to committees thereof?

Mr. HENDERSON. Yes; to committees considering any kind of legislation.

Mr. LIMBER. No; we do not.

Mr. HENDERSON. This is just for what might be called a cross-check of experience of different companies, the assembling of statistics for their information?

Mr. LIMBER. Purely fact-finding.

Mr. HENDERSON. Just for its own pure ethereal sake, is that it? I mean, who uses the facts? That is what I am trying to get at.

Mr. LIMBER. The members of the conference.

Mr. HENDERSON. Isn't that what I just asked you?

Mr. LIMBER. Or the representatives of these 15; yes, sir.

Mr. HENDERSON. Wasn't that the question I just asked you?

Mr. LIMBER. Possibly I misunderstood you, Mr. Henderson.

Mr. HENDERSON. I suggest the witness be dismissed.

Mr. JOHNSON. I have no further questions.

Dr. LUBIN. May I ask the witness one further question? This chart[1] entitled, "Amount of Farm Foreclosures Commenced," and so forth, shows a rather close relationship between the cost of the farms approved for sale and the total selling price of farm sales approved.

Now, I take it that the cost of the farms approved for sale is the cost to the insurance company. Is that right?

Mr. LIMBER. It is the cost, as I define it, including the due and uncollected interest, between the date the loan first went delinquent and the time of acquisition, a period of several years.

Dr. LUBIN. Does this throw any light upon what the cost was to the company at foreclosure sale? After all, that is what the books will show, the cost of the farm when they bought it at foreclosure sale, will it not?

Mr. LIMBER. I do not understand that it does. I suppose the figures are related, but I do not know how.

Dr. LUBIN. Let me raise a hypothetical question. Would it be possible, for example, for an insurance company that had a mortgage on a piece of property valued at $5,000, that is, the face value of the mortgage was $5,000—the company was not getting its interest, it was in default, so that it decided to write the face value of that mortgage down to $4,000 and take a loss of $1,000, then decided to foreclose and the property sold, let's say, at $4,500, it got $4,500 for that piece of property, did it not?

Mr. LIMBER. You refer to the sale of the property after it has been acquired?

Dr. LUBIN. No; I am referring to foreclosing at public auction for $4,500.

Mr. LIMBER. The cost figure which appears in that chart as defined in the definition I read to you does not take into account those decreases by——

Dr. LUBIN (interposing). I can see if I went out to buy a piece of property the cost to me is what I have to pay for it, is it not? Now, do these figures show what this property cost the companies when they actually bought it, or do these figures show what it cost

[1] See "Exhibit No. 2287," supra, p. 14923.

these companies in terms of selling price at auction when they foreclosed plus other liabilities on that property which they didn't realize?

Mr. LIMBER. The definition of the cost figure that is given there, plus the principal of the original loan, unpaid principal, tax advances, prior to the time that they secured title, the cost of the acquired title, sometimes known as foreclosure cost, also the due and uncollected interest from the time the loan went delinquent up until they got title—and it also includes after the time they got title until the time they sell the property, their maintenance and rehabilitation cost.

Dr. LUBIN. Does this mean, when you talk about the value of the mortgage, the face value of the mortgage or the value of the mortgage on the company's books?

Mr. LIMBER. The unpaid amount of the principal.

Dr. LUBIN. As shown on the company's books?

Mr. LIMBER. I have no information upon the accounting practices followed by the different companies here. We have asked them to report the unpaid principal in connection with that figure.

Dr. LUBIN. So, you don't know whether these figures show what these properties cost the companies or whether they just show book values?

Mr. LIMBER. This cost figure, I have defined.

Dr. LUBIN. But I ask you whether or not the cost figure, as far as the mortgage was concerned, was the actual face value of the mortgage or the book value of the mortgage.

Mr. LIMBER. Referring to the mortgage alone, that part of the cost.

Dr. LUBIN. Which is the major part. The others are insignificant.

Mr. LIMBER. I don't know, but it is my understanding that it would be the same, being the unpaid principal.

Dr. LUBIN. I am still trying to find out, is the unpaid portion of the principal the face value or the book value?

Mr. LIMBER. I do not know.

Acting Chairman PIKE. Of course, as they report to you, the figures on which these charts are built up are not the same as the figures reported on page 186 [1] here, where, let's say, the companies in total have shown a profit. It shows the difference between sales price and book value.

Mr. LIMBER. That is a different group of companies.

Acting Chairman PIKE. They must be reported on a different basis.

Mr. HENDERSON. Mr. Limber, you can jolly well do as you please about it, but as one who has set on both sides of the table, I suggest you don't go before any legislative committee unless you want to obfuscate something. If there comes a time when your association wants to obfuscate something, I think you would make an admirable witness, but in most cases there is necessity for explanation. I suggest the witness be dismissed, Mr. Chairman.

Acting Chairman PIKE. If there are no more questions, thank you very much, Mr. Limber.

---

[1] See Hearings, Part 10–A.

Mr. GESELL. The next witness is Mr. Hall of the Lincoln National Life Insurance Co.

Mr. Hall, you have not been sworn.

Acting Chairman PIKE. Do you swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth?

Mr. HALL. I do.

TESTIMONY OF ARTHUR F. HALL, CHAIRMAN OF THE BOARD, LINCOLN NATIONAL LIFE INSURANCE CO., FORT WAYNE, IND.

Mr. GESELL. Will you state your full name, your occupation, and residence?

Mr. HALL. Arthur F. Hall, chairman of the board of the Lincoln National Life Insurance Co., Fort Wayne, Ind.

Mr. GESELL. The Lincoln National is one of the companies shown in these schedules we have before us, so, if the committee please, I won't bother to bring out from the witness the size and scope and activities.

How long have you been connected with the Lincoln National?

Mr. HALL. I organized it 35 years ago.

Mr. GESELL. You have been with it all the life of the company?

Mr. HALL. Yes.

Mr. GESELL. Were you president of the company prior to becoming chairman of the board?

Mr. HALL. I was.

Mr. GESELL. When did you become president?

Mr. HALL. I don't remember when I became president; about 6 or 8 years ago.

Mr. GESELL. And you became chairman of the board when?

Mr. HALL. A year ago last February.

Mr. GESELL. Now in 1929, the Lincoln National made some collateral loans, did it not?

Mr. HALL. Yes, sir.

Mr. GESELL. Do you recall that on October 10, 1929—rather, I should say, on November 8, 1929—a loan in the amount of $50,000 was made to Mr. Thomas M. Ryan, an officer of the Peoples Life Insurance Co.?

Mr. HALL. Yes, sir.

Mr. GESELL. That loan was secured, was it, by stock of the Peoples Life?

Mr. HALL. Yes, sir.

Mr. GESELL. Is the loan still outstanding?

Mr. HALL. Part of it.

Mr. GESELL. Is it delinquent in any way as to interest or principal?

Mr. HALL. No, sir.

Mr. GESELL. That loan was made on November 8, 1929, was it not?

Mr. HALL. Yes.

Mr. GESELL. Am I correct in saying that on October 10, 1929, you borrowed the same amount from the Peoples Life Insurance Co.?

Mr. HALL. Yes, sir.

Mr. GESELL. How was your loan secured?

Mr. HALL. By stock in my own company.

Mr. GESELL. So that in November Mr. Ryan, an officer of the Peoples Life, borrowed $50,000 from the Lincoln National, and in December you borrowed the same amount from the Peoples Life, and in each case——

Mr. HALL (interposing). No; I borrowed mine in October.

Mr. GESELL. And in each case the loans were secured by the stock of the company represented by the particular officer who borrowed?

Mr. HALL. Yes.

Mr. GESELL. What is Mr. Ryan's connection with the Peoples Life?

Mr. HALL. He is chief counsel.

Mr. GESELL. Will you explain how these transactions took place?

Mr. HALL. Yes, sir. In May of 1929 I wrote a letter to the president of that company, stating that I would like to borrow $50,000, and it was almost immediately approved. I didn't want the money until fall, and I didn't get the money until the 10th of October.

Mr. GESELL. Your loan then was negotiated in May and actually made in October?

Mr. HALL. Yes.

Mr. GESELL. Now, what were the circumstances under which, in the following month, this officer of the Peoples came to borrow money from the Lincoln National?

Mr. HALL. At that time they wanted to borrow the money, and we were very glad to loan it to them.

Mr. GESELL. Is there any relation between these two loans at all, or is it purely a coincidence that within a space in the same year the same amount was lent back and forth?

Mr. HALL. No relation whatever.

Mr. GESELL. Now on December 2, 1929, Mr. Harry R. Wilson of the American Central Life borrowed $50,000 from the Lincoln National, did he not?

Mr. HALL. Yes, sir.

Mr. GESELL. That loan was secured by stock of the American Central Life?

Mr. HALL. Yes.

Mr. GESELL. Is the loan still outstanding?

Mr. HALL. Part of it.

Mr. GESELL. That was in December 1929?

Mr. HALL. Yes, sir.

Mr. GESELL. In October of 1929 you borrowed the same amount, $50,000, from the American Central Life, did you not?

Mr. HALL. Yes; but my loan was agreed upon in the previous May.

Mr. GESELL. Your loan was secured by stock of the Lincoln National, was it not?

Mr. HALL. It was.

Mr. GESELL. Now, again, will you explain the circumstances under which these loans were made?

Mr. HALL. Well, in May of 1929, I addressed a letter to the president of the American Central Life, stating my desire to borrow $50,000, and my letter, which has been submitted to you, explains why I wanted to borrow it.

Mr. GESELL. I believe I have returned that letter, Mr. Hall. If you do not mind, I would like to have you read it to the committee.

Mr. GESELL. The next witness is Mr. Hall of the Lincoln National Life Insurance Co.

Mr. Hall, you have not been sworn.

Acting Chairman PIKE. Do you swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth?

Mr. HALL. I do.

TESTIMONY OF ARTHUR F. HALL, CHAIRMAN OF THE BOARD, LINCOLN NATIONAL LIFE INSURANCE CO., FORT WAYNE, IND.

Mr. GESELL. Will you state your full name, your occupation, and residence?

Mr. HALL. Arthur F. Hall, chairman of the board of the Lincoln National Life Insurance Co., Fort Wayne, Ind.

Mr. GESELL. The Lincoln National is one of the companies shown in these schedules we have before us, so, if the committee please, I won't bother to bring out from the witness the size and scope and activities.

How long have you been connected with the Lincoln National?

Mr. HALL. I organized it 35 years ago.

Mr. GESELL. You have been with it all the life of the company?

Mr. HALL. Yes.

Mr. GESELL. Were you president of the company prior to becoming chairman of the board?

Mr. HALL. I was.

Mr. GESELL. When did you become president?

Mr. HALL. I don't remember when I became president; about 6 or 8 years ago.

Mr. GESELL. And you became chairman of the board when?

Mr. HALL. A year ago last February.

Mr. GESELL. Now in 1929, the Lincoln National made some collateral loans, did it not?

Mr. HALL. Yes, sir.

Mr. GESELL. Do you recall that on October 10, 1929—rather, I should say, on November 8, 1929—a loan in the amount of $50,000 was made to Mr. Thomas M. Ryan, an officer of the Peoples Life Insurance Co.?

Mr. HALL. Yes, sir.

Mr. GESELL. That loan was secured, was it, by stock of the Peoples Life?

Mr. HALL. Yes, sir.

Mr. GESELL. Is the loan still outstanding?

Mr. HALL. Part of it.

Mr. GESELL. Is it delinquent in any way as to interest or principal?

Mr. HALL. No, sir.

Mr. GESELL. That loan was made on November 8, 1929, was it not?

Mr. HALL. Yes.

Mr. GESELL. Am I correct in saying that on October 10, 1929, you borrowed the same amount from the Peoples Life Insurance Co.?

Mr. HALL. Yes, sir.

Mr. GESELL. How was your loan secured?

Mr. HALL. By stock in my own company.

Mr. GESELL. So that in November Mr. Ryan, an officer of the Peoples Life, borrowed $50,000 from the Lincoln National, and in December you borrowed the same amount from the Peoples Life, and in each case——

Mr. HALL (interposing). No; I borrowed mine in October.

Mr. GESELL. And in each case the loans were secured by the stock of the company represented by the particular officer who borrowed?

Mr. HALL. Yes.

Mr. GESELL. What is Mr. Ryan's connection with the Peoples Life?

Mr. HALL. He is chief counsel.

Mr. GESELL. Will you explain how these transactions took place?

Mr. HALL. Yes, sir. In May of 1929 I wrote a letter to the president of that company, stating that I would like to borrow $50,000, and it was almost immediately approved. I didn't want the money until fall, and I didn't get the money until the 10th of October.

Mr. GESELL. Your loan then was negotiated in May and actually made in October?

Mr. HALL. Yes.

Mr. GESELL. Now, what were the circumstances under which, in the following month, this officer of the Peoples came to borrow money from the Lincoln National?

Mr. HALL. At that time they wanted to borrow the money, and we were very glad to loan it to them.

Mr. GESELL. Is there any relation between these two loans at all, or is it purely a coincidence that within a space in the same year the same amount was lent back and forth?

Mr. HALL. No relation whatever.

Mr. GESELL. Now on December 2, 1929, Mr. Harry R. Wilson of the American Central Life borrowed $50,000 from the Lincoln National, did he not?

Mr. HALL. Yes, sir.

Mr. GESELL. That loan was secured by stock of the American Central Life?

Mr. HALL. Yes.

Mr. GESELL. Is the loan still outstanding?

Mr. HALL. Part of it.

Mr. GESELL. That was in December 1929?

Mr. HALL. Yes, sir.

Mr. GESELL. In October of 1929 you borrowed the same amount, $50,000, from the American Central Life, did you not?

Mr. HALL. Yes; but my loan was agreed upon in the previous May.

Mr. GESELL. Your loan was secured by stock of the Lincoln National, was it not?

Mr. HALL. It was.

Mr. GESELL. Now, again, will you explain the circumstances under which these loans were made?

Mr. HALL. Well, in May of 1929, I addressed a letter to the president of the American Central Life, stating my desire to borrow $50,000, and my letter, which has been submitted to you, explains why I wanted to borrow it.

Mr. GESELL. I believe I have returned that letter, Mr. Hall. If you do not mind, I would like to have you read it to the committee.

Mr. Hall. This letter is very similar to 10 letters written to various insurance companies in May, 1929 [reading]:

Fort Wayne banks are terribly hard up for money and have raised the rate of interest to 7 per cent on loans on which stock is given as collateral.

Several of us here want to make substantial loans at 6 percent on Lincoln Life stock at $75.00 or $80.00 a share.

When the new investment law goes into effect, I am wondering if the American Central is in position or is desirous of making some loans on Lincoln Life stock, and if so about how much and when.

Our paid business is 15 per cent ahead of the same period last year and our mortality is running lower thus far.

Mr. Gesell. Mr. Hall, was it a coincidence again that Mr. Wilson of the American Central sought a loan from your company in the same amount as you had borrowed from his company previously?

Mr. Hall. True. Nothing was said at any time for several months after it had been agreed to loan me money.

Mr. Gesell. I am referring to the Peoples Life. I understand there are several Peoples Life Insurance companies. This was the Peoples Life Insurance Co., of Frankfort, Ind., was it not?

Mr. Hall. Correct.

Mr. Gesell. Now, Mr. Hall, do you recall that on January 6, 1931, Mr. James A. McAvoy, an officer of Central States, borrowed $8,000 from the Lincoln National?

Mr. Hall. Yes, sir.

Mr. Gesell. And that on January 29, 1931, he borrowed $24,000?

Mr. Hall. Yes, sir.

Mr. Gesell. Those loans were secured by stock of Central States, were they not?

Mr. Hall. They were.

Mr. Gesell. And do you recall that on April 1, 1931, you borrowed $25,000 from Central States?

Mr. Hall. Yes, sir.

Mr. Gesell. And in July of 1931 you borrowed another $15,000 from Central States?

Mr. Hall. No; I borrowed ten and on August 26 I borrowed five.

Mr. Gesell. Making a total of the three loans of $40,000?

Mr. Hall. Correct.

Mr. Gesell. So that you borrowed $40,000 in 1931 from Central States and Mr. McAvoy borrowed from your company thirty-two thousand?

Mr. Hall. Correct.

Mr. Gesell. By the way, were the loans of Mr. McAvoy paid off?

Mr. Hall. They were not; they were charged off.

Mr. Gesell. They resulted in a loss to the company of $32,000?

Mr. Hall. Yes, sir.

Mr. Gesell. In the case of all of these loans, have your obligations from the various companies from which you borrowed been paid off?

Mr. Hall. All of them, in full.

Mr. Gesell. In this case again, there seems to be a certain degree of reciprocity between the loans you negotiated from these companies and the loans your company made to them. Do I understand that there is any different explanation here than in the other two cases?

Mr. Hall. None.

Mr. Gesell. You mean to say, then, that on these three occasions involving $250,000 transactions, and another transaction running up to forty or thirty-two thousand dollars, there was no previous understanding or arrangement of any sort between the officers of the two companies?

Mr. HALL. None whatever, by word of mouth or otherwise.

Mr. GESELL. In what way would these officers of the companies who had lent you money approach you with respect to your lending them money?

Mr. HALL. They wrote us letters which I have submitted to you.

Mr. GESELL. I have here a letter that you wrote Mr. Julian Price, president of the Jefferson Standard, under date of May 31, 1929. You recall that letter, do you not?

Mr. HALL. Very well.

Mr. GESELL. I was interested in the second paragraph in which you say [reading from "Exhibit No. 2291"]:

> It is hard to understand the attitude of the loan committees to collateral loans such as the one I seek. We recently loaned approximately $200,000 to friends of yours and mine, officers of another life insurance company, on their stock as collateral, and I had a dickens of a time to get my finance committee to consent to a loan on life insurance stock. That is the one collateral they understand better than any other. They will make a loan on a farm or a business property at 5½% and think they have a cream loan. When we foreclose we have the devil's own time to get rid of the security. If, however, we should have to foreclose on the collateral loan we made, we could find a market in ten minutes for the collateral.

I gather there was some difficulty in making these collateral loans as far as your finance committee was concerned.

Mr. HALL. There was.

Mr. GESELL. What arguments or explanations did you give your finance committee at the time the loans to these officers of companies which had loaned you money came before the finance committee for consideration?

Mr. HALL. Well, we made loans, of course, to officers of other companies long before I borrowed any money from any companies, and my argument merely was that our officers should understand life-insurance stock collateral, stock, rather, as collateral, better than they should understand any other form of collateral, and that they were intimate, or should be intimate with the operations of a life-insurance company.

My philosophy in making such loans is set up, if you would finish that letter which I wrote to Mr. Price, as to why they should be made and why they were perfectly good loans.[1]

Mr. GESELL. I shall be glad to offer the entire letter for the record.

The VICE CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 2291" and is included in the appendix on pp. 15514, 15515.)

Mr. PIKE. It turned out later on one of those loans that the finance committee was more nearly correct than you, didn't it?

Mr. HALL. It turned out that way on loans on all kinds of collateral. We lose on farm mortgage loans, too.

Mr. HENDERSON. Do you lose on any policy loans?

Mr. HALL. No.

Mr. GESELL. Mr. Hall, why didn't you borrow this money you needed from your own company?

Mr. HALL. I can't borrow from my own company. It is illegal.

---

[1] See "Exhibit No. 2291," appendix, pp. 15514, 15515

Mr. GESELL. Isn't that part of the story here? The same situation applied in the case of these other officers that were borrowing from you; isn't that correct?

Mr. HALL. Yes; just the same as it is with banks, the president of a bank cannot borrow from his own bank, but he can borrow on his stock in that bank from another bank.

Mr. GESELL. Isn't there some kind of a gentlemen's understanding or tacit understanding involved in this situation where you loaned the same amount to an officer of another company as he in turn borrowed from your own company?

Mr. HALL. No. In fact, we loaned more to the Peoples Life than I borrowed from them. You didn't mention the fact that we loaned twenty-five thousand to the president of that company.

Mr. GESELL. I haven't a record of that here. When did you loan that to him?

Mr. HALL. On November 5, 1929, 3 days before the fifty thousand was loaned to Mr. Ryan.

Mr. GESELL. You loaned how much?

Mr. HALL. Twenty-five thousand.

Mr. GESELL. So that you loaned a little more in that case to the Peoples than they loaned to you.

Mr. HALL. That loan, by the way, is fully paid.

Mr. GESELL. And this is all a pure chance that there is this cross-loaning?

Mr. HALL. It is. I think they borrowed from us for the same reason that I desired to borrow from them. The local banks had raised the rate.

The VICE CHAIRMAN. Just in that connection was there a shift in loans from the local bank to the insurance company, or was this a new transaction? Did your loan status with your local bank change as the result of this loan, either before or after?

Mr. HALL. Afterwards, as soon as I got the money from the life insurance companies, I paid off the bank who had increased the rate 1 percent. I was seeking a lower rate of interest.

Just one more point about that, Mr. Chairman. The loans from the banks were 90-day loans. One couldn't tell when the bank would say, "We will no longer renew this loan."

Mr. GESELL. You could get longer terms by borrowing from the insurance companies.

Mr. HALL. And not be worried all the time.

Mr. GESELL. Were these loans collateral or time loans?

Mr. HALL. They were due on I think 60 days' notice. I will get that information for you.[1]

Mr. GESELL. I want to come now to a type of transaction that the committee will be interested in.

Mr. HAYES. May I ask a question before you go into another type of transaction? You mentioned, as I understood the testimony, Mr. Hall, that before a loan was written off entirely, what happened to the collateral for that loan?

Mr. HALL. We still hold it.

Mr. HAYES. Have you made any endeavor to sell it?

Mr. HALL. Oh, yes.

---

[1] Information included in subsequent testimony.

Mr. HAYES. Is the collateral worthless?

Mr. HALL. No.

(Senator O'Mahoney resumed the Chair.)

Mr. HAYES. About how much of the principal of the loan does the collateral represent?

Mr. HALL. The collateral represents the entire principal of the loan but I don't think the worth of it is more than $2,000. I don't think we will ever realize more than two or three or four thousand dollars.

Mr. HAYES. Did Mr. Ryan pass on or have anything to do with passing on your loan from the Peoples?

Mr. HALL. I don't know. It was up with their finance committee.

Mr. HAYES. How about Mr. Wilson with respect to the American Central?

Mr. HALL. I am quite sure he was on their finance committee.

Mr. HAYES. How about Mr. McAvoy with respect to Central States?

Mr. HALL. He was president of the company and I have no doubt had something to do with passing on it.

Mr. HAYES. In at least two instances people who borrowed from your company had something to do with passing on their loans.

Mr. HALL. And no doubt the third one, too.

Mr. GESELL. And correspondingly, did you pass on the loans to the officers of these other companies?

Mr. HALL. Yes; but my entire finance committee did. I have here—I don't think you want it for your record but I would like to have you see how such an application was analyzed and passed upon. That loan was never made. It was approved. Every member of the finance committee you see down there votes "yes" or "no."

Mr. GESELL. A specific vote was required, and details with respect to collateral required?

Mr. HALL. Yes, two, four, seven—seven votes, so you can readily see that I alone couldn't carry a vote.

Mr. GESELL. I want to ask you now about the circumstances under which the Lincoln National purchased the reinsurance business of the American Life Insurance Co. of Dallas, Tex., in 1929. Do you recall that?

Mr. HALL. Yes, sir.

Mr. GESELL. Can you tell us, first of all, what was the purchase price?

Mr. HALL. As I recall it, it was approximately $267,000.

Mr. GESELL. Can you tell us how that was financed?

Mr. HALL. Yes, sir. It was financed by my borrowing the money from the bank and purchasing the business with that money. Then my company bought that business from me for exactly the same price, with exactly the same interest payment that I owed, but gave me a contract to make a payment—I think that particular one was one-half of 1 percent of the renewal premiums collected on our business afterwards. My collateral to the bank for the loan was an assignment of the contract that I had with my company. My company, therefore, never paid me any money; it never passed through my hands. It went directly to the bank with which I had made the loan.

Mr. HENDERSON. Each stockholder?

Mr. HALL. Yes.

Mr. GESELL. These were 3-year collateral loans, is that correct?

Mr. HALL. Yes; callable both 30 or 60 days after the year.

Mr. KADES. Do I understand that your personal loans from the bank were for 30 days?

Mr. HALL. I think they were for 90 days.

Mr. KADES. And you made arrangements with the insurance company to borrow in May 1939?

Mr. HALL. Yes, sir.

Mr. KADES. You, however, drew the money down in October 1929?

Mr. HALL. No. Some of it I didn't draw until July and August of 1931.

Mr. KADES. Did the bank loans mature in the meantime?

Mr. HALL. Well, they matured every 90 days.

Mr. KADES. Do I understand you to say that you borrowed from the insurance companies in order to avoid the 90-day paper, and put it on a long-term basis?

Mr. HALL. And on a lower interest basis.

Mr. KADES. Then why did you wait from May until October 1929, before you drew down any money?

Mr. HALL. Well, I don't think those companies were in position to loan such a large amount of money quickly. We were, but we were a much larger company than the companies from whom I borrowed.

Mr. KADES. Were banks in October 1929, asking for additional collateral?

Mr. HALL. Yes; and raising the rate. The Fort Wayne banks increased their rate from 6 to 7 percent on all loans collateralized by stocks of any type.

Mr. KADES. Were they asking for additional stock?

Mr. HALL. That I don't recall.

Mr. KADES. That had nothing to do with the shifting of the loan from the bank to the insurance company?

Mr. HALL. I think not.

Dr. LUBIN. Mr. Hall, you stated that in May, of 1929, you wrote a letter to 10 companies in which you raised the question as to whether you could borrow certain funds from them?

Mr. HALL. Correct.

Dr. LUBIN. In some instances, however, you waited almost 2 years before you went to these companies to borrow the money?

Mr. HALL. No; in one instance. I then probably wanted to borrow some more money that I hadn't even thought of previously.

Dr. LUBIN. I understand that you made the arrangements in May '29, but you didn't borrow until 1931?

Mr. HALL. That is correct. The president of our company calls my attention to the fact that although I wrote to the president of the Central States in May of 1929, asking whether or not they could or would make loans, that no arrangements were made at that time for them. At that time they were in no position to make the loan.

Dr. LUBIN. So there is no relationship between your borrowing in 1931 and the arrangement you made in 1929?

Mr. HALL. Merely that I had asked for it in 1929, but no loan was consummated.

Dr. LUBIN. So you made a further request 2 years later, and the loan was consummated?

Mr. HALL. I judge I did.

Mr. HAYES. Your testimony, as I understand it just now, is that though you made your original approach to those companies in May of 1929, the actual loans were deferred until some time in the fall because of the inability of those companies at the time of the original request to make loans of such substantial amounts?

Mr. HALL. I said I merely suspected that that was the reason for the delay.

Dr. LUBIN. Does that mean that they refused the loan in May of 1929?

Mr. HALL. Oh, no.

Mr. HAYES. What was their answer, that they were able to make it in May of 1929 or that they weren't able to make it?

Mr. HALL. Mr. Chairman, I have all the correspondence from my personal file concerning these matters which I am perfectly willing to leave with this Commission if they so desire. It answers all these questions.

The CHAIRMAN. You have ample time to review your correspondence and confer with your associates.

Mr. HALL. I merely want you to know that I don't seek to hide the answer to any question you may ask me.

The CHAIRMAN. We appreciate that fact.

Mr. HALL. Here is the reply in June 1929 from the Peoples Life at Frankfort, Ind., which did loan me, in October, $50,000 [reading]:

This month and next we have a number of large mortgage loans which aleady have been approved, and it will take all the funds available to complete these loans according to our previous arrangement. We are loaning more than 50 percent of our funds at 7 percent on city property, interest payable semiannually, and we have two loans of twenty thousand, one of thirty thousand, and one of fifty thousand coming this month, and one of $15,000 being made in Indianapolis the first of July, besides several smaller loans.

You no doubt appreciate the fact that our income is small as compared with yours. Looking up the law on loans on stock, our attorney advises me that $65,000 is the limit to any one company. Therefore, as soon as funds are available I shall be pleased to loan you $50,000, which will be a permanent loan of $50,000.

Mr. HAYES. What company was that?

Mr. HALL. The Peoples Life of Frankfort, Ind.

Mr. HAYES. Is that typical of the replies you received?

Mr. HALL. The ones from whom I borrowed were all in that category.

Mr. HAYES. As I understood your original testimony with respect to these loans, and I may have misunderstood and I would like to be corrected if I did, your testimony was that while you made application originally in May, you didn't require the funds yourself until October, and for that reason did not borrow?

Mr. HALL. I think I should correct that, because the sooner I could get the loans the sooner I lowered my interest 1 percent.

Mr. HAYES. So that the reason, primarily, was the inability of the companies lending the money——

Mr. HALL (interposing). Inability due to such reasons as I have read here.

Mr. HAYES. Were these loans made before or after you made your request?

Mr. HALL. There were never any of them made coincident with the time I made my other request.

Mr. HAYES. They were made independently of the actual borrowing by you?

Mr. HALL. Yes, sir.

Mr. GESELL. I have no further questions.

Representative SUMNERS. I would like to ask one further question. I gather from that letter and your statement that your application to these companies with reference to loans was probably for $65,000?

Mr. HALL. No. I will get my letter.

Representative SUMNERS. I don't think that is important. I thought I heard that.

Mr. HALL. I read you one letter. I said several officers of the company would like to borrow, and his answer was that $65,000 would be the limit.

Representative SUMNERS. The question I want to ask is, What, if any, difference is there between the amount and character of the collateral which you put up to secure the loans from these insurance companies and that which was securing the same indebtedness with the banks?

Mr. HALL. The same collateral.

Representative SUMNERS. You had a loan with the bank with a certain collateral which the bank had approved. You moved that loan and that collateral over to the insurance company and got the money from it, and paid the debt to the bank?

Mr. HALL. That is correct.

Dr. LUBIN. Mr. Hall, is it customary for insurance companies to make collateral loans and to make them permanent? Does that reply to you mean that this loan was going to be extended indefinitely at your option?

Mr. HALL. No. Mine was only made for 3 years. It wasn't permanent. As a rule, mortgage loans are made for a minimum of 5 years.

Dr. LUBIN. Did I understand you to say a minute ago that these loans were made by your company to the officers of these other companies in each instance before you borrowed from their companies?

Mr. HALL. No.

Dr. LUBIN. Were they made after you borrowed?

Mr. HALL. Yes.

Dr. LUBIN. In all instances?

Mr. HALL. No; in one instance they were made to the other company first; in two instances they were made to me first.

Dr. LUBIN. Which instances are those, those of 1929 or '31?

Mr. HALL. '31.

Dr. LUBIN. In 1931 they borrowed first?

Mr. HALL. Yes. That is the loan we lost.

Mr. KADES. Did the collateral notes to the banks contain the usual provision that, in the event the collateral fell below a certain value, additional collateral would have to be pledged?

Mr. HALL. Yes.

Mr. KADES. Did the collateral loans from the insurance companies contain a similar provision?

Mr. HALL. Yes.

Now, that brings me to the point contained in the letter which your Commission has. It shows that, first, on the Peoples Life loan, which I secured on October 10, 1929, I put up 700 shares of stock; on December 29, the following year, I put up 100 shares; on July 15, of the following year, 208 shares—the market price was going down; on December 24, 1931, I put up 500 shares; on November 18, 1935, I put up 297 shares; so I finally added up to 1,805 shares in that case.

The American Central shows that I originally deposited 700 shares, as in the other case; and on December 29, 1930, I added 300 shares; on January 16, 1932, I added 450 shares; so I had 1,450 shares.

Mr. HENDERSON. Had not the additional shares been put up, the company that made the loan to you might have lost money?

Mr. HALL. I think so.

Mr. KADES. Did you require Mr. McAvoy to put up additional collateral?

Mr. HALL. I do not recall. If we asked for it, I don't think we got it.

Mr. HAYES. Did you ask for it?

Mr. HALL. I don't recall, but no doubt we did.

Mr. KADES. Did you accelerate the maturity of this note when he was unable to put up additional collateral?

Mr. HALL. I do not recall that.

Mr. HAYES. Did you receive a financial statement from Mr. Avoy at the time of the original loan to him?

Mr. HALL. No; because the loan was on the stock of his company. We made an analysis of that company's business.

Mr. HAYES. That was in 1931?

Mr. HALL. Yes.

Mr. HAYES. And you relied entirely on collateral in 1931?

Mr. HALL. Yes.

Mr. HAYES. Stock collateral?

Mr. HALL. Correct.

Mr. KADES. What month was that in 1931? What month did you make a loan to Mr. McAvoy?

Mr. HALL. Loaned him money in January and borrowed in April, July, and August.

Mr. KADES. Was that a 3-year note?

Mr. HALL. I judge it was. I can look it up for you.

May I introduce, Mr. Chairman, the form of note that we used in all these cases?

The CHAIRMAN. I beg your pardon?

Mr. HALL. May I introduce the form of note that was used in each case when we made a loan?

The CHAIRMAN. Unless there is objection.

Mr. HALL. It will answer some of the questions that might occur later.

Mr. GESELL. I will be glad to have this filed as part of the record.

The CHAIRMAN. Is there any objection to having it printed?

Mr. HALL. No.

The CHAIRMAN. Then it may be received and printed.

Mr. HALL. I think, however, Mr. Chairman, the name of the borrower should be left off.

The CHAIRMAN. Would you prefer to have it filed with the committee and not printed?

Mr. HALL. I would prefer that. He still owes part of that money.

The CHAIRMAN. Then it will not be printed, but will be held, without references to the individuals concerned, as a part of the record of the committee.

Mr. HALL. I think that is a courtesy to the borrower.

The CHAIRMAN. We will be glad to comply with that suggestion.

(The note referred to was marked "Exhibit No. 2291–A" and is on file with the committee.)

Mr. GESELL. We have no further questions of this witness.

The CHAIRMAN. May I ask, sir, whether there is any particular provision of the Indiana law with respect to transactions of this type, which you want to discuss this morning?

Mr. HALL. Yes; stocks generally. We may loan 80 percent at the present market value of stocks.

The CHAIRMAN. That is the ordinary collateral loan that prevails?

Mr. HALL. Yes.

The CHAIRMAN. Is there any provision with respect to lending money between life insurance companies?

Mr. HALL. None.

The CHAIRMAN. That is not covered in the law at all?

Mr. HALL. No.

The CHAIRMAN. So the transaction that has been described here, according to your statement, was within the laws of the State of Indiana?

Mr. HALL. Yes; approved by the attorney general.

The CHAIRMAN. I beg your pardon.

Mr. HALL. We had it approved by the attorney general of our State.

The CHAIRMAN. In other words, before the transaction was carried out, it was submitted to the attorney general of your State?

Mr. HALL. Yes.

The CHAIRMAN. And approved?

Mr. HALL. Approved by him.

The CHAIRMAN. Did the insurance department have anything to do with it?

Mr. HALL. I judge they did. It must have been submitted to the attorney general through the insurance department.

Mr. GESELL. You mean you told him you borrowed so much money from an officer of one company, and he in turn was going to borrow the same amount of money from your company?

Mr. HALL. No.

Mr. GESELL. Just the general proposition as to whether or not you could loan on stock?

Mr. HALL. Yes.
The CHAIRMAN. Then I misunderstod you. Was the transaction itself submitted to the attorney general?
Mr. HALL. No; the question was submitted to the attorney general, whether or not it would be proper for an Indiana officer of an Indiana company to borrow on the stock of his company from another Indiana life insurance company.
The CHAIRMAN. That question, as a generality, and with no relation to a specific case, was presented to the attorney general?
Mr. HALL. Yes.
The CHAIRMAN. By your company?
Mr. HALL. Yes; by word of mouth, I judge. I have no correspondence on that.
Mr. GESELL. It is recorded in the correspondence that you did take it up.
Mr. HALL. Yes; it is recorded somewhere in the correspondence that you have to that effect.
The CHAIRMAN. Did you have a letter from the attorney general?
Mr. HALL. No.
The CHAIRMAN. Was it an oral opinion he handed down?
Mr. HALL. We were advised by the insurance department that the attorney general had rendered such an opinion.
The CHAIRMAN. I see. Thank you.
Mr. HENDERSON. Mr. Hall, where do you get the market price of the stocks of insurance companies?
Mr. HALL. Well, it is quoted in many newspapers. Ours is only quoted in the Chicago Journal of Commerce and the Fort Wayne papers. It used to be quoted in the Hartford, Conn., papers. The stocks in the larger companies are reported pretty well over the country.
Mr. GESELL. Most of that is over-the-counter quotations?
Mr. HALL. Yes.
Mr. GESELL. Thank you, Mr. Hall. There are no further questions.
The CHAIRMAN. If there are no further questions, the committee is indebted to you, Mr. Hall, for the testimony. The witness may be excused.
The committee will stand recessed until 2 o'clock.
(Whereupon, at 12:10 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:05 p. m. upon the expiration of the recess.
The CHAIRMAN. The committee will please come to order.
Mr. GESELL. The witness this afternoon is Mr. Glenn E. Rogers of the Metropolitan Life Insurance Co. I should say the first witness—we will have two, we hope.
The CHAIRMAN. Mr. Rogers, do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?
Mr. ROGERS. I do.

TESTIMONY OF GLENN E. ROGERS, MANAGER, FARM LOAN DIVISION, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.

Mr. GESELL. Will you state your full name, please, sir?

Mr. ROGERS. Glenn E. Rogers.

Mr. GESELL. What is your position with the Metropolitan?

Mr. ROGERS. Manager of the Farm Loan Division.

Mr. GESELL. How long have you had that position?

Mr. ROGERS. Since September 1932.

Mr. GESELL. Were you connected with the division prior to the time you were placed in charge?

Mr. ROGERS. I have been connected with the division since 1924.

Mr. GESELL. Prior to that had you had experience in the handling of farm problems?

Mr. ROGERS. Yes.

Mr. GESELL. What was your experience?

Mr. ROGERS. I was brought up on an Illinois farm and then attended the Iowa State Agricultural College and went back to the farm for a while, then became an agricultural agent, a county agent in Minnesota, and from there I guess I was one of the first appraisers of the Federal Land Bank of St. Paul, and from that I went with a mortgage company in Minneapolis, and from there to New York City as assistant manager of the Farm Loan Division of Metropolitan.

Mr. GESELL. And you became manager in 1932?

Mr. ROGERS. Became manager in 1932.

Mr. GESELL. Not just exactly the best time to become manager.

Mr. ROGERS. There were many problems then.

Mr. GESELL. Now, Mr. Rogers, before we get down to detail, I would like to get some idea from you of the Metropolitan's farm investment. First of all, can you tell me how many farms the Metropolitan owns?

Mr. ROGERS. Seven thousand one hundred and fifty-three, I think, is about correct today, but I can tell you accurately.

Mr. GESELL. Within approximation is perfectly all right. General figures.

How much of an investment does that represent?

Mr. ROGERS. Today it represents $79,800,000.

Mr. GESELL. What is your biggest farm? How many acres, roughly?

Mr. ROGERS. Roughly, 2,000 acres, I believe. I think there are three farms that are approximately 2,000 acres.

Mr. GESELL. And how small do you run down?

Mr. ROGERS. Oh, I would say 25 or 30 acres, but seldom below 40. Not many farm loans are made on farms below 40 acres.

Mr. GESELL. And the average size of the farm is about what?

Mr. ROGERS. I would say the average size is approximately 200 acres. I am not sure. That would be easily calculated—7,153 farms, 1,560,000 acres.

The CHAIRMAN. What do you say is the average?

Mr. ROGERS. About 210, I believe, Senator.

Mr. GESELL. How many mortgages have you got?

Mr. ROGERS. I would say approximately 13,000. I am not real sure on that.

Mr. GESELL. That is roughly correct?

Mr. ROGERS. I think so.

Mr. GESELL. What investment does that represent?

Mr. ROGERS. That represents $74,000,000.

Senator KING. When you say farms, some of those large so-called farms include considerable land used for dairy purposes, do they not, and for hay, rather than for the production of what might be called peculiarly agricultural crops—wheat and corn?

Mr. ROGERS. Well, the largest farms that we had—we carried these farms under a single number. Now, we acquired, for instance, in North Carolina, 7,500 acres in 1 property. We carried it as 1 farm. Yet it was made up of a number of parcels. That particular property has been sold. I think it was sold as 31 different parcels. Now, the 2,000-acre farm in Kansas is broken down into about 6 different farms. I think 1 in Minnesota is the same way. There are several units, but 1 man owned them, and we call them 1 farm. In addition, I should say we have 1 ranch in Colorado that has about a thousand acres under irrigation, but it is a cattle proposition with the cattle grazing on the forest range.

Mr. GESELL. What is your biggest mortgage?

Mr. ROGERS. The biggest mortgage, I am not sure, I think it is $150,000. I am not sure about that.

Mr. GESELL. And how small do your mortgages run?

Mr. ROGERS. Oh, we have them down as low as $500. $1,000.

Mr. GESELL. Are there many that small?

Mr. ROGERS. Not many.

Mr. GESELL. Now, what States—in what States is this investment located primarily?

Mr ROGERS. Well, it is primarily located in the Central West, although it is scattered in 25 different States. If you wanted that figure accurately, I could give it to you.

Mr. GESELL. Well, "Exhibit No. 2250" shows that specifically for each State.[1] I just wanted to refresh the committee's recollection.

Mr. ROGERS. The State of Iowa, of course, is the leading investment, with us, and the State of Illinois runs high.

Mr. GESELL. You are in 25 different States?

Mr. ROGERS. Twenty-five different States; and in some States the amounts relatively are small.

Mr. GESELL. Now, will you tell us a little about your lending and managing organization? I realize you could probably talk all afternoon about that alone. I want in outline form how you lend, the kind of staff you have, and how you are organized.

Mr. ROGERS. Well, I think it is a very simple organization. When confronted with a management problem, it seemed that it was necessary to develop an organization that understood farms and farming. We have always looked upon the lending of money and the management of farms as separate businesses. A man to be competent to lend money must have more or less of a banking instinct. A man to manage farms must have an intricate knowledge of agriculture, and in our case we have gone to the scientific agriculturalists in order to do constructive work, in order to be of benefit to tenants who reside upon those farms. Many of the men in the farm management organization

---

[1] See Hearings, Part 10–A, pp. 167 to 171.

would not make lenders of money. Some would make salesmen. Some would make lenders, but some of the men are of the type that are definitely farm managers, and will be strictly confined to that work. Then we have the farm sales department, which takes another type of personality. I always say that you cannot tell from talking with a man his ability to sell farms. The sales he makes are the things that tell the story. We have these three departments that are separate and distinct.

Mr. GESELL. Let's see. Those are the lending department.

Mr. ROGERS. Yes.

Mr. GESELL. The managing department.

Mr. ROGERS. Yes.

Mr. GESELL. And what is the third?

Mr. ROGERS. Sales.

Mr. GESELL. And the sales department. Those are separate and distinct from each other?

Mr. ROGERS. Yes.

Mr. GESELL. What is the total personnel?

Mr. ROGERS. The total personnel in the field, you are referring to—approximately 350 people. There are about 165 men, field men, I believe, and of that 165, I think 130 are agricultural college men, most all of whom are mature men, 35 to 45 years of age, with a few men of a younger age who work as assistants to these older men, as a training.

Mr. GESELL. The company at one time used farm correspondents, at least in part, to make its loans, did it not?

Mr. ROGERS. Yes.

Mr. GESELL. Does it at the present time?

Mr. ROGERS. We have I think four correspondents left.

Mr. GESELL. You have probably switched over to the manager system, have you?

Mr. ROGERS. We have switched over. Here was one of the great difficulties. The farm management business being so separately and entirely different from the lending, the correspondent had no ability as a farm manager, he had no liking for it. He didn't want to manage farms. So in the very early part of the defaults, it was necessary to set up a separate management organization. Then if a correspondent failed or decided he cared not to continue, we would try to carry over some of his people into our organization in order to continue the experienced men. A good many of our present lending organizations were built up by taking the employees of the former.

The CHAIRMAN I take it the correspondents were practically all experts in lending?

Mr. ROGERS. Yes.

The CHAIRMAN. Of this staff of which you spoke a moment ago, how many are in the managing department, the farm management department?

Mr. ROGERS. Today I would judge about 125.

The CHAIRMAN. How long have you had a management staff as large as that?

Mr. ROGERS. Well, that dates back quite a ways. I would say 1933 or 1934.

Mr. GESELL. I assume you started to build up that staff as soon as you became head of the division.

Mr. ROGERS. Yes.

Mr. GESELL. There was an increasing problem at that time.

Mr. ROGERS. In 1932, that is correct, Mr. Gesell. The building of an organization with farms coming to you at the rate of 300 a month is quite a difficult thing, because the men must be trained.

The CHAIRMAN. How many persons are there in the sales department?

Mr. ROGERS. In the sales department? We handle that slightly differently. What I claim as to our salesmen is that they are really sales executives. We encourage the local real-estate brokers to help us in the sale of farms, and we call the men in our branch office staff the farm sales managers. It is their job to see that the farm-loan men, that the farm-management men, and that the real-estate brokers, all lend their efforts toward the sale of company-owned farms. There are only 12, I think, Senator; now that may be 11 or it may be 13, but I am close to right.

The CHAIRMAN. That is, those men are sales executives?

Mr. ROGERS. Yes.

The CHAIRMAN. And then the balance of your staff is in the lending division?

Mr. ROGERS. Yes.

The CHAIRMAN. And that would number approximately 150, or thereabouts?

Mr. ROGERS. Thereabouts.

Mr. GESELL. Your company is really the biggest farmer in the United States, isn't it, Mr. Rogers?

Mr. ROGERS. We are today, I believe.

Mr. GESELL. You own more farm land than anyone else?

Mr. ROGERS. I believe that is correct.

Mr. HENDERSON. Now, you have those 11 or 12 sales executives, but how many people would you say are on the selling staff, taking the brokers and the managers and the salesmen together?

Mr. ROGERS. Mr. Henderson, that would be a large organization. Strange as it may seem, some of these individual brokers this past year sold enough farms so their commissions would mount upwards of five to ten thousand dollars on company farms alone. I have no idea as to that. We advertise, these men are solicited, these brokers, and it is very, very extensive.

Mr. HENDERSON. Have you any idea how many individuals last year sold one or more farms for you?

Mr. ROGERS. No; I haven't.

Mr. HENDERSON. Would it be 100?

Mr. ROGERS. Oh, I would say more than that. More than that. For instance, last year we sold over $5,000,000 of land in Iowa alone. We had four sales executives, a farm sales manager and three sales executives. The sales of those farms were made by real-estate brokers throughout that territory and that is a lot of farms to sell in a year.

Mr. HENDERSON. Do you suppose you were the largest seller of farms in Iowa last year?

Mr. ROGERS. I think we were without question. We sold $11,-

600,000 worth of land last year throughout different parts of the United States. Roughly, $5,500,000 of it was in Iowa.

Senator KING. Did you get cash for any considerable part of the land sold, or did you take mortgages?

Mr. ROGERS. We sold a great lot of it on contract.

Mr. GESELL. Might I say we are coming to the sales procedure, Senator King, in a moment.

Is the company lending at the present time on farms?

Mr. ROGERS. Yes; our loans in 1939 were $12,000,000.

Mr. GESELL. You made $12,000,000 of loans when?

Mr. ROGERS. In 1939.

Mr. GESELL. How many did you make in 1938?

Mr. ROGERS. $8,900,000.

The CHAIRMAN. Do you refer to these as new loans—that is to say, loans which had never before been made?

Mr. ROGERS. That is right.

The CHAIRMAN. This figure did not include any refinancing?

Mr. ROGERS. Well, it might have included a few Federal land-bank loans.

The CHAIRMAN. I mean refinancing of Metropolitan loans.

Mr. ROGERS. No.

Mr. GESELL. No recasting of your own?

Mr. ROGERS. The figure would be 17,000,000 if it included refinancing of our own. We look upon the matter of what we call new loans as new money we pay out.

The CHAIRMAN. New loans as to your company?

Mr. ROGERS. As to our company, yes.

Mr. GESELL. Now, may I ask you what type of loan—or what are your standards in loaning farm money at the present time?

Mr. ROGERS. Well, I would say that our standards are very high.

Mr. GESELL. I am sure you would. I meant more, what do you mean specifically, what do you look for specifically, when you loan? In other words, what kind of an individual will you loan to, up to what percentage of the land value will you loan on? That is what I mean by standards.

Mr. ROGERS. We adhere quite largely to the better farm-land areas, for several reasons, and the maximum is approximately 50 percent of the value of the farm.

The CHAIRMAN. Who fixes the value?

Mr. ROGERS. Our own organization—one of our own men. Our farm-loan men who must be trained appraisers. Then with a correspondent, of course, the correspondent's appraiser appraises. But where we have a correspondent we have a contract of guarantee to repurchase within 1 year if the loan for any reason is not satisfactory to us. We have a staff of reviewing appraisers and the reviewing appraisers review the loans made by the correspondent and also by our own branch offices to maintain an even standard and quality of loan throughout the organization. These reviewing appraisers are not permitted to be a part of any branch office. They are supposed to be separate entities, and I usually have them come to the home office for a period of 30 to 60 days in the winter months in order that they will know fully our home-office views on lending.

The CHAIRMAN. What are your home-office views in affixing the appraised value of the property on which you loan?

Mr. ROGERS. That is a rather difficult question, other than to say——

The CHAIRMAN (interposing). Yes; I realize it is not a thing you can answer specifically, perhaps.

Mr. ROGERS. In the first place, the farm must be a good farm, and in a community of good land values. The buildings must be in good condition. We will lend on farms without buildings, providing the amount loaned per acre is slightly lower, but we also require financial statements to avoid lending money to people who are already over their heads.

The CHAIRMAN. Don't your appraisers carry some instructions from the company to guide them in fixing values?

Mr. ROGERS. On that, Senator, an appraiser of lands is built up by experience and discussion and exchange of views over the years, and they do not carry instructions with them. They have very complete reports to fill out. I have two requirements which I have made; that they state the hour of the day at which the appraisal was made to avoid a fellow appraising a farm not at the proper time of day.

Mr. GESELL. You mean for instance midnight?

Mr. ROGERS. Midnight—or the man with a long drive ahead. I know from experience in the field there are times when a fellow gets very tired, that he can probably try to appraise a farm at dusk, which is just not proper, and I have sometimes required that he set out on a dotted line his path over the farm, his trip over that farm, to be sure of the appraisal.

So we have with these trained appraisers men that are selected because of their knowledge of land, and then with the reviewing appraisers, we have two men who are real experts go over the property, go over it entirely. With a branch office I realize if a man made a mistake, that the loan is made. Nevertheless, I know the man made a mistake.

Mr. GESELL. I believe the Senator's question was, What are the standards for appraisal, not how do you check your own appraisers to see that they make the kind of appraisal that they should as professional men, but what are their standards? I take it, from what you say, that it is just a matter of the individual man's knowledge of the farm property.

Mr. ROGERS. Yes. A man is able to know land and report accurately on the contour, he must submit a plat showing the exact contour.

The CHAIRMAN. Do you want your appraisers to try to determine what the value of the farm would be?

Mr. ROGERS. Oh, yes.

The CHAIRMAN. What it would bring in the market?

Mr. ROGERS. Yes.

The CHAIRMAN. Is that the principal factor in determining?

Mr. ROGERS. That is the principle factor in determining the loan and the recommendation of it, but he must report every detail regarding that property, the condition of every building.

The CHAIRMAN. Of course, it is obvious that from a comparison of a great number of cases, you can judge whether an appraisal is out of line or not?

Mr. Rogers. Yes.

The Chairman. You can judge from the conditions in the particular area, the county or the State, what value ought, approximately, to be put on a particular type of farm?

Mr. Rogers. Yes.

The Chairman. I was wondering if any instructions of any specific kind were given to the appraisers in reaching their figure which is reported to you, and then reviewed by the office appraisers?

Mr. Rogers. That, of course, is merely the education of the men over the years, and our report is extensive, as I say. If a man will give me an accurate plat and an accurate description of a farm in any county in which we make loans, I can tell within a few dollars whether or not he is right, because we maintain that kind of information constantly.

Senator King. I suppose the assessors of the respective counties—and they assess real estate, you know, for taxation—they have their values and those records are available to your organization if it is desired?

Mr. Rogers. The assessed valuation varies materially, and they are difficult to follow. Our best information is the judgment of a competent man who has been on the property.

Now, in the past, since 1932, we have made approximately $25,000,000 of loans, have had five foreclosures, and acquired one farm.

Mr. Henderson. You mean on the new business?

Mr. Rogers. On the new business; yes.

Mr. Henderson. Did I understand that you look into the financial ability of a farmer as well as a farm itself?

Mr. Rogers. Indeed.

Mr. Henderson. In other words, you are loaning on the farm and on the man also?

Mr. Rogers. Yes; we have a complete financial statement of the man, and that is sworn to.

Mr. Gesell. Is that a pretty good summary of what you take into account in the loan, reading from one of the memoranda from your files [reading]:

> Each loan to be qualified for approval must meet three basic requirements: The farm must be located in an approved lending territory; the borrower's financial condition must be satisfactory; and the amount of the loan applied for must not exceed 50 percent of the value of the land without buildings.

Mr. Rogers. Yes.

Mr. Gesell. In the event an application meets these conditions the loan is then approved for submission to the real-estate committee. Is that an accurate summary?

Mr. Rogers That is quite an accurate summary.

Mr. Gesell. I am interested in these approved lending territories, Mr. Rogers. Of the loans that you have made in the last couple of years, in how many States have you loaned?

Mr. Rogers. In the last couple of years? I would have to count them up, but it would be over 20, I am quite sure.

Mr. Gesell. You have loaned in over 20 States?

Mr. Rogers. I am quite sure of that.

Mr. Gesell. There are certain areas that you have withdrawn from, are there not?

Mr. ROGERS. Withdrawn from in a way, not entirely, but there are some territories where we are less active than we were in former years.

Mr. GESELL. Now, I would like to discuss with you for a moment the factors that have led to your decision not to continue active lending in certain areas. For instance, you have pretty well withdrawn from California, have you not?

Mr. ROGERS. Yes.

Mr. GESELL. What were the factors which led to your discontinuing loans in California?

Mr. ROGERS. California is a long way from New York, for one thing.

Mr. GESELL. That is quite a statement, Mr. Rogers. That is the first time that I can recall that anyone from the Metropolitan has discussed this question of size. Now, I would like to elaborate on that.

Mr. ROGERS. Well, that area—Senator King is very familiar with it—is an area of highly specialized agriculture. In order for an insurance company—that is, at least, in order for a company like ours—to lend money at present-day rates of interest, we must be able to obtain a volume of loans of considerable size within a relatively small area.

Mr. GESELL. You mean you have to keep your loans well knit so you can keep track of them.

Mr. ROGERS. Yes; to service them properly. To build a branch office to service loans and to make loans, I believe that $5,000,000 would be the minimum, and $10,000,000 would be much more nearly the correct minimum. Now, to lend $10,000,000 on the agricultural land in California and maintain an active branch office—and, as I say, that is far away from headquarters, and with the competition that prevails, you must remember that the Federal land bank is the controlling institution in the farm mortgage field in America, and you also have other insurance companies in California—it would be difficult in that limited area to secure a large enough volume of loans to make it worth while.

Mr. GESELL. What factors have come up to make that situation different than it was before? You see, what I am trying to get at is what the economic or social or any other kind of reasons are that prompt your leaving that territory.

Mr. ROGERS. It is insufficient volume. We started in that field, I think, in 1924.

Mr. GESELL. It was as far away from the home office then as it is now.

Mr. ROGERS. Yes; but you learn by experience.

Mr. GESELL. That is another point I want to check up.

Mr. HENDERSON. What was the experience you had with California lands?

Mr. ROGERS. After several years we found we only had $4,000,000 of loans in force, and to maintain an organization to service $4,000,000 of loans, and then with the depression which brought values down—remember, land values in the United States have shrunk from $66,000,000,000 to $34,000,000,000, which narrowed your credit basis. It meant that loans were smaller per acre than they had been, and as a result, it seemed impractical to try longer to support an organization in California. We acquired very few farms. I think now, for instance, we own 12 farms in California, maybe 13 or 14. I believe we own 9 in Utah, and we have 3 or 4 up near Spokane, and we are trying to service that with one organization.

Mr. GESELL. You are reading this map a little ahead of me, Mr. Rogers. Let's talk about some of these areas a moment. You have withdrawn from Oregon, the same way you have from California, have you not?

Mr. ROGERS. Not exactly. We withdrew from the Willamette Valley in Oregon. We did not withdraw from the Palouse Country, as I call it.

Mr. GESELL. That is the upper eastern central part?

Mr. ROGERS. Yes.

Mr. GESELL. But you did withdraw from the west central part of the State.

Mr. ROGERS. Yes.

Mr. GESELL. Why was that?

Mr. ROGERS. Lack of volume. I think we had six little farms out there. We never had over two hundred fifty to three hundred thousand dollars of loans.

Mr. GESELL. And it was again the experience of recent years that has made you feel that that type of volume of loan cannot be so easily handled from the home office?

Mr. ROGERS. No; it would be handled from Spokane but at that, it is 250 or 300 miles from Spokane.

Mr. GESELL. You loaned in a considerable portion of Utah at one time, did you not?

Mr. ROGERS. Not a considerable portion. Utah is a State of some irrigated land and a tremendous lot of ranch land.

Mr. GESELL. But you did loan in Utah?

Mr. ROGERS. We loaned in Utah, and I do not believe we ever had more than $300,000 loaned in Utah. It is not an easy State to get loans in.

Mr. GESELL. Are you loaning in Utah now?

Mr. ROGERS. No; we are not.

Mr. GESELL. Why not?

Mr. ROGERS. Because of volume again.

Mr. GESELL. Inability to place your money in a volume which leads to efficient management, is that a good summary of it?

Mr. ROGERS. That is true. The loans are small, and usually money is quite available through local sources in Utah, in that area that is desirable farm land. It is a beautifully farmed area, most of it—Senator King knows that—the northern part is beautifully farmed.

Mr. GESELL. Now, let's take some of the southeastern States, such as North and South Carolina, Alabama, and Georgia. You are loaning less in those States, are you not?

Mr. ROGERS. Yes.

Mr. GESELL. What is the reason there?

Mr. ROGERS. There are two main reasons. South Carolina and Georgia and south Alabama coastal plains areas are areas of rather low land values. The loans there average small in size. The Farm Credit Administration will make loans in that area at, I believe, 4 percent interest. To make a group of loans that would average two thousand to three thousand dollars in size and obtain a rate of interest that would enable you to service those loans and have a fair margin of return left is very difficult. The minute you go into an area with a higher rate than somebody else makes, you are going to take the second type of loans. The one with the low rate is going to get the better type. We can go into Illinois where loans average $10,000 in size and we can compete with the Federal land banks today, but to go into North Carolina, for instance, with any volume and make an average loan of $2,500—you can't service a $2,500 loan for less than $25 a year, and then you have to have a very high-type class of loan.

The CHAIRMAN. In other words, the small loan doesn't lend itself to efficient management?

Mr. ROGERS. No; not when they are universally small. If you had a small loan in Illinois—of which we have a great many, but they are in with a large number which gives you an average size—then you can service them.

The CHAIRMAN. What is the size of loan that appeals to your experience as being the most profitable and most easily handled from the point of view of the lender?

Mr. ROGERS. I would say six thousand to eight thousand dollars average. That would be the average in the portfolio—six thousand to eight thousand dollars.

The CHAIRMAN. Would it be correct to say that you are not particularly anxious to get the other loans unless they are in an area where they can be serviced easily?

Mr. ROGERS. That is true. If it is a $20,000 farm and a man wants a $2,000 loan, you don't hesitate to make it by any means in an area where you probably have $10,000 loans on similar farms, and that does occur.

Mr. GESELL. Now, Mr. Rogers, may I ask you this side of it: Are there areas in the United States where you think the areas are of recognized worth from the point of view of the company where it might loan in which you have not loaned?

Mr. ROGERS. Indeed, I do.

Mr. GESELL. Now, in a general way—I don't want you to give away any trade secrets—but, in general, what States do those loans rest in?

Mr. ROGERS. One of the finest agricultural areas of America is in the Lancaster, Pa., community.

Mr. GESELL. Have you loaned there?

Mr. ROGERS. No.

Mr. GESELL. Why not?

Mr. ROGERS. The fellows there lend to each other. You haven't a chance and if an outsider goes in he takes what is left.

Senator KING. They have a great many rather wealthy agriculturists there.

Mr. ROGERS. Yes; they do.

Senator KING. Especially among the Pennsylvania Dutch, so-called.

Mr. ROGERS. That is right.

Senator KING. They are great farmers and thrifty and energetic and saving, and they can loan to themselves if they need to.

Mr. ROGERS. And they take the attitude of helpfulness. Their local organizations will help each other. I investigated the area and I decided definitely there was no place for us.

Mr. GESELL. I take it you aren't complaining about it.

Mr. ROGERS. No; not in the least.

Mr. GESELL. What about some other areas where the local folk aren't quite so cooperative? What about Texas? I notice you don't loan in Texas and I have always thought Texas had some pretty good farms.

Mr. ROGERS. Texas has some very excellent land. Texas is a little bit peculiar unto itself in this respect—that there is the black lands of Texas, some of the most fertile land in Texas; then they have a large area which also is an excellent area. It is a deeded-land area where the loan probably would run low per acre, but nevertheless the sheep-and-cattle industry is a very sound industry on those cheaper lands.

Mr. GESELL. Table 167 indicates that you haven't had loans in that State.[1] What is the reason?

Mr. ROGERS. We have been trying for 2 years to find a satisfactory basis to go into the State, but, as I say, unless you have a $5,000,000 volume of loaned money, how long is it going to take you to build a $5,000,000 volume? That is the question with us, as far as Texas is concerned.

Mr. GESELL. In other words, then, as a fellow gets to be a bigger and bigger farmer he has got to find areas in which he can put larger lumps of money to make it successful from his point of view?

Mr. ROGERS. Yes; it is really a unit of operation. You have a manager, regardless of what the territory is, you have the manager's salary and office, and the clerical staff and the appraisal staff. When you are meeting the Federal land bank today with a 3½-percent rate, and you are going in to take only the first-class type of loan, you can allow about a quarter to a half of 1 percent for servicing and for obtaining the loans. You couldn't help but go in with a substantial loss, and it might continue for quite some period.

The other possibility is through a correspondent arrangement, but the correspondent also looks at the same thing. He has to have a volume to support him.

Mr. GESELL. Now, there are a lot of other States here shown on 167 in which we have loans.[2] I notice my home State, for example; we have some pretty good farms up in northern Connecticut. Is it again a question of volume there?

Mr. ROGERS. It is again a question of volume.

Mr. GESELL. Is that true in practically all the New England States, where you have not loaned, like New Hampshire, Maine, and Connecticut, and Vermont?

Mr. ROGERS. I think I can answer that by a little illustration. The story is often told of a Kansas farmer who went into the New England States for a visit and was at a railroad station in Vermont when a Vermont farmer came up with a load of milk. They struck up a conversation. The Kansas farmer said, "Why don't you sell your farm and come out to Kansas, where the furrows are a mile long and it is easy to run a tractor, and so on, as against farming in the stony land you have up here?"

The Vermont farmer answered and said, "Well, that may be all right, but you fellows out in Kansas don't pay the interest upon my mortgages very promptly."

The facts are that mortgages made in the Midwest area and in the Southwest particularly were for years sold to individuals and

---

[1] See Hearings, Part 10–A, p. 167.
[2] Ibid.

to savings banks in the New England States. It was a sort of surplus fund. Therefore, for an insurance company to attempt to go into an area like that would be futile. Your expense would be far in excess of anything that you would get.

Mr. HENDERSON. Mr. Rogers, are there any States that have insurance laws which require a certain proportion of the income from policy loans to be invested in farm lands?

Mr. ROGERS. You are referring, I think, to the Robinson law of Texas, but I don't think that the way you have stated it is quite the way the law provides, but I don't believe I could do any better, Mr. Henderson. But there is some restriction in Texas, and that has been modified from time to time. There was a time when some of the companies questioned going into the State, but I am not familiar with that detail.

Mr. HENDERSON. Are there any other States that have that as far as farm mortgage investments go?

Mr. ROGERS. Not that I know of.

Mr. HENDERSON. It is more typical of types of investments other than farm mortgages.

Mr. ROGERS. I would have to limit myself to farm mortgages because I do not know.

Mr. HAYES. Mr. Rogers, I notice you have fairly substantial holdings in the State of Washington. Table 170 shows $1,593,000.[1] Will you give the reasons for the investments there in such large amounts as against your pulling out of Oregon and the California neighborhood?

Mr. ROGERS. Mr. Gesell has a map there that will show you where that very fertile, rich country is located. It is Walla Walla, Pendleton, and so on. That area is a very high-priced land area. It is very productive. It is very odd in its contour. It is a very high rolling country, but it produces wheat at 40 bushels per acre in wonderful shape. That area is very unusual in itself. Land values are high. Farms run rather large, and it has been an excellent country. It has suffered a little from the matter of restriction of the export of wheat, as it used to ship its wheat west, and when it struck the proposition of having to send wheat east with a high freight rate and long railroad haul, that country had some difficulty.

For illustration, we sold a single farm there very recently, for $94,500, with $50,000 cash. It is a wealthy country normally.

Mr. HAYES. One further bit of curiosity. I was wondering why you have only one mortgage in New York State?

Mr. ROGERS. Well, that is quite a joke with us in New York. That mortgage stands on the books of the company at $800. [Laughter.]

Mr. HENDERSON. Why don't you loan in New York?

Mr. ROGERS. The same reason as New England. There is very little outlet. An old country. With one third of the population in the Northeast, with surplus funds for lending, makes it difficult to make loans under such conditions.

Until, I think, the depression of 1932, there were relatively very few loans.

The CHAIRMAN. In other words, you are telling us, Mr. Rogers, that in New England and in New York, and that general area, the people

---

[1] See Hearings, Part 10–A, p. 170.

themselves have sufficient money to sustain whatever loaning program is necessary?

Mr. ROGERS. That is right.

The CHAIRMAN. And institutional loans are not required there?

Mr. ROGERS. No; they are not required.

The CHAIRMAN. We would probably find that the Farm Credit Administration doesn't operate there as it does in other parts of the country. Is that true?

Mr. ROGERS. I think you would find that the Federal Land Bank of Springfield is among the smaller banks. Probably it has grown some since the depression, but if you were to go back prior to that time I think you would find that the Farm Credit Administration is not very active in that territory, and they came down quite a way, I think.

Senator KING. Domestic capital was available? Local companies?

Mr. ROGERS. Yes; an area of surplus funds. Savings banks—you will find a great many farms owned by savings banks in Vermont and New Hampshire, and I think probably in Maine.

The CHAIRMAN. You say you will find a great many farms owned by those banks?

Mr. ROGERS. Middle-western farms, because they were sold mortgages by middle-western companies. They had to have an outlet for their funds.

The CHAIRMAN. And if we had a study made of the savings banks' investment in farms, is it your opinion that we would find substantially the same condition that has been revealed here, with respect to the increasing ownership of farms by the lender?

Mr. ROGERS. I think you would find the ownership of more farms in New England savings banks at this time than has been the case prior to the depression, but to what extent, Senator, I would be unable to say.

Mr. GESELL. Are there some areas in the country which need farm mortgages in which you do not lend? I mean States where the farming community would like to have funds but you don't feel you should go in, for quite proper reasons I can see, with respect to securities and your adequacy in handling the problem?

Mr. ROGERS. I would say the F. C. A. reaches into every nook and corner of the country, and when the Federal land banks make money available at 4 percent and 3½ percent interest on $1,000 and $2,000 loans, that reasonable credit is being carried to every agricultural portion of this Nation.

Mr. GESELL. There is no community that you feel is in need of your funds?

Mr. ROGERS. In need of ours?

Mr. GESELL. Yes.

Mr. ROGERS. Not necessarily; no. There are communities in which we desire to have our funds, however.

Mr. GESELL. Yes; but I mean communities where you are not lending where you feel there is need for your funds?

Mr. ROGERS. No; I should say that is right.

Senator KING. Perhaps it is not relevant, but have you ascertained the amount of loans made upon real estate, urban and suburban property, including farms, in the United States?

Mr. ROGERS. No; I do not know, Senator. I could give you the estimate made of the farm-mortgage debt for the United States, which is $7,000,000,000.

Senator KING. Would the study which you made enable you to form any opinion as to the value of the property which is mortgaged to the extent of 7 billion plus?

Mr. ROGERS. No; I would not know that. I would say that the estimate of the value of farms today is slightly over $34,000,000,000. Therefore, the total mortgage debt is about 20 percent of the estimated value of farm real estate.

Senator KING. Have you any figures showing the number of farms that are free from obligations?

Mr. ROGERS. It is reported that approximately 62 percent of all farms of the United States are free of mortgages.

Mr. GESELL. Are you able to loan as much money on farms as you want to loan?

Mr. ROGERS. No; not now.

Mr. GESELL. Do you have some kind of budget or kitty at the beginning of the year of how much money you want to get out on the farms?

Mr. ROGERS. No; we haven't.

Mr. GESELL. The board of directors doesn't set aside any portion of funds and say, "Here is the money you should get out on the farms if you are able to do it with satisfactory security"?

Mr. ROGERS. No; they usually say, "With our cash position, can you get out more?

Mr. GESELL. Have you any idea of what proportion of that cash position would be allocated to your particular department to get out?

Mr. ROGERS. No.

Mr. GESELL. If it were to be brought down to the amount that the management feels it should be in the interest of safety?

Mr. ROGERS. No; you see my department is unique. You mentioned our being the largest landholder, and our landholdings are [illegible] 1.7 percent of the company's assets.

Mr. GESELL. Yes, I realize that; and the whole farm investment is only around 5 percent, isn't it?

Mr. ROGERS. I think less than 3½ percent.

Mr. GESELL. So you would like to get out more money in your farms than you are able to get?

Mr. ROGERS. Yes; we would.

The CHAIRMAN. You spoke a minute ago of the extent of the Farm Credit Administration activities reaching every nook and cranny of the country, as I think you said.

Mr. ROGERS. Yes.

The CHAIRMAN. At the same time, we have the picture of life insurance companies operating in some areas and not in others and of withdrawal from some areas. If the Farm Credit Administration were not operating, what would the source of credit be for farmers in the areas from which you have withdrawn?

Mr. ROGERS. Well, that, of course, is very difficult, because the Farm Credit Administration has existed for over 20 years—that is, the Federal land banks. Prior to the existence of the Federal land banks, individuals and insurance companies were the two types of institutions, along with commercial banks, and savings banks, that held the large part of the mortgage debt. You will notice today, after the depression, after a really complete upset of the whole economic structure of farming, that individuals and commercial banks hold 50 percent of the mortgages today. They are larger lenders than the Federal land bank itself.

The CHAIRMAN. Did the appearance of the Federal credit system have anything to do with the withdrawal of life insurance companies from the farm-mortgage field in any areas from which there was withdrawal?

Mr. ROGERS. I would say that in recent years, with a very low rate after the subsidized rate, that might have an effect. Prior to that time, there was not much difference between the rates.

The CHAIRMAN. The subsidized rate, of course, was a result of the depression.

Mr. ROGERS. Yes.

The CHAIRMAN. And was the desire on the part of the Congress to help keep the people on the land, I suppose. Well then, would you say that the rise of the Farm Credit Administration activity and the change in the aspect of your farm portfolio was the result of the farm problem, the farm condition?

Mr. ROGERS. I would say, to some degree as a result of farm problems, but, you see, our peculiar position is that we started lending on farms just about the time the Farm Credit Administration started.

The CHAIRMAN. I see. Well, now, you spoke of a minimum of $5,000,000 in the State of Texas as being a necessary minimum, you couldn't operate at a profit with a smaller account than that. I understood that was your explanation for not operating in Texas. Now, is that the minimum for all areas, or would you change your minimum according to the area?

Mr. ROGERS. No; that would be the minimum that I would say in which we could maintain an organization to satisfactorily solicit and service farm loans.

The CHAIRMAN. In how many places in the country do you have such organizations?

Mr. ROGERS. You mean organizations of our own branch offices?

The CHAIRMAN. That is right.

Mr. ROGERS. Our Fort Dodge office has about twelve to fourteen million dollars of Iowa loans it services. Our Cedar Rapids office has about four or five million. We are building that from scratch. Our Illinois branch office has eight million. Our Minnesota branch office has upward of three to four million, with a group of farms to service of some five million. Of course, that makes your volume come up as well. Indiana, I can't say offhand. I think we have now reached close to five million. For instance, in Nashville, Tenn., we extended the territory of the branch office to take in a larger volume. We go into Kentucky from Nashville, Tenn. We go into Alabama and through that method we enlarge the scope of an organization. That is the basis.

The CHAIRMAN. How many organizations of this kind do you have?

Mr. ROGERS. I think it is 10.

The CHAIRMAN. You have 10 in the United States?

Mr. Rogers. Yes.

The Chairman. Would it not be possible for you to operate through correspondents in areas in which you do not have a branch office and probably operate with a smaller volume?

Mr. Rogers. If a satisfactory correspondent could be found. You see, the correspondent system largely failed because of the cost of servicing. When the depression came in 1930 or 1931 and from there on, it failed and it dropped to very low in 1932. They had guaranteed to service the loans they had sold during the life of those loans.

Mr. Gesell. Those must have been terrific guarantees as compared to what their financial standing was.

Mr. Rogers. Well, yes; they attempted to service and a great many of them stopped the business because they couldn't go on. Every one, and especially those particular types of brokers, felt that conditions were only temporary, that they would return and that it would return to a profitable basis, but of course the foreclosure record simply dispelled that.

The Chairman. Do you wish to leave the inference that you found it desirable to abandon the correspondent system and to adopt the branch-office organization, the branch-office system?

Mr. Rogers. Not necessarily. When you take your management—I found it necessary to take the management into our own organization—when you have purchase money mortgages and contracts you really get right into the investment field, and if you have a correspondent in that same section, you have two organizations in there doing the same job.

The Chairman. Does the farm-management phase of the business operate out of the branch office as well as the lending phase?

Mr. Rogers. Yes; they operate out of it. The branch office would have the two separate managers.

The Chairman. Yes; I would imagine that.

Mr. Rogers. I think there are some charts here that might help you a little bit on that situation.

Senator King. For my own information, while the charts are being examined, perhaps the question I am about to ask was considered by Mr. Wall yesterday—from 1936, as I read this table, the Federal land bank had mortgages nearly as great as the insurance companies and the commercial banks.

Mr. Rogers. What year was that, Senator?

Senator King. 1936. I was wondering, it you assume that table is correct—and I assume it is—if that proportion would still exist; that is to say that the Federal land banks loaned practically 50 percent of all of the loans made to farmers.

Mr. Rogers. Senator, you see that brings us into the Emergency Farm Mortgage Act. Now, we go back prior to the Emergency Farm Mortgage Act, and we had this situation: The Federal land banks had, I think, $1,100,000,000. They had approximately 12 percent of the mortgage debt. The insurance companies had approximately 23 percent of the mortgage debt. At the passing of the Emergency Farm Mortgage Act, the Federal land banks made 10 percent of the mortgages of the United States—that is, refinanced 10 percent of the entire (or close to that figure) farm-mortgage debt in 1 year. You see, $730,000,000—I think they followed the next year with $248,000,000—and it is that emergency financing which gave the Federal land bank a large percentage.

The CHAIRMAN. This chart which you had distributed to members of the committee is a very interesting one, and I think it would be illuminating if you would discuss it briefly.[1] I observe that from 1918 to 1926, inclusive, when farm values were above 120 percent upon a 1912 or 1914 basis, 80 percent of 10,000 farm loans which were afterward foreclosed by Metropolitan were made.

Mr. ROGERS. Yes.

The CHAIRMAN. And that these foreclosures of farms, at least of 8,000 of them, took place during the years 1931 to 1936, inclusive, when farm values had dropped well below 90 percent, on the same basis.

Mr. ROGERS. Yes, Senator; if you will observe[2] the gradual decrease in land values, you will observe that the farm prices, that is, the prices farmers paid and received, were well above the 1910–14 base level, that we didn't have many foreclosures. When you hit that 1929 crash, which was really a double crash as far as farmers were concerned—they had a set-back in '20 and '21 and '22, and our foreclosures were not great, but when we come to this second place where the prices that farmers received went way below the 1910–14 level, then we had tremendous foreclosures.

The CHAIRMAN. Now, it is very noticeable from this chart that the prices which the farmers received began to drop in 1929. There was a precipitous fall to a low level in 1933, and from there on the prices which the farmers received rose rather rapidly until in the latter part of 1934, the base line 100 percent, was exceeded, and the farmers continued to receive more than the 1912–14 average until late in 1937.

Mr. ROGERS. Yes.

The CHAIRMAN. But while the prices were going up for the farmers, during the years 1933 to 1936, during those same years, the foreclosures were continuing?

Mr. ROGERS. Yes. Now, that is the thing that Dr. Murray spoke about a little yesterday. I have a chart that will show you why that was.

The CHAIRMAN. Before you offer that other chart, I wonder if you wouldn't describe this a little bit more so we will have the story on one chart.

Mr. ROGERS. Senator, that trouble, or that rise in prices, was due to the fact that a severe drought struck the Middle West area, some of the finest lands in the country, in 1934, '35, and '36, and as a result corn went to $1 a bushel, and the areas which were fortunate enough to have crops were receiving excellent income.

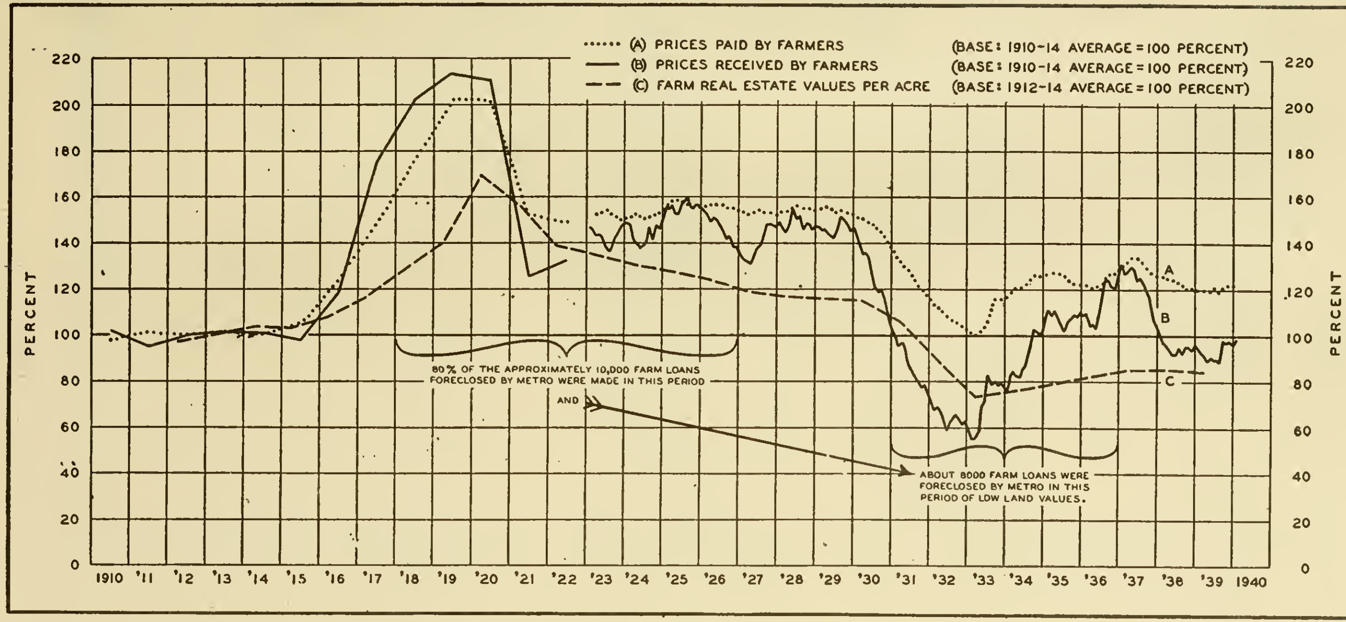
The CHAIRMAN. Of course, if Secretary Wallace had a representative on this committee, he would want to have something to say to that. Perhaps the Department of Agriculture had some credit for the increase in prices.

---

[1] See "Exhibit No. 2292," infra, p. 14965.
[2] Ibid.

EXHIBIT NO. 2292

[Prepared by The Metropolitan Life Insurance Company]



Mr. ROGERS. Yes; they probably did.

Senator KING. They controlled the weather, probably.

Mr. HENDERSON. It is a fact that, independent of the reasons, there have been those periods in which the two lines, the prices paid by the farmers, and the prices received by the farmers, were tending to come together, and where you were getting an equilibrium.

Mr. ROGERS. The chart seems very definitely to show that.

Mr. HENDERSON. I am glad you brought it up, because I have a personal interest in this. I was attacked as a theorist for suggesting it some years ago.

The CHAIRMAN. I thought you were going to suggest you had a farm somewhere.

Mr. HENDERSON. Mr. Chairman, I have two farms somewhere.

Senator KING. You are a capitalist; you don't belong here.

Mr. ROGERS. I would like to have you take these maps——

Mr. HENDERSON (interposing). Mr. Chairman, the Senator can have either one of those farms at a considerable discount.

Mr. GESELL. May I suggest in the interest of orderly procedure that we introduce this first chart before we go to the second.

The CHAIRMAN. Mr. Gesell, you have taken the words out of my mouth.

May I ask with respect to the first chart, what is the source of the figures from which the computation was made upon which the lines were drawn?[1]

Mr. ROGERS. They are Department of Agriculture figures, excepting our own statement. I thought this area would show very clearly that this farm-mortgage trouble arose in this area here.

The CHAIRMAN. Yes; but with respect to the figures themselves, the base 1910–14 average for prices paid by the farmers, that line is calculated upon Department of Agriculture figures?

Mr. ROGERS. Yes.

Mr. GESELL. It is really the same chart we put in yesterday, Senator.[2]

The CHAIRMAN. I didn't see it. It wasn't put in yesterday when I was here.

Mr. ROGERS. It is about the same, only that the prices or gross income received by the farmers was on this figure instead of this ratio relationship between prices received and prices paid.

The CHAIRMAN. Yes.

Mr. ROGERS. I have lined the prices received and prices paid as a comparison, and the one thing further before we leave this chart which would accentuate this picture—you see, where the land-value line drops across the 1910 line, the Metropolitan foreclosed approximately 10,000 farms. I think the real-estate number is 9,934 today, and we have some 100 loans in foreclosure.

But 9,825 were made prior to 1929—175 were made in 1930 and 1931, and then we own the one farm that was the result of a mortgage made since 1932 out of some $25,000,000 loaned.

Our experience so bears out the economic effects of agriculture, that to have the portfolio of an institution simply follow your economic chart I thought would be an interesting thing to bring out.

---

[1] See "Exhibit No. 2292," supra, p. 14965.
[2] See "Exhibit No. 2271," supra, p. 14862.

EXHIBIT No. 2293

[Prepared by The Metropolitan Life Insurance Company]

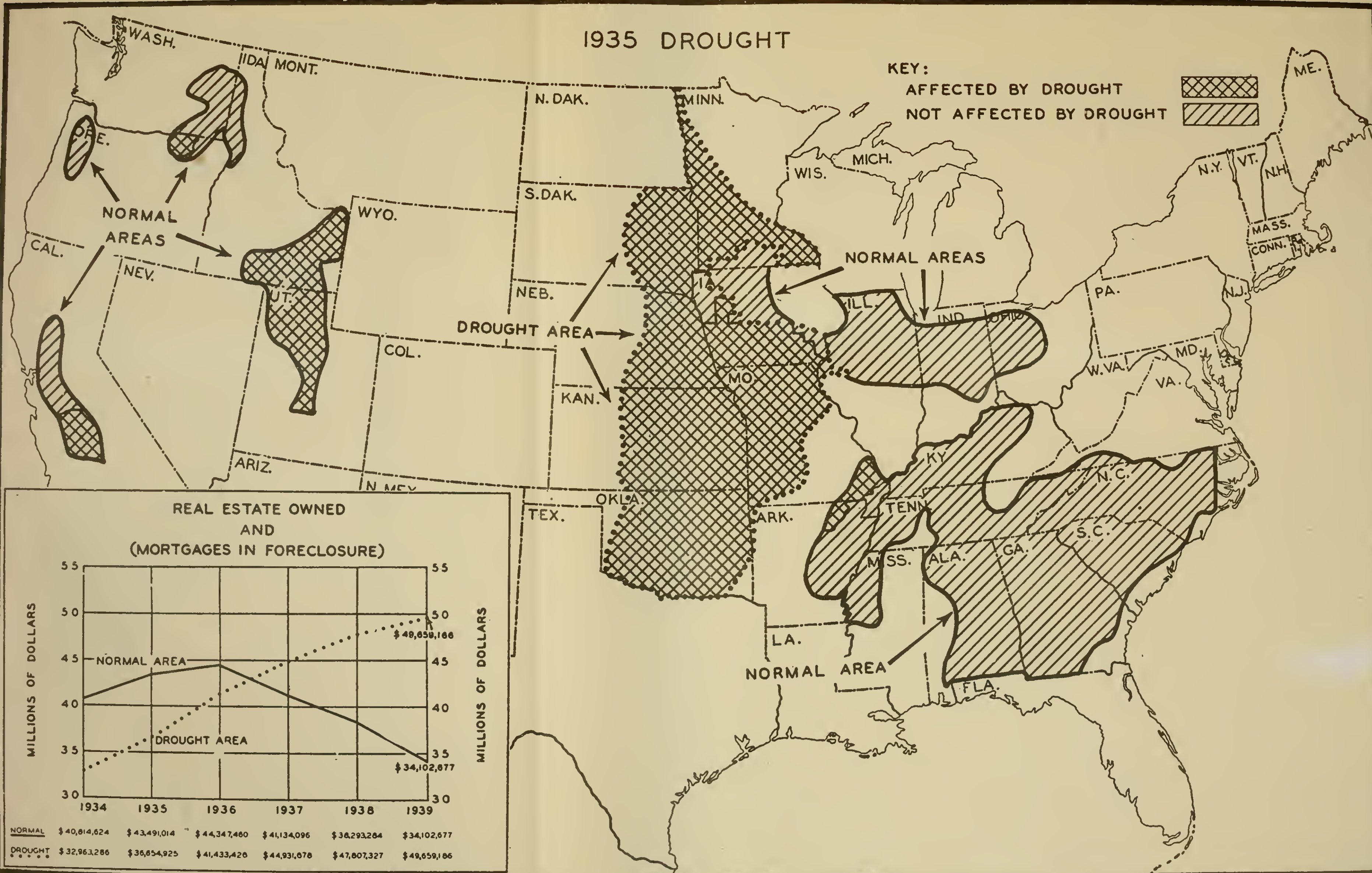


EXHIBIT No. 2293–A

[Prepared by The Metropolitan Life Insurance Company]

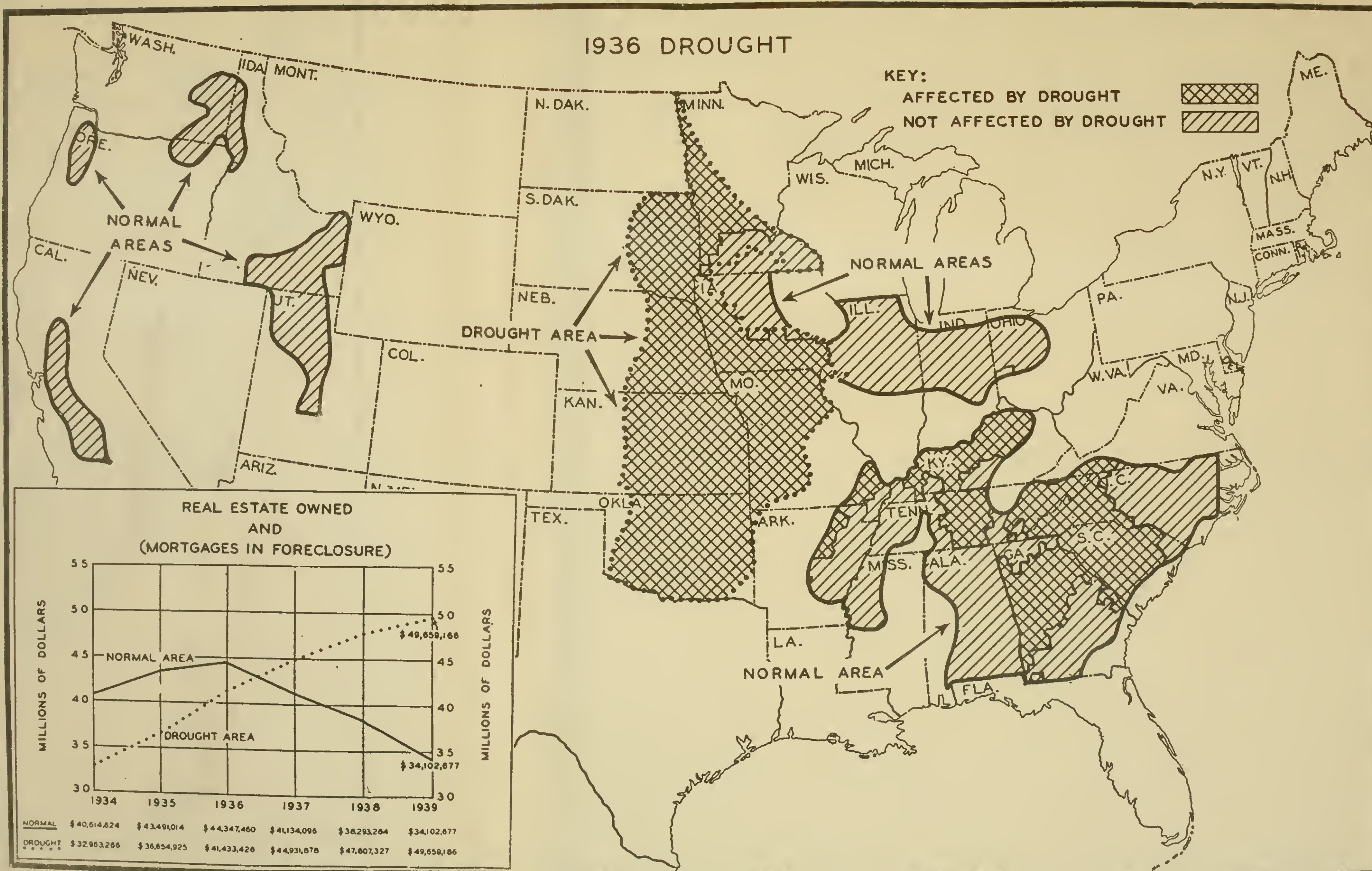
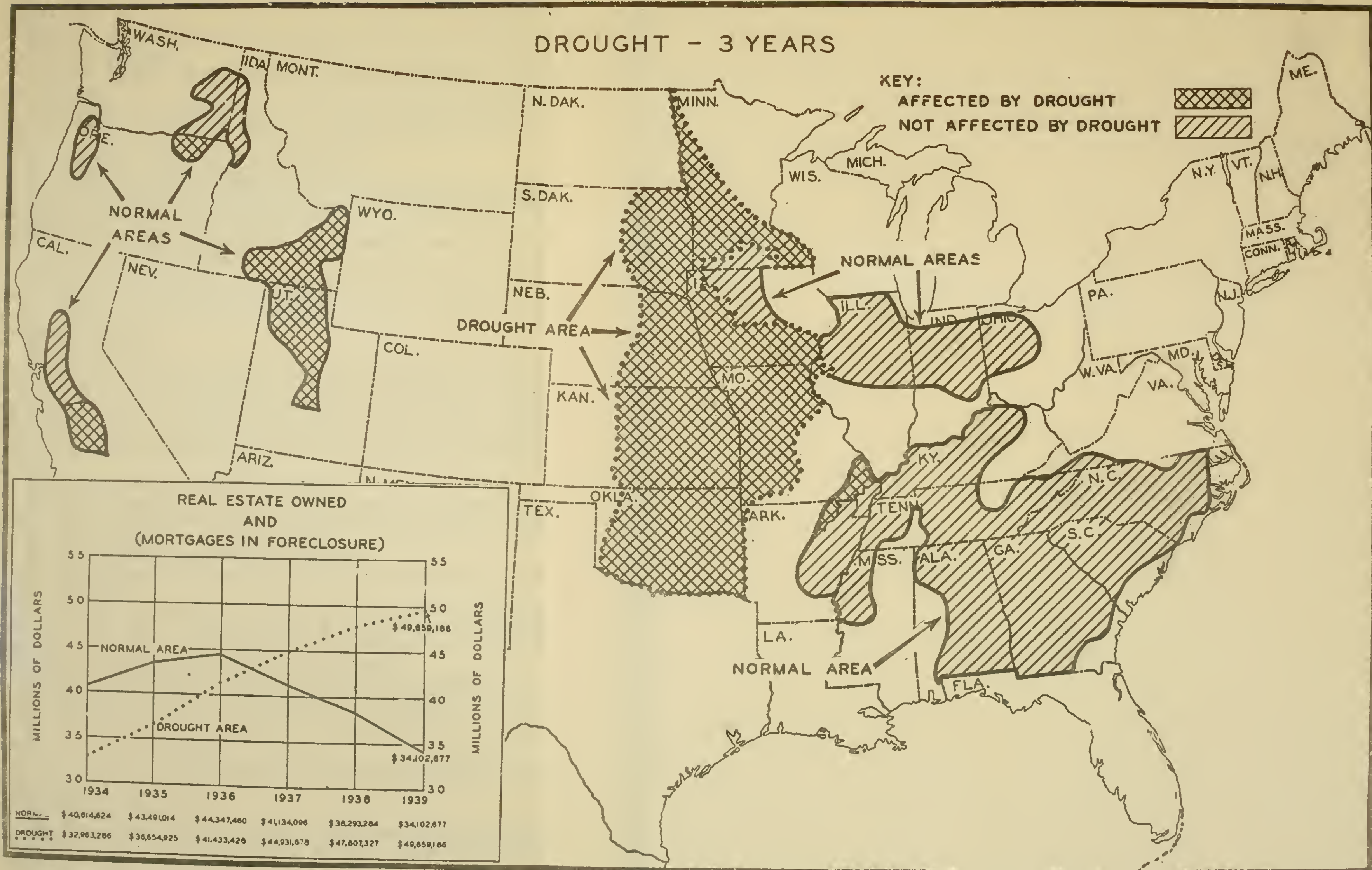


EXHIBIT No. 2293-B

[Prepared by The Metropolitan Life Insurance Company]



The CHAIRMAN. It is very interesting. Let's give this exhibit a number.

"Exhibit No. 2292," prepared by the Metropolitan Life Insurance Co., may be admitted.

(The chart referred to was marked "Exhibit No. 2292" and appears on p. 14965.)

Mr. GESELL. Can we submit at this time also, Senator, the map of the United States which has just been offered with the legends on it?

The CHAIRMAN. By whom was this prepared?

Mr. GESELL. Mr. Rogers prepared these.

Mr. ROGERS. Here are two more, the rise of commodity prices and paralleling it is one of the things that makes the Metropolitan the largest farmer in the United States.

The CHAIRMAN. This chart may also be admitted as an exhibit, also prepared by the Metropolitan.

(The maps referred to were marked "Exhibits Nos. 2293, 2293-A, and 2293-B and appear facing p. 14967.)

Mr. HENDERSON. You followed my line of questioning Mr. Murray yesterday, I guess?

Mr. ROGERS. Yes.

Mr. HENDERSON. And I asked him rather facetiously who was going to bail out the Government so far as its mortgages were concerned. It isn't such a facetious question when you get down to it. I asked him later, you probably remember, if the only way in which the farm mortgage debt could be paid is the same way any credit extension can be paid, that is, over a period of time, out of the net income.

Mr. ROGERS. Yes, you are exactly right.

Mr. HENDERSON. That is, your farm debt assumes its proportions, either large or small, in relation to the ability of the farmer to make a living and to have something in excess?

Mr. ROGERS. That is correct, Mr. Henderson.

Mr. HENDERSON. So you are inextricably tied up with the welfare of the farmers?

Mr. ROGERS. Yes, your farms must pay for themselves, there is no other way out of it. The farms must bail themselves out. If farms are carried by some individual at a price in excess of what they are justified, he is doing nothing but fooling himself.

The CHAIRMAN. Now, of course, it probably should be pointed out with respect to this latest chart that you have presented, the map of the United States, that this reflects only your experience.[1]

Mr. ROGERS. Yes, it reflects only our experience, but I think, Senator——

The CHAIRMAN (interposing). For example, the drought area as set forth on this map is only that portion of the drought area in which you are operating?

Mr. ROGERS. Yes.

The CHAIRMAN. It does not include those States nor does it undertake to reflect the condition in those States in which you did not operate?

[1] "Exhibit No. 2293-B," infra, facing p. 14967.

Mr. Rogers. No. Again I was endeavoring to show the effects of the 3 drought years following the 2 bad economic years which meant 5 years of failure precipitated on a very fine agricultural area, the results that would be experienced.

The Chairman. This chart very eloquently points out that in those areas in which the drought was not effective, didn't exist, the rate of flow of foreclosures dropped sharply.

Mr. Rogers. Yes.

The Chairman. And that it was only in the drought areas that you were having your greatest difficulty and were compelled to foreclose.

Mr. Rogers. Yes.

The Chairman. In other words, during this period from 1934 to 1939, in those areas where normally they existed, the farmer was in a much better position and he was tending to prosper rather than the reverse.

Mr. Rogers. Yes, and effects you see now after 2 years of good crops—that drought area hasn't fully recovered itself. Our peak of ownership in that area was in December '39.

Another interesting observation: We sold $2,400,000 of land in that yellow area, within the red lines, this year. In the 5 years, 1931–36, inclusive, we sold $1,600,000 in the full 5 years.

The Chairman. Then you did not withdraw from the drought area.

Mr. Rogers. No, that is a splendid farm area. Instead, we were inclined to go to the assistance of those people in such ways as we could.

Now, that brings us straight on to our farm rehabilitation program or farm management.

Mr. Gesell. May I suggest we go along back on this line of examination a little? I have down here "farm rehabilitation program" on page 4 of my outline and I am on page 2, and there is quite a bit I think we ought to go into before we go much further with that.

Unless the committee wishes, Mr. Rogers can go over the general discussion, and we can come back to it specifically later on.

The Chairman. We don't desire to interrupt the orderly progress of your examination.

Mr. Hayes. May I have one question on this chart before you proceed?

Mr. Rogers, I would like to have your opinion on one fact that the first chart brings out rather sharply.[1] You will note that the prices received by farmers took, as the chairman said, a precipitous drop from late 1929 to 1933. The drop was some 90 points as indicated on your chart. The prices paid by farmers took also a large drop, but not quite so large.

Mr. Rogers. Yes.

Mr. Hayes. Whereas the value of land per acre had the least drop of all. Then, when prices dropped, though both prices received and prices paid revived rather substantially, the value per acre revived very, very slightly.

Mr. Rogers. Yes.

Mr. Hayes. Do you have any particular opinion as to the reason for that?

---

[1] See "Exhibit No. 2292," supra, p. 14965.

Mr. ROGERS. I have a chart that will demonstrate that for you if you would like to have it and there it is.[1] I anticipated that question. I think these are simply roughly prepared for the purpose of illustration only.

To answer your question, you will notice the red line is that drought area. It was always the higher-priced land per acre, and it was higher in 1910 than the other area, and of course it was much higher in 1920, but for the first time in a period of 30 years the two lines have crossed.

And then take your map. Foreclosures continued in that area, do you see? They were in economic distress for 5 years, although the price of corn went to $1 a bushel, the Illinois farmer was bailing himself out and the Nebraska farmer was probably paying $1 a bushel to support a small herd of cattle to continue him through.

The CHAIRMAN. This again reflects the drought?

Mr. ROGERS. Yes. I think that it is very interesting that that fine land, which had been for so many years the highest-priced land area—that the two lines have crossed.

The CHAIRMAN. Yes; that is a very significant thing, it seems to me.

Mr. ROGERS. It was an unusual combination of circumstances. Two years of those very low prices, and then followed by 3 years of drought, you see, meant 5 poor years in a fine agricultural area.

The CHAIRMAN. If you have no objection we will enter this in the record.

(The chart referred to was marked "Exhibit No. 2294" and appears on p. 14970.)

Mr. GESELL. Mr. Rogers, coming back to the farm mortgages in your portfolio, are your interest rates on those mortgages different by States or localities?

Mr. ROGERS. To some degree.

Mr. GESELL. Give us some idea of the difference, will you?

Mr. ROGERS. The Midwest area has always been the lower-rate area.

Mr. GESELL. What do you loan at there now?

Mr. ROGERS. We are lending at 4 percent interest, and we are paying on a 10-year loan. The broker who turns the loan to us gets 1 percent of the face of that loan. That is getting down pretty low.

Mr. GESELL. What do you mean—pretty low from your point of view?

Mr. ROGERS. Yes; from our point of view.

Mr. GESELL. What do you loan for in the South, for example?

Mr. ROGERS. We lend at from 4 to 5 percent. The areas vary a trifle.

Mr. GESELL. And what region do you loan at the highest interest rate?

Mr. ROGERS. In the Memphis territory.

Mr. GESELL. What is the rate there?

Mr. ROGERS. Five percent.

Mr. GESELL. May I ask you whether your rates of interest differ depending on the size of the mortgage?

Mr. ROGERS. No.

Mr. GESELL. That is the same all the way?

---

[1] See "Exhibit No. 2294," infra, p. 14970.

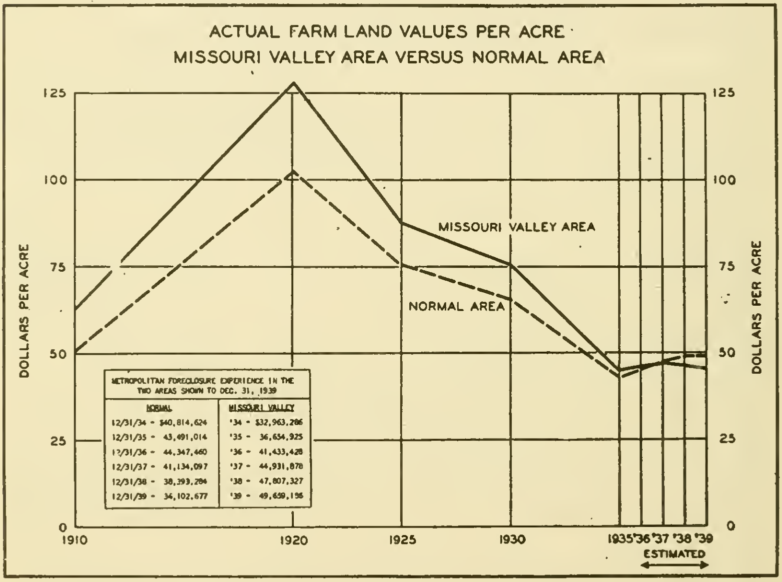
Mr. Rogers. Yes. I always say when you begin to classify your mortgages you are admitting a second-class mortgage, if you are going to take one at a higher rate. I think we, with our policyholders of small means, should confine ourselves to the very best.

Representative Williams. Right in that connection, what is your minimum? Have you a minimum below which you will not go, in amount I mean?

Mr. Rogers. No; we do this; we say when a loan goes below $2,000 that because of the cost of the servicing a man should pay one-half of 1 percent more per annum, but we do not stick rigidly to that rule, as we have mortgages, as we have said, as low as $600, as low as $500. In that connection, in some foreign countries the rate is one thing and

Exhibit No. 2294

[Prepared by The Metropolitan Life Insurance Company]



the servicing cost is added on. That is, the mortgage states so much interest rate and so much annual payment for servicing, but that has never been a custom here.

Representative Williams. What is the range of your maturities?

Mr. Rogers. We take the attitude that the farmer should say. One man may wish a 10-year loan; another man may wish a 20-year loan; another may wish a 25-year loan. A man may have income from an estate, or he may have a farm that he is going to dispose of, and he may wish a 5-year loan. We let the farmer tell us what type of loan he wishes and we endeavor to do our best to meet his needs.

Mr. Gesell. Where do your needs and his wishes clash?

Mr. Rogers. There isn't really much reason for clash, unless he should want something like a 50-year loan, or something of that kind.

Representative WILLIAMS. To what extremes do you go, from 1 year to 20, or 1 year to 30, 35?

Mr. ROGERS. We go up to 26 years, for the reason that on an amortized basis, to make a loan on an amortized basis, you can get to the point where the principal balances left is $300 or $500. We try not to get below a minimum of from one thousand to $500 at the end of the term. You understand what I mean, Congressman Williams? And 26 years has to date been our custom. We have some mortgages on an amortized basis that have been made for 34 and 35 years.

Mr. GESELL. How many of your mortgages now would you say are secured by land which is not 50 percent of the mortgage but more? In other words, you said you would loan on land up to 50 percent of the value?

Mr. ROGERS. You mean how many renewals and workout cases that we have worked along with that are now in excess of 50 percent?

Mr. GESELL. Would your renewal and workout cases include all such mortgages, or would you have other mortgages on your books where the land value was greater than 50 percent of the mortgage?

Mr. ROGERS. Not any other than the ones that were made prior to, let us say, 1932, where borrowers had not been able to reduce them, but we aim to have a 2 percent or 3 percent amortization each year, and the mortgages that have lived through this depression are a pretty sound group of mortgages.

(Senator King assumed the chair.)

Mr. GESELL. There are many in that group, then, where the land values now in your opinion are greater than 50 percent of the value?

Mr. ROGERS. There are some; yes.

Mr. GESELL. I was wondering how many there were?

Mr. ROGERS. I wouldn't be able to say.

Mr. GESELL. Can you tell us how much of your portfolio is represented by recast mortgages at the present time?

Mr. ROGERS. That is renewals and loans that have been with us for years?

Mr. GESELL. Yes; where the terms of the mortgage have been changed, making new mortgages.

Mr. ROGERS. I would say that $45,000,000—now that is an estimate, but about $45,000,000 are the mortgages that have been renewed.

Mr. GESELL. How many of your mortgages would you say are purchase-money mortgages?

Mr. ROGERS. I cannot say. Had I known that you were going to request that figure I could have had it.

Mr. GESELL. Can you give us any estimate of that?

Mr. ROGERS. I wouldn't attempt to give you an estimate. It may be in that book; I am not sure. Very few of our purchase-money mortgages are in excess of 50 percent.

Mr. GESELL. How does that happen? You mean because you asked for such a large original cash payment on the sale of the property?

Mr. ROGERS. No; we carry the sale on contract. We endeavor to carry the property sold on contract until 50 percent of the purchase price is paid.

Mr. GESELL. Then you take your purchase-money mortgage?

Mr. ROGERS. Yes. We have some farmers—the thing in working with farm people is to work with them as nearly as you can, the way they wish to handle things. We have some farmers who don't want a mortgage; they want a contract. We have some contracts that are paid down to where there is no balance left, that is, no balance of book value. Let us take a farm that sold at a profit of $1,000, or $5,000 book value, and sold at $6,000. A man pays; we carry that on contract or on the books only at the balance of the original book value. For instance, if he paid down $1,000 we would reduce the book value from $5,000 to $4,000, but the farmer would owe $5,000. If he got down to the point where he had paid $5,000 in cash and we still held the contract, we would have no book value, yet we would have $1,000 balance of a contract.

Mr. GESELL. How many cases of that kind are there?

Mr. ROGERS. There aren't many, but there are a few, because they show the attitude of an individual farmer. That is the thing I wanted to bring out. You can't set down rules on such matters. It makes no difference to us. We are rendering a service as well as lending money and whether a loan is made for 10 years or a contract sale is for 25 years, it means very little. It is a matter of bookkeeping.

Mr. GESELL. Does your company have any special reserves set aside for mortgages that may turn sour?

Mr. ROGERS. Not for mortgages; we have 25,000,000 set aside for real estate, and I am very hopeful that the farm-loan division will never call upon a dollar of that 25,000,000.

Mr. GESELL. But I am talking now about reserves as against bad mortgages.

Mr. ROGERS. No; not as against bad mortgages, Mr. Gesell. There is a surplus of over 300 million, as you know.

Mr. GESELL. Yes; I know. We were talking about special earmarked funds. We get talking about surpluses and no matter what question you raise, it is going to nip into that, and I wondered how much was allocated.

Mr. ROGERS. One table looked kind of bad to me and I figured out, excluding foreclosures and moratoriums, today, 0.35 of 1 percent of mortgages were in that particular category, and that would be four one-thousandths percent of the assets.[1]

Mr. GESELL. What category is that?

Mr. ROGERS. That is on one of the pages there.

Mr. GESELL. Tell us what page it is. I notice on table 174 that 20.6 percent of your mortgages were delinquent 3 months or more.

Mr. ROGERS. That is the one I had reference to.

Mr. GESELL. What is wrong with that table?

Mr. ROGERS. Well, the table included cases in foreclosure and cases in moratorium. Now, of course, the 20 percent, that today is 10.8, but to get to this 4.38 you have here; then you turn to the page on the other side, the 4.38 figure, and you have in that category $3,111,000.

Mr. GESELL. I have lost you entirely. What page are you on?[2]

Mr. ROGERS. Page 173.

Mr. GESELL. Now, what is the 4.38 figure there?

---

[1] See Hearings, Part 10–A, p. 174.
[2] Ibid., p. 173.

Mr. ROGERS. The 4.38 figure is on your next page, 174, the top of the third last column.

Mr. GESELL. We are talking about the percentage of mortages delinquent 3 months or more; it is 20.65 percent. What is wrong with that figure?

Mr. ROGERS. Because it includes a lot of foreclosures and a lot of moratoriums, which are in the hands of the courts and which the company could have nothing to do with, as I say, another 4.38 percent or more.

Acting Chairman KING. Three years or three months?

Mr. ROGERS. Three years. You see, Senator King, we work with these people when they are fair and reasonable. For instance, we have in that group, there was one loan now, where the principal was reduced from 20,000 to 7,000.

Mr. GESELL. Look here on page 172 of "Exhibit No. 2250." It shows that you have 20.65 percent of your mortgages with interest delinquent 3 months or more.

Mr. ROGERS. Yes.

Mr. GESELL. Now, the Prudential, just below you, shows only 6.9 percent of its mortgages are delinquent. Isn't that some measure of the degree of delinquency which exists in those two companies.

Mr. ROGERS. Turn to your next page, 173.[1]

Mr. GESELL. You mean the previous page?

Mr. ROGERS. Yes.

Mr. GESELL. And how much difference is there in amount? The same two figures. You mean, if experienced in size of the mortgage account, in terms of dollar figures it isn't as big a discrepancy as it appears to be, expressed in percent?

Mr. ROGERS. No; because your trouble comes out of those mortgages made in your troubled period. The Prudential has more new mortgages. You are comparing an experience with new mortgages against an experience with old mortgages.

Mr. HENDERSON. I think you are comparing mortgages. The table undertook to compare mortgages.

Mr. ROGERS. But that is the fact.

Acting Chairman KING. Where you compare mortgages you may take into account the period in which they are delinquent, even though they are mortgages.

Mr. GESELL. What you are trying to say is that the Prudential closes down on these things fast and hard as foreclosure, and you people are very lenient, is that what you are trying to get at?

Mr. ROGERS. No, sir; I am trying to say this: The Prudential had the $2,916,000 in the same classification as we have $3,111,000, which shows that both companies are working along with the old mortgages, trying to help them, and about on an equal basis.

Mr. GESELL. I know, but look at the difference in the account, Mr. Rogers.

Mr. ROGERS. But look at the difference in the increase.

Mr. GESELL. Now, just a minute. I asked you to look at the difference in the account. Let's do that first, and then we will look at what you want me to look at. On 161,[2] look at the difference

[1] Ibid., p. 173.
[2] Ibid., p. 161.

in accounts. The Prudential carried $167,000,000 as against your 70 million.

Mr. ROGERS. Yes.

Mr. GESELL. Then this question of percentage begins to get important, doesn't it, if you are considering mortgages as a group of mortgages?

Mr. ROGERS. Not at all. Turn to page 161.

Mr. GESELL. That is where I was.

Mr. ROGERS. You see the Metropolitan with 196 million; you see the Prudential in 1929 with 191 million. We are still working with those people, both companies on about the same basis.

Mr. GESELL. Now, let me see. This is 3 months' delinquency.

Mr. ROGERS. Very good.

Mr. GESELL. Now, you are going back 10 years to point out a similarity in the point of size of your mortgage account. I can't follow you on that.

Dr. LUBIN. May I suggest turning to 182, where we have a table showing farm real estate owned, and despite the fact that the Prudential has loaned so much more on mortgages, its total ownership is only 48 million as compared to 86 million by Metropolitan.[1] Does that mean, in effect, the Metropolitan has been harder on the farmer and taken over more real estate?

Mr. ROGERS. To get that picture you have to turn to 184.[2] You can turn to the tables if you wish, but the real facts are that the volume of loans made prior to 1929 are our trouble cases, regardless of what company made them, and we are still working with those cases, many of them. As I say, today, after the moratorium is out of the way, and after some foreclosures arc out of the way, the figures are really infinitesimal; but the Prudential foreclosed, as you say, 105 million, and the Metropolitan foreclosed 99 million. Our experiences are almost identical, due to conditions.

Dr. LUBIN. But you yourself pointed to 161 and showed that Prudential had $167,000,000 worth of mortgages as opposed to your 70 million.[3]

Mr. ROGERS. No, no; 196 million.

Dr. LUBIN. But I am talking about 1938.

Mr. GESELL. We are talking about 3-month delinquencies in 1938, Mr. Rogers.

Mr. ROGERS. But what I say is, you are talking about new mortgages in contrast with old mortgages and are lumping them in together.

Mr. GESELL. We are looking at the mortgage account.

Mr. ROGERS. All right, let's say this: In 1929, as I say, 9,825 of our foreclosures came out of that area. Now, you will find that the Prudential's real estate largely came out of the loans made in that area.

Mr. GESELL. Let me ask you this, Mr. Rogers. If you had a choice of two mortgage portfolios, just had them sitting here, here is yours and here is the Prudential's, and yours is 20 percent delinquent 3 months and theirs is 6.9 percent delinquent 3 months, which would you rather have? I mean, in terms of appraising that point, it seems to me there is no question as to which company has the best performance.

---

[1] Ibid., p. 182.
[2] Ibid., p. 184.
[3] Ibid., p. 161.

Mr. ROGERS. I can't see that. I think one acquires $107,000,000 of real estate and the other $100,000,000. What I say is that you cannot fairly compare a portfolio of new mortgages with a portfolio of old mortgages, and if you take our 1932 mortgages only and take Prudential's 1932 mortgages only, I think our experience would be similar.

Mr. PIKE. Mr. Rogers has a point there which I don't think he has had the proper opportunity to finish bringing out. He has been cut off in the middle each time. It seems to me, if I understand him, Prudential has been going on taking new mortgages pretty regularly and now has a mortgage account only 20 percent less than it had in 1929, so its present mortgage account of around 160 million is probably composed of, say, half new mortgages and half old, whereas the Metropolitan has cut its mortgage account down from one-hundred-ninety-some million to 180 million during the period, which means that they haven't taken on many new ones, that its mortgage account is very much more weighted with old mortgages than the Prudential, so that its delinquencies largely represent those old mortgages. It seems to me to be not an entire explanation but something of a considerable explanation of the difference.

Acting Chairman KING. That was what I understood the situation to be, that your delinquencies related rather to that period when there were so many foreclosures and so much difficulty by reason of the depression, whereas the other mortgage company's portfolio contains largely new mortgages.

Mr. ROGERS. Yes; exactly.

Acting Chairman KING. And, of course, you would have a larger delinquency in the old mortgages which were taken during that period of depression than you would a corresponding number of dollars of delinquencies with new mortgages?

Mr. ROGERS. Yes. If you took our new mortgages, Senator King, 25 million or thereabouts since 1932, and compared them with our older mortgages, why there would be no comparison at all.

Mr. HENDERSON. But you would still have 20-percent delinquency. There is no challenge on that?

Mr. ROGERS. No challenge except——

Mr. HENDERSON (interposing). What you are saying is an explanation rather than a challenge?

Mr. ROGERS. That is true.

Mr. HENDERSON. And from an income standpoint——

Mr. ROGERS (interposing). Let's take the income table. Let's get into the interest-collected table.

Mr. KADES. Mr. Rogers, before you do that, isn't one of the explanations for the difference between the Prudential and the Metropolitan the fact that you have shifted into a farm-ownership status where the Prudential has not?

Mr. ROGERS. Well, there are two factors there. Of course, I do not know the Prudential portfolio; that is one thing. I do know that this drought area that you have shown, where we were heavy and where it shows that crossing line, is the reason why sales have been slow in addition to our system of rehabilitating our properties. That makes our real-estate portfolio higher.

Mr. KADES. Considerably higher, if you look at table 185.[1]

---

[1] See Hearings, Part 10–A, p. 185.

Mr. ROGERS. Yes.

Mr. KADES. Metropolitan shows farm real estate sold in a percentage of 17 plus, whereas the Prudential is 58 plus.

Mr. ROGERS. Yes.

Mr. KADES. So the Prudential has sold off its real estate and used the money to invest in farm mortgages.

Mr. ROGERS. You see, they have 31 million of purchase-money mortgages in this group of their portfolio today, maybe more.

Mr. KADES. Does that mean that the real estate which the Prudential has foreclosed is sold back on a purchase-money mortgage, whereas the real estate which the Metropolitan has foreclosed is sold back on a contract basis?

Mr. ROGERS. That to some extent is true, but the thing about it is that the Prudential has sold, I believe, $61,000,000 of real estate, and naturally a large number of purchase-money mortgages would arise out of that volume of sales, whereas I think we have sold something like $25,000,000 of real estate today, and our contracts are something like $12,000,000. The difficulty, as I said, is that to compare new mortgages and old mortgages is a very difficult thing.

Mr. GESELL. I think the comparision is quite apparent there on the schedule.[1]

Does that complete your challenge of that figure, Mr. Rogers, which you offered here a moment ago? Have you anything else to say about that figure?

(The Chairman, Senator O'Mahoney resumed the chair.)

Mr. ROGERS. Only one, one figure, and then we will move on. Mr. Henderson, what did you ask?

Mr. HENDERSON. I said, so far as delinquency goes, there is a decided difference between a mortgage account that is 20 percent delinquent and one which is 60.8 percent delinquent.

Mr. ROGERS. Let's return to that table, Mr. Henderson, that shows interest collected.

Mr. GESELL. That is 179, isn't it?[2]

Mr. ROGERS. Yes. Now, you see, that table shows a consistent—not a consistent gain altogether, but it shows that old mortgages, many that have been delinquent, are gradually catching up.

Mr. GESELL. Show me how that shows that.

Mr. ROGERS. All right; turn to——

Mr. GESELL (interposing). Now, wait a minute; you are talking about table 179. I wanted to see how that showed that.

Mr. ROGERS. You have to have the average rate of your portfolio. Turn to 163.[3] You take all mortgages; 4.85 was the average rate, was it not, in '38?

Mr. GESELL. Yes.

Mr. ROGERS. That shows 4.82 collected. Take '36; the average——

Mr. GESELL (interposing). 1938 shows the average for all mortgages of Metropolitan as 4.85, and 4.91 collected on table 179.

Mr. ROGERS. 4.91, yes. In other words, the collections were greater than the contract rate.

Now, in 1939 our figure of collection is 5.01 and our contract rate average dropped to 4.73.

---

[1] Ibid.
[2] Ibid., p. 179.
[3] Ibid., p. 163.

Mr. GESELL. What you are showing by that is that you are coming up on delinquent interest.

Mr. ROGERS. Because the men we have carried are gradually catching up. Those are delinquent people we are working with and they are cooperating with us and they are gradually getting their loans into condition. For that reason the interest collected is in excess of the interest called for in the contract rate.

The CHAIRMAN. In other words, delinquents are paying not only the current interest but some of the back interest, too?

Mr. ROGERS. Yes.

The CHAIRMAN. And that tends to accumulate the amount of interest you are collecting year by year?

Mr. ROGERS. Yes; but if we took and threw those poor fellows out, we would show a much better record on delinquency. I don't think that is fair.

Mr. GESELL. Looking at it from another point of view, even with the delinquencies being paid up, you still have such a high percentage of your portfolio delinquent.

Mr. ROGERS. That statement——

Mr. GESELL (interposing). That is the figure you were challenging a moment ago.

Mr. ROGERS. Table 174.[1] Now, 1939 was 10 percent.

Mr. GESELL. I think the fact you are going to 1939 figures is very interesting, Mr. Rogers. We were wondering what we were going to do about keeping this thing up to date. If you are going to argue on 1939 figures we want to get 1939 figures from the other people involved.

Mr. ROGERS. My idea is to show these people are working out, are working along. You take table 175.[2] It is difficult to take delinquent interest and not compare with delinquent taxes. They are part of the delinquency. Let us say we followed the policy of telling a farmer he should pay his taxes, first of all, and then he should take care of his insurance and Federal money remaining, and he was having trouble, and that which remained would apply on interest, we would show a poor record on delinquency per loan. But say another company said, "All right, you pay your interest first and then find a way to pay taxes, or we will let it go."

The CHAIRMAN. There are two other factors that probably would be reflected in that figure. One of those would be whether or not you made work-out agreements with your mortgagors. If you did, that would tend to increase the amount of delinquent interest, would it not?

Mr. ROGERS. That is right; yes.

The CHAIRMAN. Then also whether or not you were undertaking to sell the real estate?

Mr. ROGERS. The sale won't account for it.

The CHAIRMAN. Well, if you sold the real estate that would remove that interest.

Mr. ROGERS. Wipe it out.

The CHAIRMAN. That charge would be wiped from your books altogether, would it not?

---

[1] See Hearings, Part 10–A, p. 174.
[2] Ibid., p. 175.

Mr. ROGERS. Yes; that is true, but, Senator, you are very correct. Now, as to individual loans, as an illustration, we have one of $70,000—$71,000—in Illinois. That loan has never been fully in good standing in 10 years, but that owner has paid everything she could pay and has accounted for all the money that she received. Now, within the last 30 days she has arranged to sell, I think, some 300 acres of an 800-acre farm. Out of that she will pay all delinquent interest, she will reduce the principal of her loan and the renewal will be made at a lower amount per acre on some 500 acres that remain, and that person is in the clear.

It takes time to work out these things, and if you will follow that chart, you can see that the farmers went through a terrific crash in this whole situation.

Now, another one that is in there—I know so many of these cases personally because I give so much attention to them—there is one fellow that we found, I think it is 13 years that he has not had his loan actually in good standing at any one time, but he has paid everything he could pay, and within 60 days I expect to see him come through with a clean record. So many of these things should be analyzed on the basis of the facts that prevail.

The CHAIRMAN. The table at page 176 would seem to indicate that the Metropolitan has a much larger number of work-out cases than any other company in the entire group.[1]

Mr. GESELL. Until you get down to Mutual.

Mr. ROGERS. I would say most of the insurance companies have been very considerate all the way through. We may have been a little more so, or we have been caught in more moratoriums, I think, because of our larger investment in Iowa, and moratoriums are included in there. That law was declared unconstitutional in 1939 and since that time a lot of these cases have worked out. Time is a great healer in financial troubles after a terrible economic collapse.

Mr. GESELL. Now, let me ask you this, Mr. Rogers——

Mr. ROGERS (interposing). We actually collected 4.91 in 1934; 5 percent in 1935; 5.87 in 1936; and in 1937——

Mr. GESELL (interposing). I don't think anybody knows what you are talking about until you tell what table you are talking about and what percentage you are trying to show.

Mr. ROGERS. Page 179.[2] You see the default that occurred in 1932 and 1933. We collected 3.05 percent on our entire portfolio. That is interest actually received, dollars actually received. In 1933 it was 3.19; in 1934, 4.91; in 1935, 5 percent; and in 1936, 5.87; in 1937, 4.82; in 1938, 4.91; and in 1939, 5.01.

That is collected on the whole portfolio of mortgages outstanding, the entire group outstanding.

Mr. GESELL. What was the point you wanted to make?

Mr. ROGERS. I wanted to make the point that it shows that the interest on the whole portfolio collected, actual dollars collected, is higher than the contract rate in the whole portfolio, which would show the opposite as to delinquencies.

Mr. GESELL. Show the opposite from what?

---

[1] See Hearings, Part 10–A.
[2] Ibid.

Mr. Rogers. The delinquent item, the money, the interest is being collected. The delinquent interest is being collected in those cases on the work-out.

Mr. Gesell. In spite of the fact that the delinquent interest is being collected, you still have a very substantial part of your port folio delinquent.

Mr. Rogers. If you wish to state it on that basis.

Mr. Gesell. What is the attitude of the company with respect to competition between various insurance companies for the same mortgage or offering lower interest rate, or offering to refinance one of your mortgages at a lower rate? In other words, rating of mortgages by other companies, what position do you take on that subject?

Mr. Rogers. Well, we at one time endeavored to avoid what would seem to be raiding portfolios of other companies, but the mortgage business is controlled by the country banks, the local real-estate dealers, and those people who act as mortgage brokers, and they are the ones who control their farmer clients, and they place the mortgages for their farmer clients with whomever they desire.

That may mean that they would be placing mortgages with some insurance company and they control the business of one of our borrowers and a loan came up for renewal and it would be paid. There would be no question about it.

Mr. Gesell. Do you go out after loans on other life insurance companies' books and offer lower rates?

Mr. Rogers. We do not go out after loans on anybody's books for the reason that our contact is with the local country bank—the broker. He is the man who handles the clients in his own field. We couldn't hope or couldn't think of knowing all the farmers in the community. Our men have to cover a wide area. Our servicing cost and solicitation cost is very, very narrow. We do not do business direct with the farmer. He goes to his own broker and the broker turns the loan to us or to some other insurance company, or to the Farm Credit Administration as far as that is concerned.

Mr. Gesell. By and large, have your interest rates been higher or lower than those of other insurance companies operating in the same territory as you do?

Mr. Rogers. I would say about the same. There are times when it might be higher, but not very long.

Mr. Gesell. And you make no effort, through your brokers or otherwise, to take loans from other insurance companies. Is that correct?

Mr. Rogers. I would say that is correct, Mr. Gesell. I would say this: That if we have a broker who wants to place his loans with us and his farmer clients have loans with other insurance companies, we are going to consider the applications that that man submits to us, regardless of what insurance company or Farm Credit Administration or individual might hold that mortgage. That is the privilege of the broker and of the borrower himself.

Mr. Gesell. Now, coming to this question of foreclosure, which we have been discussing some already, what type of mortgage would you foreclose?

Mr. Rogers. We would foreclose what we call a hopeless case.

Mr. Gesell. When does a case become hopeless?

Mr. ROGERS. Well, when a man is absolutely unable to pay.

Mr. GESELL. You have had one case of a man who has been unable to pay for 13 years.

Mr. ROGERS. No he has been paying for 13 years, but he never had every dollar of interest—that is, his loan was in default during that time, but he was accounting for every cent that he made.

Mr. GESELL. What do you take into account when a man can pay nothing on his interest?

Mr. ROGERS. When a man is fully unable to pay and there is little likelihood of his ever being able to work out his situation.

In that connection, Mr. Gesell, I made a spot check at one time, some years ago, of some 17,000,000 of our mortgages that had been foreclosed. I found that those men owed $3,000,000 of mortgages on other properties that they owned, but they owed $5,500,000 of outside debts, and, by and large, it is that outside indebtedness that caused a great many of the foreclosures. Now, if we had a borrower who owed us $10,000 and he owed scattered debts of $5,000, and they were coming in on him and pressing him and he was trying his best to pay somebody, and had a farm worth 12 or 14 thousand dollars or probably not over 10 or 11 thousand, he is under difficulties, and you can't expect him to pay.

Mr. GESELL. It is a matter of judgment in each individual case?

Mr. ROGERS. Yes.

Mr. GESELL. Who makes the judgment, the man on the scene or is that made in the home office?

Mr. ROGERS. Well, we go to great lengths on that.

Mr. GESELL. Will you answer my question? Who makes the decision?

Mr. ROGERS. It is made in the home office upon recommendation of the man in the field.

Mr. GESELL. Are those recommendations customarily followed?

Mr. ROGERS. Customarily followed.

I would like to explain that. We require in each case that a foreclosure is recommended that an extensive report be made showing the financial condition of the farmer and giving a history of his condition and of the reasons why he is unable to pay. Now, if the facts indicate there is a possibility, in our opinion, we write back for further information or insist that the man be given additional time.

I recall an odd instance of one man, where foreclosure was recommended with no default excepting principal, and I required that that farmer sign a statement that he had no opportunity of working out. Yet I discovered that he had become involved in some other transactions and that he was going to lose all of his property. Each case must be handled individually.

Bear in mind that this depression that came on, came on not through the fault of an individual management. It came on through conditions beyond the control of any of these people.

Mr. GESELL. Beyond the control of the farmer, you mean?

Mr. ROGERS. Yes. An economic collapse is beyond the control of the farmer.

Mr. GESELL. Can I perhaps get something out of you this way? Does the location of the mortgage make any difference in the foreclosure as to the type of underlying land or as to the general locality in which the mortgage rests?

Mr. ROGERS. No; I feel we are dealing with an individual. We must constantly keep in sight his welfare.

Mr. GESELL. Therefore, you foreclose just as little in the cases where you have low valued land, and your company is overloaned, as you do in the best value territory?

Mr. ROGERS. Yes. If there is any area where we have overloaned.

Mr. GESELL. I thought we had a lot of testimony about that yesterday, that made it pretty apparent that all of the companies have gone in and overloaned in the southern part of Iowa.

Mr. ROGERS. You should have excluded our company because the counties that bothered Professor Murray do not bother us.

Mr. GESELL. You don't feel you have overloaned any place, any time, under any circumstances?

Mr. ROGERS. I wouldn't say that was the case. We had a correspondent one time who sent in a few loans and we sent our inspector down and on the arrival of our inspector he disappeared. There were some bad loans.

Mr. GESELL. How was it your company escaped what we heard yesterday was the factor in almost every other institutional lender that ever loaned on farms during this period—they overloaned? How did you people escape? What was the secret?

Mr. ROGERS. Well, I think that would have to be subject to analysis. I could not answer for all the other insurance companies.

Mr. GESELL. I am asking you only to answer for the Metropolitan as to why it was the only company that had this unusual result in the loaning on farm property?

Mr. ROGERS. I would not say that a single mistake had not been made, but I would—I think that is true in any business—but I would not agree that overlending was general upon the part of the Metropolitan in any community.

Mr. GESELL. How did it happen to escape?

Mr. ROGERS. Well, I would say——

Mr. GESELL (interposing). Did you have better correspondents? Did you have a lifelong system? Did you have a different management? Did you loan in different areas, or what?

Mr. ROGERS. I would say it was undoubtedly due to management.

Mr. GESELL. You foreclosed quite a bit of property, didn't you?

Mr. ROGERS. Yes, sir.

Mr. GESELL. I have here a publication entitled "Memorandum to Financial Correspondents" from your farm division, in which you say [reading]:

> In principle, if the loan was properly made, it should not default, although we will agree there are exceptions to this rule. Nevertheless, it is true that in the majority of the cases the conditions which are the cause of the borrower's trouble at this time prevailed to a degree at the time the loan was made.

You have had troublesome mortgages, and that sentence suggests the possibility there was some overloaning or some errors made in the loaning of the money originally.

Mr. ROGERS. Yes, sir. I think it is very human to err, and I believe you will find errors in every community, that we made loans but they would be individual.

That memorandum, I think, should be put in the record in full rather than a single sentence.

Mr. GESELL. I am talking about this sentence right now, Mr. Rogers. We have put in a great deal you have volunteered here. What about this—did you overloan on properties or not?

Mr. ROGERS. Well, I would say, no, other than an occasional exceptional instance.

Mr. GESELL. And you think the reason your company escaped that was the quality of its management?

Mr. ROGERS. There was every effort made to avoid just the thing you are talking about.

Mr. GESELL. How is it that other companies that must have had that same point of view in mind, how is it their policyholders were led into difficulties?

Mr. ROGERS. I would rather they would state that. I would be surprised if you got the admission out of all of them which you infer. I think a lot of insurance companies you could say that is true. I would defend some of the other insurance companies on the very same thing and strongly defend them.

Mr. GESELL. What was your attitude toward the reduction of interest during the troublesome period from 1930 to 1935?

Mr. ROGERS. Our policy was not to increase interest rates but to carry on the rates of the mortgages, with one exception, and that is this: That many of the correspondents had depended for years upon a cash commission, as explained by Professor Murray yesterday. I insisted, in the time of distress, that instead of those farmers paying cash commissions, an extra quarter of 1 percent of the servicing fees should be added on, so that a rate might be raised from 5 to 5¼. The farmer was not to pay a cash commission, and that one-quarter would go back to the correspondent. We would pay it to the correspondent as a service fee rather than to have him collect the 1 percent commission, or a 1½ percent cash commission, and guarantee to service the loan for 5 years or 10 years, because usually the cash commission collected is gone before the loan is fully serviced.

The CHAIRMAN. What is your policy with respect to work-out cases?

Mr. ROGERS. Now work-out cases are carried along on the present mortgage. Sometimes they would run past due as to principal for a long period.

The CHAIRMAN. Did you make any change in the mortgage or in the interest, in the principal, or in any of the factors?

Mr. ROGERS. Not very often.

The CHAIRMAN. Then what is a work-out case?

Mr. ROGERS. A work-out case is a man who has been unable to pay his interest, probably through some unusual circumstance, probably because of bad economic conditions, such as prevailed in the Missouri Valley territory. You get all kinds and types of cases.

The CHAIRMAN. When you are working out a case, do you make a new contract?

Mr. ROGERS. Not generally. We work along with the existing contract. We constantly call on the man. We have chattel mortgages.

We have the assignment of rents. And we will go along with that man and work with him in that way.

The CHAIRMAN. Would you permit a reduction in the amount of interest paid?

Mr. ROGERS. In some cases, but not generally, because the rate was low in most all of them.

The CHAIRMAN. Then a work-out case is just a case in which instead of foreclosing, you are just going along and hoping to work it out in one way or another by assignment of the property, chattel mortgages, or things of that kind?

Mr. ROGERS. Giving time. That is exactly right.

The CHAIRMAN. Now, when you gave time, how would you give time?

Mr. ROGERS. Well, we would work along with a man. For instance, he is in default today. He has an annual crop. His business is on an annual basis. We would take a chattel mortgage in some cases on his crops and after he had paid what he could pay we would work along with him on it until the next crop was harvested and we would then see what his situation was.

The CHAIRMAN. Suppose his interest is due today and he can't meet it. What is your policy?

Mr. ROGERS. You mean he has been in good standing heretofore?

The CHAIRMAN. Yes; his mortgage has been in good standing and the interest date comes and the mortgagor can't meet the interest.

Mr. ROGERS. We will get in touch with that man after a time, probably at the end of 30 days, unless he comes in and makes a report. He may be sealing his corn with the Government. He may have hogs to sell. He may have some reason why he wishes a delay. We endeavor to be very reasonable and very fair. If you have ever worked with farmers, Senator, you know that they do have those problems.

The CHAIRMAN. And they are usually pretty good pay if they can pay at all.

Mr. ROGERS. Yes; and good faith is the thing that we desire most of all.

The CHAIRMAN. What I am getting at is, would you permit the payment of the interest to be postponed? You have given 30 days of grace. If the farmer satisfied you that perhaps in 3 or 4 months he could pay, would that be satisfactory?

Mr. ROGERS. Yes; in the individual cases. Now, for instance, we will have loans in default over quite a period. If a man had no second-mortgage indebtedness, had no junior indebtedness, and was a perfectly fine fellow and had been fine with us, we would probably not ask that fellow for a chattel mortgage.

The CHAIRMAN. What are the circumstances which would lead you to begin foreclosure proceedings?

Mr. ROGERS. Bad faith in one case, and inability, definite inability to pay; the borrower generally will admit his inability to pay when he has reached that point.

The CHAIRMAN. Which, from your point of view, as the head of this department, would be the better policy, to foreclose or to work out?

Mr. ROGERS. Work out. I think it is entirely wrong to promptly foreclose, unless there are certain circumstances that prevail that make it necessary; then each man's individual case should be taken into consideration and thoroughly analyzed.

The CHAIRMAN. Do you want us to understand that your policy was not to foreclose unless it was absolutely necessary?

Mr. ROGERS. Absolutely. That is right, Senator.

Mr. GESELL. Now, when asked you about interest, Mr. Rogers, I thought you were going to tell us you reduced interest. I take it you didn't.

Mr. ROGERS. No; we did not.

Mr. GESELL. You actually increased it?

Mr. ROGERS. I explained that.

Mr. GESELL. The explanation you gave was that it resulted in increase as far as the farmers are concerned.

Mr. ROGERS. And it reacted to his advantage, that he had no cash commission to pay.

Mr. GESELL. Now, there was quite a demand from the farmers, was there not, for a decrease in the interest?

Mr. ROGERS. I do not say there was. I can see before you a letter of a correspondent. A correspondent always wants to decrease the interest and a correspondent wants to increase the amount. They were inclined to think you were too hard on them. The correspondent is the one who wants the cash commission. We found that was not a proper way.

Mr. GESELL. You mean then that this demand which is apparent by the material that I have in front of me from the correspondent for a lower interest rate was prompted by the selfish interest of the correspondent and didn't reflect in any way the wishes of the farmer?

Mr. ROGERS. I would say that.

Mr. GESELL. It is pretty hard for me to believe.

Mr. ROGERS. In general, 5 percent interest at that time was about as low a rate as mortgages have been made in, I suppose, 25 years. It is a low rate of interest today. Some of your Government agencies are getting higher rates.

Mr. HENDERSON. Couldn't we get an answer, Mr. Rogers, to the plain question Mr. Gesell asked? He asked you whether or not this request for lowered interest was due to the selfish interests of the correspondents and not in any way to the farmers wanting a reduction in interest. Could you give an answer to that?

Mr. ROGERS. Mr. Henderson, I could not give an answer to that.

Mr. HENDERSON. Then I think, as a member of the committee sitting, I would prefer you to say that.

Mr. GESELL. This letter from Mr. Lougee, who was your correspondent in Iowa, is dated August 24, 1931. He discusses several matters with respect to decline in crop prices and says [reading from "Exhibit No. 2296"]:

> We hear a great deal of complaint about the lending companies charging 5½% interest under such conditions. There never was a time when the farmers needed consideration like right now. I wonder if your company has any thought of reducing the interest rate to 5%.

You replied to Mr. Lougee, in the second paragraph, or in your whole letter, as follows [reading from "Exhibit No. 2296–A"]:

> We are in receipt of your letter of August 24th in which you inquired if we have given thought to reducing the interest rate on ou. mortgages from 5½% to 5%. We realize that any interest charge is difficult for some farmers to meet.

The difference, however, between 5% and 5½% is scarcely the determining factor as to a farmer's success.

We have not given consideration to reducing the rate from 5½% to 5% and in the event we admit the total inability of farmers to pay the chances are that we would decide to make no further farm mortgage investments. Probably we should come to this conclusion. We have, however, looked upon the present situation as more or less a temporary one and not as a complete condemnation of the desirability of farm investments. 5½% interest is a reasonable rate, although at times we appreciate it that a lot of farmers have been favored with a 5% rate.

It seems to me that correspondence is pretty much in opposition to what you have said, because you have admitted there quite clearly that it would benefit the farmer to have a lower interest rate, that 5 percent interest rates were being granted farmers and in addition we have the fact that your correspondent has said the farmers would like to have a 5 percent interest rate and think it would be desirable.

Mr. ROGERS. Well, Mr. Gesell, you are drawing the conclusion entirely upon the statement of one correspondent.

Mr. GESELL. You mean one of the most prominent correspondents.

Mr. ROGERS. Yes; but would it not be fair to take the reports of all correspondents and all branch offices and consider the field as a whole, rather than to have the opinion of one man whose livelihood depended upon the volume of loans he made, and so on, as the determining factor?

Mr. GESELL. Well, have you a tabulation there that will show what the attitude of each of your correspondents and managers was in August 1931 concerning the interest rate?

Mr. ROGERS. I have not; but I would like to show you that the contract rate of the Metropolitan Life Insurance Co. all during that period was slightly below the contract rate of the great Federal land banks. I do not believe that when a life-insurance company follows a procedure and a policy that a great governmental institution follows that it is to be condemned because one letter from a person who has an ax to grind writes in on a question of interest rates.

Mr. GESELL. Oh, I quite agree with you on that.

Mr. ROGERS. I would like to put that into the record.

Mr. GESELL. Let's identify it and discuss it here a minute. I quite agree with you that no one should take one letter and use it as a basis for condemnation. There certainly was no condemnation in my question. I was simply asking you what your attitude was about the reduction of interest rates.

The CHAIRMAN. May I interrupt you just a minute? This exhibit which you show, Mr. Rogers, represents what?

Mr. ROGERS. Mr. Gesell has made a statement that the company raised interest rates.

Mr. GESELL. I beg your pardon. I didn't make that statement. You made it.

Mr. ROGERS. Pardon me.

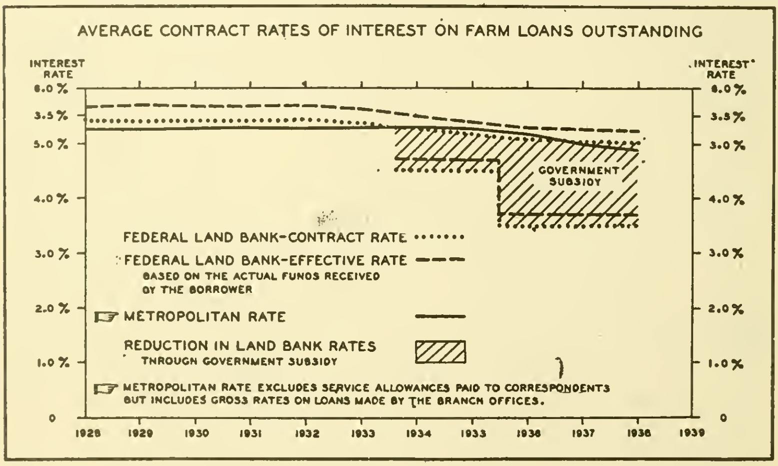
The CHAIRMAN. May I say, there is a fact here somewhere, and the fact can be developed without argument on either side, so let's try to get the facts.

Mr. ROGERS. I think it is a very minor matter. Here is out of what the matter arises: In the period the farmers were having difficulty paying interest, the matter of renewal of loans came up, and of new loans as well, and the correspondents, particularly one correspondent, had always charged cash commissions, and those cash commissions were 1 to 1½ percent. I insisted that instead of requiring the farmer to pay a cash commission, that an extra quarter should be put in the interest rate and the cash commission dispensed with during this period, that it was difficult for them to pay interest, and that applied in one territory.

What I want to show by this chart is that the Metropolitan did not raise interest rates. It made that one little change in a certain area, which did not represent the area as a whole, but met the problem that prevailed in a particular situation, and I submit the chart to show that the company's interest rate was in keeping with the market. It was in keeping with the rates of the great governmental institutions, and that is my point of view on what——

Exhibit No. 2295

[Prepared by The Metropolitan Life Insurance Company]



The Chairman (interposing). This chart is entitled "Average Contract Rates of Interest on Farm Loans Outstanding." By whom was it prepared?

Mr. Rogers. It was prepared in New York. I can't say—under my direction.

The Chairman. In your office?

Mr. Rogers. Yes. The information of the Federal land bank was taken from Federal land bank records and the information as to the Metropolitan rate was taken from Metropolitan records.

(The chart referred to was marked "Exhibit No. 2295" and appears above.)

The Chairman. But with respect to the Metropolitan rate, this chart shows that from 1928, that rate declined from what appears to be 5.3 or 5.2½ to something under 5 in 1938. Is that correct?

Mr. Rogers. That is correct, Senator.

The Chairman. But that between 1928 and 1935, there was practically no change?

Mr. ROGERS. Yes; had there been a raise in interest rates, it would have been reflected in that figure, in that chart; that line would show it, and what I am saying there is that the portfolio as a whole shows an even, consistent rate of interest in comparison with that of the rate of Federal agencies.

The CHAIRMAN. But that there might have been some changes in an individual case?

Mr. ROGERS. In an individual case, and what I am saying is that that individual case could not be taken to be representative of the whole.

Mr. GESELL. Just on one point of this, you indicated that I had taken one letter and thrown it up here in your face, and it was indicative of the attitude of the field men. I have another letter from Mr. Lougee dated October 10, 1932, which is on a different subject. He says here [reading from "Exhibit No. 2296–B"]:

I have submitted your two letters of September 26th to Mr. Green, to Henry Hall, to perhaps half a dozen of my field men, and sent a copy of your personal letter of September 26th, to Eldin, as you had requested me to do.

Henry Hall wrote his reply to your question, and I am enclosing it herewith. I have just received Eldin's reply addressed to you, this morning. He did not touch upon the question of relief to the distressed, but has dwelt at length upon our operations in the Sioux Falls office. I am enclosing his letter.

Every one of the field men with whom I have talked, and to whom I submitted the question that you asked of me, has given to me the same answer without any suggestion from me as to what my answer to your question would be. The answer in every case has been to reduce the interest rate to a low rate, for a period of one year, letting each year take care of itself, suggesting that when prices have again become normal, and it is warranted, that we could require payment of the contract rate.

I would like to offer this correspondence for the record.

The CHAIRMAN. This correspondence is all from one person?

Mr. GESELL. It is correspondence between Mr. Rogers and Mr. Lougee, one of the farm correspondents.

(The letters referred to were marked "Exhibits Nos. 2296, 2296–A, and 2296–B," and are included in the appendix on pp. 15516–15519.)

Mr. ROGERS. I would like to enter also with that the question of whether or not the policy pursued by the Metropolitan wasn't the same policy as that pursued by the great Federal agencies until the passage of the Emergency Farm Mortgage Act. I think it is only fair to look at it in that way, to look at it in comparison, and the policies pursued by the lending agencies at the time.

Mr. GESELL. Then your policy, I take it, was controlled entirely by what the Federal Government did and not based upon an individual estimate, as to how the problem should be handled?

Mr. ROGERS. Mr. Gesell, when you have 29,000,000 small policyholders, largely small policyholders, you are not very anxious to go out and automatically reduce the income of the institution in which those 29,000,000 people have an interest. Most of those people are people of small means. We have endeavored straight through to be fair to both sides, but we——

Mr. GESELL (interposing). It gets kind of complicated when the farmer is also the policyholder?

Mr. ROGERS. Well, yes; but——

The CHAIRMAN (interposing). Now, Mr. Gesell, that isn't fair. That is an argumentative statement by you, and the fact that some farmers may be holding policies in a particular company doesn't justify the assumption that the farmers and the policyholders are the same.

Mr. ROGERS. No.

The CHAIRMAN. Let's not have an argument here between counsel and the witness. As I said a moment ago, there must be a fact. Now, let's get the fact and we can develop that without argumentative questions, it seems to me, and I say that now to both sides.

Mr. GESELL. I think, if I may be permitted, that in a company the size of the Metropolitan, with some 29,000,000 policyholders, that it is a rather difficult job to distinguish the people who are getting the benefit of the funds and the people who are paying the premiums in. I think the testimony would properly suggest that kind of a question.

The CHAIRMAN. The question here is what has been the policy of this company with respect to the interest upon farm mortgages. Is that not it?

Mr. ROGERS. Yes.

The CHAIRMAN. And what the company did with respect to this interest during the particular period of time. Now, may I suggest, Mr. Rogers, that you tell us, and after you have told us what you have done, then perhaps we can develop it. What has been your attitude with respect to interest?

Mr. ROGERS. Senator O'Mahoney, we did not raise interest except in the case I mentioned, eliminating cash commissions and adding interest in the territory of this one man, and I made that chart to show if we raised interest rates that chart would show a raise of interest rates, would it not, the one I submitted to you? [1]

The CHAIRMAN. Then are you saying that interest rates were raised only in the area of this particular correspondent, Mr. Lougee?

Mr. ROGERS. For the purpose of doing away with the payment of cash commissions so that the actual net cost to the farmer meant no greater cost.

The CHAIRMAN. Just how did that operate? How was it done?

Mr. ROGERS. With a 5-year loan, the rate of the existing mortgage, 5 percent, Lougee collected, or the correspondent collected, a 1-percent cash commission normally for renewal of that loan. I insisted that farmers could not pay a cash commission under the circumstances that prevailed, that it was a penalty to them to require them to pay a 1-percent commission, or any cash commission; that it was far better to make that rate 5¼.

The CHAIRMAN. In other words, you eliminated the 1-percent commission that the farmer paid to the correspondent?

Mr. ROGERS. Yes.

The CHAIRMAN. But you placed a quarter percent interest addition which the farmer paid to the company?

Mr. ROGERS. Yes; and that went back to the correspondent in lieu of his servicing commission.

The CHAIRMAN. So that the correspondent instead of getting 1 percent from the farmers received a quarter of a percent, but through your company?

[1] See "Exhibit No. 2295," supra, p. 14986.

Mr. Rogers. Yes.

Mr. Kades. Isn't it a fact he received a quarter of a percent for 5 years which means 1¼ percent rather than a quarter of a percent?

Mr. Rogers. Yes; that is very true.

Mr. Kades. So the farmer paid more?

Mr. Rogers. But he paid it over a longer period of years.

The Chairman. The correspondent received 1¼ percent rather than 1 percent?

Mr. Rogers. Yes; but he was delayed for 5 years getting it.

The Chairman. He was paid over 5 years?

Mr. Rogers. That is right.

The Chairman. So that the farmer, then, actually paid one-fourth of 1 percent more for 1 year; is that right?

Mr. Rogers. He paid a quarter of 1 percent more over the extended 5-year period. That is, he paid 1¼ by paying one-fourth each year, you see, as against laying out a full 1-percent cash.

The Chairman. So that actually there was no reduction of the amount that the farmer paid?

Mr. Rogers. No reduction; it was just a deferred arrangement.

The Chairman. An arrangement whereby the amount of commission paid to the broker was given to him over a 5-year period instead of at one time?

Mr. Rogers. Yes, exactly right; that is exactly right. It is a small item when we get down to it.

The Chairman. Was there any other request to you or to your company in this area to make an adjustment of interest rates downward to the farmer?

Mr. Rogers. It would be very difficult to answer that on correspondence that is 9 years old. What I did say was this, that we were reluctant about reducing the contract rate in mortgages that we held at that time. The letter that Mr. Gesell has read from Mr. Hall was a result of my having sent out a general letter to the entire territory asking for suggestions without reservations as to what was best to meet the adverse depression situation that prevailed. I wanted to get information from all territories. Mr. Gesell has taken the information from the one source, from Lougee, whereas the information came in from all of our representatives everywhere.

The Chairman. What was the information that came in from all of your representatives?

Mr. Rogers. Of course, that again is 8 or 9 years old, and to remember it is difficult, other than that the depression prevailed on every hand. Follow your chart,[1] Senator, and see where your prices were. There was trouble in all areas.

The Chairman. You have a general idea what the report was?

Mr. Rogers. I haven't now. As I say, it was 8 or 9 years ago.

The Chairman. Was there any reduction of interest that you made to the farmer?

Mr. Rodgers. There was no other change. We went along.

The Chairman. Was there any other concession you granted the farmer?

[1] See "Exhibit No. 2292," supra, p. 14965.

Mr. ROGERS. No; there was no concession other than the extension of time of payments of all kind, but we did not change 5-percent mortgages.

The CHAIRMAN. How much extension of time of payments was granted?

Mr. ROGERS. That all depended upon the individual circumstance. That is the question that was brought up a while ago and was threshed out, that possibly we were more lenient than we should have been. I don't feel that we were.

The CHAIRMAN. What was the maximum extension that was granted?

Mr. ROGERS. That I can't say. We have some loans, as was pointed out, that were 3 years in default at one time.

The CHAIRMAN. That are since working out?

Mr. ROGERS. They are since working out. This much can be said, that no interest over 6 months past due was ever carried as an asset in the company.

The CHAIRMAN. Would it be fair to say that 3 years represented the maximum of extension?

Mr. ROGERS. I would not say. I had one farmer who in the last 30 days paid 4 years of delinquent interest at one time, paid it up entirely, and is in good standing.

The CHAIRMAN. How long was he delinquent?

Mr. ROGERS. He was delinquent 4 years.

Mr. HENDERSON. I suggest, Mr. Chairman, that the witness is using a single example, and has been most of the afternoon, in a manner in which he criticized Counsel Gesell. May I ask a question on the testimony?

The CHAIRMAN. Certainly.

Mr. HENDERSON. In explanation of a question asked by Mr. Gesell, you spoke about the interest of 29,000,000 policyholders. He asked you whether or not the contract rate for policyholders was reduced in that period.

Mr. ROGERS. I do not know, Mr. Henderson.

Mr. HENDERSON. May I ask you another question? In that period, which is 9 years old, and you can't recall, would you agree that it is likely in that period of great depression that many farmers who had mortgages with your company did request lower interest rates?

Mr. ROGERS. Oh, I wouldn't say that they didn't; no, indeed not.

Mr. HENDERSON. Now, Mr. Chairman, the answer I got was, "I wouldn't say they didn't." I asked you a plain, straightforward question.

Mr. ROGERS. Mr. Henderson, I would have to have direct contact with the borrowers and with 26,000 loans to be handled. I can't go out and interview individual borrowers.

Mr. HENDERSON. Mr. Chairman, I suggest he has not given me an answer.

The CHAIRMAN. What was the question?

Mr. HENDERSON. I asked what I thought was a question within the realm of good feeling that you are suggesting.

The CHAIRMAN. You are referring now to the chairman?

Mr. HENDERSON. The chairman's suggestion to which I think we subscribe. I asked him whether or not in this period of the depression he recalls that many farmers with mortgages did request a reduction in interest rates. Now, if the witness wants to say that he can't recall, I will take that as an answer.

Mr. ROGERS. I am quite willing to say that. I can't recall.

Mr. HENDERSON. Then I will take the same privilege which Vice Chairman Sumners took this morning when we had another expert on the stand and say that as a simple layman, familiar somewhat with the pressure for reduction of interest rates in that period, that many did. Can we go on?

Mr. GESELL. I hope so. Mr. Rogers, what about scaling down? Did your company adopt the policy of scaling down mortgages?

Mr. ROGERS. If the mortgage was in excess of the value of the land, yes; but we have few of such cases.

Mr. GESELL. There was a great deal of scaling down by other lenders, was there not?

Mr. ROGERS. That I cannot say. I do not know.

Mr. GESELL. And I take it, except in a very occasional case, you did not scale down?

Mr. ROGERS. I do not know what you would say as to occasional. We accepted payment of a great many loans wherein we waived the interest entirely.

Mr. GESELL. What do you understand by the term "scaling down"?

Mr. ROGERS. Scaling down the total indebtedness of the borrower, I assume.

Mr. GESELL. Did you ever scale down the principal indebtedness at all?

Mr. ROGERS. I would say we accepted payment in some cases at less than the principal amount. Again we are talking about a good many years ago. Had I known a question of this type was to be asked I could have brought the record.

Mr. GESELL. Let's have that one right now.

The CHAIRMAN. Let me interrupt. Here is a matter of general policy which it strikes the chairman you must know, whether it was the policy of the Metropolitan to scale down or not. Now, there may have been individual cases in which you did, but how about the general policy?

Mr. ROGERS. No; because the value of the security was there; and, again I repeat, the 29,000,000 policyholders were to be protected.

The CHAIRMAN. That is a straight answer; the general policy was against scaling down?

Mr. ROGERS. Yes.

The CHAIRMAN. Mr. Gesell, did you hear the answer to the question I asked?

Mr. GESELL. No; I did not. I take it you got the answer.

The CHAIRMAN. I think so; yes.

Mr. GESELL. I just wanted to say that Mr. Rogers has several times now said that if he had only known what he was going to be asked we would have a different story here. I think the record should show that an invitation was offered to every Metropolitan executive who is to testify before this committee to come down and discuss the matter with us, and they did not come down, and I wrote a letter and I also had some telephone conversations; executives of other companies have been down in my office talking over these matters, and that has not been the case with the Metropolitan. We have offered them that opportunity.

Mr. JOHN L. O'BRIAN (counsel, Metropolitan Life Insurance Co.). May I make a statement on that, Mr. Chairman? That seems to carry an imputation with it.

The officers of the Metropolitan have at all times been ready to confer. The only suggestion that was ever made by the Metropolitan——

The CHAIRMAN (interposing). Now, that may be all——

Mr. O'BRIAN (interposing). There is an inaccurate statement reflecting on the company. In the letter which Mr. Gesell wrote with respect to this witness, he said [reading]:

> We will not call for figures or detailed facts other than are contained in the investment analysis or which are of such general knowledge that Mr. Rogers will have no difficulty in recalling the same. In the main, we will be interested in discussing with Mr. Rogers his policies in the handling of the farm real estate and mortgage portfolio.

The CHAIRMAN. The chairman was saying that with respect to this matter, it is very obvious that we could easily become bogged down in matters of little detail as to what was asked and what was meant, and the response that was given, and what this committee wanted, and what the S. E. C. wanted. I want to say that many of the persons and organizations which have been called before this committee have been misled into the belief, or have fallen into the erroneous assumption, that it was the purpose of the committee to find fault with, to make a case against, to make critical conclusions with respect to, the manner in which various persons and companies have operated. That has not been, so far as I know, the purpose of anybody on the committee, and it has not been the purpose of the S. E. C.; am I not correct in stating that?

Mr. HENDERSON. You certainly are, Mr. Chairman.

The CHAIRMAN. The committee has been trying to develop fundamental facts with respect to the entire economic system, and I beg the gentlemen to believe me when I say on behalf of the committee that we are not seeking to cast any false implications upon management, nor are we trying to imply any criticism. The purpose of the whole story has been to develop the broad picture. Have I correctly stated the position of the S. E. C.?

Mr. HENDERSON. You certainly have, Mr. Chairman.

The CHAIRMAN. And Mr. Gesell, that was your attitude?

Mr. GESELL. That was my understanding of the matter.

The CHAIRMAN. Now, of course, it is only natural that in pursuing an inquiry, the questioner and the witness are very likely to get into an argumentative frame of mind. I think we have avoided that to an extraordinary degree in this committee. There is only a disposition to develop what the facts are, and I am sure the witness need not take offense at the form in which a question is directed at him. I am sure it is not the intention of counsel to give offense in any of these questions.

How far from finished are you?

Mr. GESELL. We are a long way from finished. I think it might be a good time to adjourn and get a good start tomorrow.

The CHAIRMAN. I think possibly it would be a good thing, but I did hope it wouldn't be necessary to hold a meeting on Saturday. I know that several members of the committee have spoken to me about that, not desiring a meeting on Saturday. Could we not go over until Monday?

Mr. GESELL. I believe we can. It might result in our having to hold hearings Friday of next week between the holiday and the week end.

The CHAIRMAN. Let's make an effort then to carry the inquiry on next Monday with this new start, and with a better understanding of what we are trying to get at, and I say to the gentlemen representing the Metropolitan that neither the S. E. C. nor the committee is seeking to cast any slurs, let me say, upon your company.

The committee will adjourn until 10:30 Monday morning.

(Whereupon, at 4:45 p. m., a recess was taken until Monday, February 19, 1940, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, FEBRUARY 19, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:40 a. m., pursuant to adjournment on Friday, February 16, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney, presiding.

Present: Senators O'Mahoney (chairman), King, and White; Representative Sumners (vice chairman); Messrs. Henderson, Lubin, Pike, Kades, and Brackett.

Present also: Senator Clyde L. Herring, of Iowa; Representative Vincent F. Harrington, of Iowa; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; and Helmer Johnson, attorney, Securities and Exchange Commission.

The Chairman. The committee will please come to order.

TESTIMONY OF GLENN E. ROGERS, MANAGER, FARM LOAN DIVISION, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. Gesell. Now, Mr. Rogers, there are one or two matters I want to cover with you before we get to a discussion of the management of the Metropolitan's farm real-estate and rehabilitation program and some of those other matters we touched on last time.

First of all, I want to ask you whether you are familiar with the provisions of the second Frazier-Lemke Act.

Mr. Rogers. Yes.

Mr. Gesell. That bill provided, did it not, that the farmer might under certain circumstances, enter into a composition or extension system whereby interest would be reduced to 1 percent?

Mr. Rogers. Yes.

Mr. Gesell. And then gradually increased to 5 over a period of years?

Mr. Rogers. That is correct, as I recall.

Mr. Gesell. What was the attitude of the Metropolitan with respect to agreeing to such compositions under the act?

Mr. Rogers. We felt that where the security for our debt was there, in all respects, that we were duty bound to endeavor to recover for the benefit of our policyholders that which was rightfully theirs. The security for the whole debt was available, we believed in all instances.

Mr. GESELL. So that in no case did you consent to such a composition; did I understand you correctly on that?

Mr. ROGERS. I would not say in no case, but it was our general policy not to consent to a composition. I would say this, that if in an individual instance it was definite that the policyholders were not protected to the full extent, then we would have consented to a composition.

Mr. GESELL. But you felt in all cases that your mortgages were sound, and that to in effect permit this interest reduction would be to lose security for the policyholder?

Mr. ROGERS. Yes. Now in explanation, the largest number of Frazier-Lemke cases we had at any one time was 43, out of a mortgage portfolio of several thousand loans. We have, I think, only 12 today, and I think the total that was ever filed, the entire total was 77, so that the Frazier-Lemke Act, the second one, was an act that gave the farmer an opportunity to get all of his creditors together, and so frequently it was the subsequent creditors that wished protection, and in that way it really constituted a moratorium.

Frankly, I have never been opposed to the second Frazier-Lemke Act. I think in times of distress, such as prevailed, that such legislation is often very desirable.

Mr. GESELL. Did you have many requests for compositions under the Frazier-Lemke Act?

Mr. ROGERS. Each case was a request.

Mr. GESELL. You said you had 45 cases. Then you mean you had 45 requests?

Mr. ROGERS. We had 77.

Mr. GESELL. With respect to the Federal Farm Mortgage Corporation bonds, did you acquire any of those bonds?

Mr. ROGERS. Oh, yes.

Mr. GESELL. Have you in mind how many of them you hold at the present time?

Mr. ROGERS. Not at the present time, I could not say, as they are handled by the Treasury Department. I could tell you, I believe, to the dollar how many bonds we accepted.

Mr. GESELL. That would be fine. Let us have that figure.

Mr. ROGERS. We accepted—well, I would give it in two figures. Would round numbers satisfy?

Mr. GESELL. Certainly.

Mr. ROGERS. Ten million five hundred thousand in bonds.

Mr. GESELL. That is bonds of the Federal Farm Mortgage Corporation which you accepted at any time during the period?

Mr. ROGERS. That was really in payment of the loans that the Farm Credit Administration took up from the company. The total amount of our mortgages that were refinanced by the Farm Credit Administration was $23,553,000.

(Senator King assumed the chair.)

Mr. GESELL. Under what circumstances, and for what types of mortgage, did you take the bonds?

Mr. ROGERS. Well, we accepted the bonds in payment of any mortgages. You see, the Federal Credit Administration or the Federal land bank refinanced any farmer's indebtedness that desired it. Now, out of that group I believe that there were close to $5,000,000 of our farm mortgages that were in good standing as to payment of interest, principal, and taxes at the time they were taken over by the Farm Credit Administration.

Mr. GESELL. That was what I was trying to get at, get some idea of what bonds were for mortgages in good standing, well secured, and what percentage of bonds were for mortgages with which you, yourselves, were having some difficulty. I had in mind this letter from Mr. Lougee, which indicated that you took those bonds only in cases where the mortgages which you had were in some difficulty. Referring to the first two numbered paragraphs, you catch what I mean, I think.

Mr. ROGERS. That was an endeavor at first to retain these mortgages that were in good standing, but we had to abandon that policy. We were unable to continue to hold even our very good mortgages, and out of the $5,000,000, or thereabouts, of loans that were in good standing, and some of it right in the depth of the depression—well, I should say the 5,000,000 were in good standing, and out of the balance were a large number of good mortgages that were excellent but temporarily in default.

Mr. GESELL. Temporarily embarrassed?

Mr. ROGERS. Yes.

Mr. GESELL. Let's see if I have the figures correctly. There were about 20,000,000 in all?

Mr. ROGERS. Twenty-three.

Mr. GESELL. Of which five were definitely good at the time they were taken over.

Mr. ROGERS. That is right.

Mr. GESELL. And there were others in the remaining 18,000,000 which were just temporarily embarrassed, and you believed would have come out whole?

Mr. ROGERS. That is right, and occasionally a farmer would let his loan default because in most cases he might owe subsequent debt, and the Federal Credit Administration had a tremendous task at that time. They refinanced, or, let us say, they made, 10 percent of all the farm mortgages in the United States in a single year. Naturally, there were delays, and during a delay if a farmer realized that his loan was approved but it would be a mere matter of time until he would get his money, he frequently would let his interest default. Those cases would go in with the default cases.

Mr. GESELL. And these cases that went to the Farm Credit Administration did result in some scaling down for the farmer, did they not?

Mr. ROGERS. I think they did.

Mr. GESELL. He either got a reduction in interest or he got a mortgage of longer term that was more satisfactory, taking the economic situation into account.

Mr. ROGERS. Yes, indeed.

Mr. GESELL. So that along the line of some of the questions I was asking you last week on matters of interest reduction and scaling down of mortgages, to the extent that you took these bonds of the Farm Credit Administration you did grant benefits to the farmers.

Mr. ROGERS. Yes. We took this position, that if we had a very well secured loan but a man had other indebtedness, had been caught, let us say, in some kind of a jam, that we should never stand in the way of a man benefiting himself by refinancing his debts unless we ourselves would do it, as it was unfair for us to say, "We have a fine mortgage and will stand pat, but you owe other debts which do not interest us." We say that everyone who had indebtedness subsequent to our mortgage, regardless of how good that mortgage may be, that man should be given the opportunity to refinance elsewhere.

Mr. GESELL. And, of course, it was true that in this group of $23,000,000 of mortgages which were turned over to the Federal Farm Credit Administration there were some definitely bad mortgages, delinquent mortgages, and to that extent you did get some real assistance from the Administration?

Mr. ROGERS. Yes; we got some real assistance.

I wish to say this, that the Federal land banks did a wonderful job during that time considering the burden that was placed upon them, and there were cases wherein we felt it advisable to accept payment and waive all interest due, in a bad case, if we thought it was definitely bad. If we thought the policyholders would not have an opportunity to collect on those cases we would let them go, and I think in some cases we took less than the full amount of the principal, but I cannot recall that detail of several years ago.

Mr. GESELL. On the question of moratorium legislation, what was the attitude of the company? Did it oppose moratorium legislation, or was it neutral, or what position did it take?

Mr. ROGERS. We took a neutral position. We never opposed moratorium legislation. We might, on an individual case where bad faith seemed to exist on the part of a farmer borrower, oppose him in that type of case, but in the majority of the moratorium cases we went right along with those people.

Mr. GESELL. I think perhaps you misunderstood, if I may interrupt. I asked with respect to the enactment of the legislation. You were discussing, after the legislation was in effect——

Mr. ROGERS (interposing). That is correct.

Mr. GESELL. What your policy was. Now, with respect to the enactment of the legislation.

Mr. ROGERS. We never took any part in that at all.

Mr. GESELL. Did any association or organization of life-insurance companies of which your company is a member to your knowledge oppose moratorium legislation?

Mr. ROGERS. That I do not know, Mr. Gesell. You would have to ask those people. I do not know. I do not follow those things.

Mr. GESELL. You have no knowledge of any activities of the Association of Life Insurance Presidents in that regard?

Mr. ROGERS. No.

Mr. GESELL. Now, with respect to handling of cases after the moratorium legislation was enacted—I interrupted you when you were about to tell us about that.

Mr. ROGERS. Well, what I was going to say was that we had a great many cases that ran under moratorium laws. Our policy of leniency, working with borrowers, left a great many of our cases subject to the provisions of the moratorium laws when they were passed. We worked along with those people and did everything we could to be helpful. We turned the work over to one man, an agricultural expert, to try and advise with these people in the operation of their farms. In some few cases, the moratorium saved the farms, but not in many cases. Another development was the fact that after the moratorium law of Iowa, particularly, was declared unconstitutional in 1939, compromise arrangements were worked out in a very, very large percentage of the cases.

Mr. GESELL. Now, let me ask you this. When moratorium legislation was up for consideration, or a legislature was about to convene to consider legislation in aid of distressed farmers in a particular State, did that in any way affect the foreclosure policy of your company in the farm field?

Mr. ROGERS. Well, I would say this, that if we had a number of cases that were definitely foreclosure cases that had no possibility of working out, we might say to our attorneys, "Well, it would be advisable to push those cases along." I think that might have been done, and I think it was perfectly proper to do it.

Mr. GESELL. Yes; you mean that if you felt there was to be some type of legislation enacted, in anticipation of that you would try to clean up all of the cases where you were sure no work-out possibilities existed?

Mr. ROGERS. Yes. To illustrate: I made a spot-check, I believe I mentioned before, of $17,000,000 of mortgages that were foreclosed. Those parties owed $3,000,000 on other land and they owed second mortgages and junior indebtedness of $5,500,000. In such circumstances it was very difficult for many of those people to work out, because their secondary indebtedness was probably equal to 50 percent in some instances of their first mortgage.

Mr. GESELL. Is that the way that you determine whether or not work-out possibilities existed, namely, to inquire into the whole debt picture of the farmer?

Mr. ROGERS. Indeed, in all instances.

Mr. GESELL. It wasn't based simply on an analysis of the land and the particular mortgage you held, but his whole circumstances?

Mr. ROGERS. His whole circumstances, because after all it is the man and the family that count.

Mr. GESELL. Well, now, one other phase of this. Are you familiar with the Iowa Farm Debt Advisory Council and its activities?

Mr. ROGERS. Yes; indirectly of course.

Mr. GESELL. What was the nature of the activities of the Iowa Farm Debt Advisory Council?

Mr. ROGERS. It was to get the creditor and the debtor together for the purpose of discussing the affairs of the farmer borrower, the debtor.

Mr. GESELL. It was a plan, was it not, whereby the insurance company would advise the council prior to foreclosure with a view to sitting down with the council and the farmer and considering matters of debt adjustment?

Mr. ROGERS. Well, now, that is just slightly confused, I think. I cannot recall the details, excepting this, that we took the position that the farmer should ask for consideration of his case before the debt adjustment committee, and that we were always happy in such circumstances to meet with him and with the debt-adjustment committee.

Mr. GESELL. The debt-adjustment committee, however, wanted you to notify them directly, did it not?

Mr. ROGERS. I believe that is the case, but we felt that was terribly unfair to the farmer. We shouldn't notify them or haul him before a committee of others. He might much prefer to talk his situation over with us. We were always willing to listen to him, always willing to work with him.

Mr. GESELL. Well, you felt it was unfair to notify this council before you foreclosed, do I understand you correctly in that?

Mr. ROGERS. I didn't say exactly that. I said it was a matter for the farmer to go to the debt-adjustment committee, rather than for us to haul him before the debt-adjustment committee.

Acting Chairman KING. You didn't want to initiate the proceedings which would invoke the power of the adjustment committee.

Mr. ROGERS. No.

Acting Chairman KING. You wanted the farmer himself to do that.

Mr. ROGERS. That is right, Senator King.

Mr. GESELL. The council felt pretty strongly, didn't it, that that approach to the matter was unsatisfactory from their point of view, since they felt many farmers considered their cases hopeless and wouldn't seek the aid of any third party?

Mr. ROGERS. There may have been some correspondence that had reference to that, but it has been so many years ago I do not recall the details of it.

Mr. GESELL. Do you recall seeing that letter that I now show you?

Mr. ROGERS. Yes; this is a letter addressed to Mr. Lincoln, then vice president and general counsel of the company.[1]

Mr. GESELL. That letter states the position of the council with respect to the position your company took on this matter, does it not?

Mr. ROGERS. I would have to read that letter rather carefully. I think Mr. Lincoln's reply stated our position.

Mr. GESELL. I have a letter of Mr. Lincoln's dated October 24, 1934.[2] Is that the one you refer to?

Mr. ROGERS. That is the one.

Acting Chairman KING. You recognize the fact that there was this advisory committee created by the law of Iowa, and when you asked to participate in the proceedings for the purpose of adjusting all of the obligations, your organization did participate, directly or indirectly?

Mr. ROGERS. Senator King, I am not sure whether that was a law or whether it was a created body. Which would you say, Mr. Gesell?

Senator HERRING. It was not created by law. I appointed the conciliation board as Governor in the effort to assist both the loaning companies and the farmers that were being foreclosed.

Mr. GESELL. This is the letter of Mr. Lincoln referred to, stating the position of the Metropolitan, is it not?

Mr. ROGERS. This is the letter; yes.

Mr. GESELL. I should like to offer this letter for the record.

Acting Chairman KING. It may be received.

(The letter referred to was marked "Exhibit No. 2297" and is included in the appendix on p. 15519.)

[1] See "Exhibit No. 2298," appendix, p. 15520.
[2] See "Exhibit No. 2297," appendix, p. 15519.

Mr. GESELL. I should also like to offer for the record a letter from the Iowa Farm Debt Advisory Council which Mr. Rogers identified a moment ago.

Senator WHITE. Is the one now being offered the one to which the Lincoln letter is the reply?

Mr. GESELL. It is the reverse. The Iowa Council letter is the reply to Mr. Lincoln's letter.

Acting Chairman KING. It may be received.

(The letter referred to was marked "Exhibit No. 2298" and is included in the appendix on p. 15520.)

Mr. GESELL. That letter from the Iowa Council indicates that most of the insurance companies took an attitude opposite from yours with respect to this matter of farm-debt adjustment, as far as this particular council was concerned.[1] I wondered whether there were any other factors in your mind other than the fact that you thought it was unfair to the farmer to bring him before this council unless he was willing, which prompted your attitude in this connection.

Mr. ROGERS. Not that I recall at this time, as letters were frequently written to us by our correspondent that he had talked matters over with a farmer and the farmer preferred not to get others into his financial affairs.

Mr. GESELL. Do I understand that the farmers didn't want their matters brought before this council in cases that came to your attention through correspondents?

Mr. ROGERS. I would say that some did not. Others did. We always left it to the farmer. We thought it was his right and privilege.

Acting Chairman KING. It is a purely voluntary matter on the part of the farmer. If he wanted to accept the services of this advisory committee, it was all right with you. If he did not want to accept their interposition, that was a matter for him to determine?

Mr. ROGERS. Yes; that is right.

Acting Chairman KING. But you did not feel, as I undestood you that it was an obligation resting upon you or your company to institute the proceedings under which he was to be brought before or under the jurisdiction of this advisory committee?

Mr. ROGERS. That is correct.

Mr. HENDERSON. Mr. Rogers, you said, I believe, that there was no other reason why you had adopted the attitude you did. Was it that you believed a move in Iowa would be a political move, the setting up of this council?

Mr. ROGERS. I don't recall anything of that kind.

Mr. HENDERSON. Would this refresh your memory?

I will make my question specific. Did you have a feeling that the program instituted out there was for political purposes and you had a general distrust of the people who were running it?

Mr. ROGERS. No; that was not the case. I would not say that was a part of the reason, or that those in charge considered it desirable from a political standpoint that such committees be set up. I wouldn't say that I didn't have that feeling, though.

Mr. GESELL. This note that is attached is written in your handwriting, is it not?

Mr. ROGERS. Yes; it is.

---

[1] See "Exhibit No. 2298," appendix, p. 15520.

Mr. GESELL. And you say, "I believe politics prompts the program of Governor Herring on the foreclosure of mortgages. I know Bowman and frankly doubt his sincerity." Mr. Bowman is evidently the man who signed the letter originally initiating the question as to whether or not there would be a cooperative move between your company and the Iowa Farm Debt Advisory Council. I take it then you felt that this council wasn't prompted by the needs of the farmer in the locality, entirely—there were other factors involved?

Mr. ROGERS. I would say that it was prompted by the needs of the farmer, and I would say also that it was prompted by the desire of the men in control of the administration of the State of Iowa to have such legislation—or not legislation, but to have such committees set up. The thing about things of this kind is that, not being in a State you do not know thoroughly all that goes on.

Mr. HENDERSON. In other words, it might be good public policy and good politics at the same time.

Mr. ROGERS. Indeed; yes, sir.

Acting Chairman KING. All political moves are not bad.

Mr. ROGERS. Indeed not.

Acting Chairman KING. Although some may be.

Mr. GESELL. I was just wondering, Mr. Rogers, whether the very fact that you weren't in the State and were somewhat removed from those problems led you to misjudge the efforts back of the formation of this particular organization?

Mr. ROGERS. That is a possibility. We endeavored to keep very fully informed, but a single State is a large area, and that which goes on within the State is difficult to know.

Mr. GESELL. Now, coming to the question of the management of farms—first, there is one other question. Who has been your farm-mortgage correspondent in the States of Kansas and Oklahoma?

Mr. ROGERS. In the State of Kansas, the Central Trust Co., of Topeka, Kans.; and in Oklahoma we had the Pioneer Mortgage Co. for many, many years, and then succeeding the Pioneer Mortgage Co. was the Central Mortgage Co.

Mr. GESELL. The Central Mortgage Co. and the Central Trust Co. represented you from '34 on in Oklahoma and Kansas; is that correct?

Mr. ROGERS. The Central Mortgage Co. represented us in Oklahoma from the time that the Pioneer Mortgage Co. was unable to carry on. What happened there was that the executive vice president and the president of the Pioneer Mortgage Co. both died within a period of a year. Then it became necessary for us to find someone to take over the servicing of our Oklahoma mortgages at the time of severe depression.

In that connection, the Pioneer Mortgage Co. had some employees that were excellent men. We thought if we could get one of our existing correspondents to just add that State to their operations and take over some of these experienced people, that it would be the easiest way to handle the situation in the depth of a depression when conditions were very, very bad and experienced people were badly needed.

Mr. GESELL. So that you took the farm correspondent in Kansas, in whom you had confidence——

Mr. ROGERS (interposing). That is right.

Mr. GESELL. And he took over the business of the loan correspondent in Oklahoma, some of the personnel, and continued the operations in Oklahoma?

Mr. ROGERS. Yes; that is right.

Mr. GESELL. Mr. Carroll B. Merriam was a director of the Metropolitan at that time, was he not?

Mr. ROGERS. The negotiations for the taking over of the Oklahoma operation were started before Mr. Merriam was a director. He was a member of the R. F. C. here in Washington, D. C. He had not been active in the Central Trust Co. for some time. His son, Jack Merriam, was the real mortgage executive in the Central Trust Co. at the time.

Mr. GESELL. Then, do I understand you to say that he was a director before the negotiations in Oklahoma were completed, but that he was not when the negotiations started?

Mr. ROGERS. That is exactly right.

Mr. GESELL. And after the negotiations went through, Mr. Merriam was a director of the Metropolitan?

Mr. ROGERS. Yes; at the time the negotiations were completed.

Mr. GESELL. What was his connection with the farm correspondent, the Central Trust Co.? He was a stockholder, was he not?

Mr. ROGERS. He was a stockholder in the Central Trust Co., but I do not recall his interest in Central Mortgage.

Mr. GESELL. The Central Mortgage was owned by the Central Trust?

Mr. ROGERS. Yes.

Mr. GESELL. So, having a stock interest in the parent, so to speak, he had an indirect interest in the subsidiary?

Mr. ROGERS. Yes; I suppose so.

Mr. GESELL. And you say the companies were run by his son?

Mr. ROGERS. That is correct.

Mr. GESELL. And then for a period of some years farm loans were made through these correspondents in Kansas and Oklahoma, were they not?

Mr. ROGERS. That is correct.

Mr. GESELL. During the time that Mr. Merriam was a director of the Metropolitan?

Mr. ROGERS. That is right.

Mr. GESELL. And, in addition, the farm correspondents handled the management of some farm property that had been taken over through foreclosure out in that area under an arrangement similar to that of other correspondents?

Mr. ROGERS. I will tell you how that worked out. At the time that the Central Mortgage Co. took over the handling of the Oklahoma loans they did not wish to handle the real estate—as I mentioned Friday, the mortgage loan correspondents were not very greatly interested.

So we set up our own organization to handle the management of the farms and put a Mr. R. E. Wilson in charge. In keeping with our extensive rehabilitation program, Mr. Wilson carried out and directed the rehabilitation of our Oklahoma properties, bringing them up to a high standard. After that difficult work was completed and some of the farms had been sold, I saw that the expense of our supervision for the small number of farms in that State was very high. Then I asked the Central Mortgage Co. if they would not take over the supervision of those farms on a fee basis.

Now, out of 2,000 loans, over 2,000 loans, in Oklahoma, our maximum ownership of properties was 88, and those properties were very small, and, of course, I spoke of the expense in supervising small loans, and that prevails in supervising small properties.

Mr. GESELL. So that in that instance you decided it would be better for the farm correspondents to handle the management of the property?

Mr. ROGERS. Yes; and they still handle it.

Mr. GESELL. Mr. Merriam has resigned as a director, has he not?

Mr. ROGERS. So I understand.

Mr. GESELL. When was his resignation—last year?

Mr. ROGERS. That I could not say, Mr. Gesell.

Mr. GESELL. May we have that date for the record?

Mr. F. H. ECKER (chairman of the board, Metropolitan Life Insurance Co.). The exact date I do not know, but it was probably about the 1st of December of last year.

Mr. GESELL. Then, for the period from 1934 to his resignation, the Central Trust Co. and the Oklahoma subsidiary were actively acting as farm correspondents, were they not?

Mr. ROGERS. Yes; the Central Trust Co. had acted for several years, I believe.

Mr. GESELL. That was prior to the time Mr. Merriam became a director? They had a connection?

Mr. ROGERS. They had a connection; yes.

Mr. GESELL. Due to the troubles of the Oklahoma correspondents?

Mr. ROGERS. Yes.

Mr. GESELL. Well, now, how many farms—once again may we have the figure for the record—does the Metropolitan manage?

Acting Chairman KING. Now?

Mr. GESELL. Yes.

Mr. ROGERS. Slightly over 7,000. I believe I gave the number as 7,153. I believe the number is actually 7,078, as of last week.

Mr. GESELL. When you take over a farm through foreclosure, you have indicated you enter into an extensive rehabilitation program.

Mr. ROGERS. Yes.

Mr. GESELL. Before I get to that, may I ask you generally what that averages per farm, and how much of the money goes to buildings and property, and how much of it goes to the land, so we can have some idea on an over-all basis how it works?

Mr. ROGERS. That would be an impossible question to answer, for the reason that reclaiming land in many respects is giving aid to Nature. It is planting legume seed, soil-building crop seed, and it takes time to go around the farm with your soil-building crop seeds, but you will continue it. It is a part of regular maintenance.

Mr. GESELL. Since it is a long-term program, it is hard for you to say, on the average, how much you put into the farm?

Mr. ROGERS. Yes. I would say this: That to date we have spent from 8 million to 9 million dollars placing the buildings and fences on our farms in excellent condition.

Mr. GESELL. If I may interrupt a moment, how much of it have you spent for this land rehabilitation, so we can get the figures offset against each other?

Mr. ROGERS. That would be difficult. You have legume seed running into the millions of pounds. For instance, today we have on hand, off of our own farms, enough crotalaria seed to be used in the South for the next 2 years, and lespedeza seed to be used in our Memphis branch office territory and Missouri territory that will last us 2 years.

Mr. HENDERSON. What type of seed is that?

Mr. ROGERS. One type is crotolaria. It grows much like sweet clover. Governor Herring knows sweet clover, but it grows only in the South, in the Coastal Plain region. It will not produce seed much north of Macon, Ga., and it will grow sometimes 6 feet high, and then we turn that into the soil, generally in a very green state, and that adds tons and tons of fertility to the land.

Mr. GESELL. How does it happen that you know the figure for what it costs to rehabilitate the buildings and fences and don't know how much you put into the land? It would be the difference, wouldn't it, if you took your total rehabilitation expense?

Mr. ROGERS. Because we look upon the building up of the land as an annual, regular maintenance expense, and we look upon the building situation as a large outlay of money that will end once they are completed.

Mr. GESELL. And you can't tell us as of today, or to date, how much you have put into the land?

Mr. ROGERS. No; I could not. It would run into thousands of dollars, of course.

Mr. GESELL. I was trying to get some relation between how much went to buildings and fences and how much went to land. You can see my point.

Mr. ROGERS. Yes. For instance, commercial fertilizer is also an annual expense. I think our purchases of commercial fertilizer run from 100 to 125 thousand dollars a year.

Mr. GESELL. If you can't tell us that figure, will you describe your rehabilitation program for us in as short a time as you think adequately covers it?

Mr. ROGERS. Well, of course, rehabilitating farms is quite a heavy task. We have spent 8 to 9 million dollars on the buildings alone, but the farms have paid for that expense; we have charged that against the annual income of the farms, and in addition I think we have spent probably 2 million dollars for new buildings, maybe more, which were added to the capital account, were considered capital expenditure. I could show you more readily by a few pictures that I have here.

Acting Chairman KING. That would take too long. Haven't you any idea as to the amount you have expended for the rehabilitation of the land in contradistinction to the rehabilitation of the buildings?

Mr. ROGERS. No.

Acting Chairman KING. Would it be 50 percent as much?

Mr. ROGERS. If I were to make an estimate I would say the cost of the rehabilitation of the land would run about $300,000 a year.

Acting Chairman KING. $300,000 a year?

Mr. ROGERS. Yes; that would be my estimate.

Acting Chairman KING. Would that include the cost of all the fertilizer you had purchased?

Mr. ROGERS. Yes.

Acting Chairman KING. Would that be the cost of operating the farms themselves?

Mr. ROGERS. No; that is just for the seed and for the fertilizer.

Acting Chairman KING. Then the cost of operating the farms would be something.

Mr. ROGERS. You mean the supervision of them?

Acting Chairman KING. Yes; operating them, plowing, reaping, and sowing.

Mr. ROGERS. We do not operate them, Senator.

Acting Chairman KING. You let your tenants do that?

Mr. ROGERS. All are on a tenant basis, with very few exceptions.

(Senator O'Mahoney resumed the chair.)

Mr. GESELL. To get some idea of your rehabilitation program, could you tell us generally after you get a farm what you do?

Mr. ROGERS. Yes. After we acquire a farm we have one of our agricultural experts make a complete analysis of it. He makes out a complete report, an analysis of how the fields should be laid out, as to the buildings that should be repaired and the buildings that should be added. Sometimes buildings should be cut down in size; sometimes they should be moved to give a better appearance to the farmstead. That is all worked out as a complete program, and after the field representative, as we call him, has made his recommendation, then his supervisor, the man that is over him, goes over all his plans. Then that plan is submitted to New York for approval, and, after approval, then we proceed with two things.

The plan of the farm or the field starts immediately. The rehabilitation of the buildings we have to take more gradually, because we budget the amount that we are to spend on the buildings each year, and that is much in proportion to the amount of work the men can handle. That, I believe, is the way that this is carried out.

Mr. GESELL. What are your relations with the tenants? What type of agreement do you have with them? Do they pay you on a crop-share basis, or do they pay you a percentage of their earnings, or how does it work?

Mr. ROGERS. They pay us on a crop-share basis for the main cash crops, and then they pay us cash rental for pasture land and hay-meadow land.

Mr. GESELL. Then you must receive, in most instances, a considerable share of the crops of these farms each year.

Mr. ROGERS. We receive——

Mr. GESELL (interposing). How does it run, around 50 percent?

Mr. ROGERS. It depends upon the community. In Iowa 50 percent of the corn in most areas is the accepted standard; in the South, one-fourth of the cotton; in some areas 40 percent of the small grain; other areas, one-third of the small grain; whatever is the custom of the community.

The CHAIRMAN. Can that be handled profitably from the point of view of the Metropolitan?

Mr. ROGERS. I would say so, Senator. You take in 1939 our income, rental income, was $5,000,000. In 1938 I think it was $4,500,000. In 1937 I think $4,600,000. The last 4 years it has been running along there.

The CHAIRMAN. In other words, for 4 years the rental income of the Metropolitan from farm tenants has been in excess of $4,000,000 annually?

Mr. ROGERS. Yes; it averaged about $4,600,000.

The CHAIRMAN. How does that compare with the interest income which you wold have received had there been no foreclosures?

Mr. ROGERS. Well, it would be lower, in view of the fact that we have spent so much money on rehabilitation. If that item were taken out, you see, the gross rental return in 1939 was 6.03. The taxes amount to approximately 1 percent.

Now, after a farm is thoroughly rehabilitated, the annual maintenance item is very small.

The CHAIRMAN. The rehabilitation cost would be amortized into the future.

Mr. ROGERS. Under the ordinary circumstances, but we do not.

Mr. GESELL. Perhaps I can help by directing some questions to the tables which show some figures on that.

Mr. Rogers, you have "Exhibit No. 2250" in front of you, have you not? Is it not correct that table 188 shows the farm real estate net income or deficit of the companies—that the table shows for the period '32 through '38 your company made, above depreciation, $2,342,000 from its farm real estate? [1]

Mr. ROGERS. Yes; and included in that—that is, in addition thereto—all of the money that was expended on rehabilitation.

Mr. GESELL. Yes. That is shown on table 191, isn't it, entitled "The farm real estate owned—General ledger account"? [2] That table shows, does it not, that your book value of farm real estate as of December 31, 1938, is $83,290,000?

Mr. ROGERS. That is correct.

Mr. GESELL. $76,812,000 of that is represented by the unpaid principal amount of the foreclosed mortgages; is that not correct?

Mr. ROGERS. Yes.

Mr. GESELL. In other words, your farm real estate is carried at $6,478,000—that is the difference—more than the amount of the unpaid principal of the amount of the mortgages foreclosed at the time the real estate was taken over?

Mr. ROGERS. Yes.

The CHAIRMAN. Would you state that again? I didn't get it. My attention was diverted.

Mr. GESELL. We are talking of table 191, and that table indicates that the Metropolitan's farm real estate account is carried at $6,478,000 more than the unpaid principal of the mortgages foreclosed at the time the real estate was taken over. That is the difference between $76,812,000——

The CHAIRMAN (interposing) Which is the unpaid principal amount of foreclosed mortgages.

---

[1] See Hearings, Part 10–A, p. 188.
[2] Ibid., p. 191.

Mr. Gesell. And the $83,290,000 figure, which represents the value which is carried in the general ledger account.

The Chairman. The book value; yes

Mr. Gesell. The difference is $6,478,000, as Mr. Rogers testified. Stated in another way, Mr. Rogers, that means your book value is 109.79 percent of the unpaid principal of the foreclosed mortgages.

Mr. Rogers. Yes; that is correct, and in explanation, $3,000,000 of that represented new buildings constructed upon farms where we believed that the book value was sufficiently low, or the real value of the property was sufficiently high, to justify considering those new buildings as a capital expenditure.

The Chairman. In other words, the investment of the Metropolitan in rehabilitation or improvement is reflected in this figure.

Mr. Rogers. Not the rehabilitation, only the new buildings. If we built a new house——

The Chairman (interposing). I used the word "rehabilitation" probably in too narrow a sense; in new construction and improvement.

Mr. Rogers. New buildings only.

The Chairman. And what has been the value of that?

Mr. Rogers. $3,000,000.

The Chairman. $3,000,000 have been expended in real-estate improvements upon the buildings.

The Vice Chairman. That is too narrow, Senator, if you will pardon me. The figure just given is with reference to new buildings, but it does not include the cost of improving the buildings and painting them up and patching them up, and so forth.

Mr. Gesell. It includes only a portion of the rehabilitation expense that has been capitalized.

Mr. Rogers. And only a portion of the new buildings.

The Vice Chairman. Wait a minute—only a portion of the new buildings?

Mr. Rogers. Judge Sumners, if we have a farm that we doubt if its real value is in excess of its book value, and we add a new barn to that farm, we charge that new barn to expense.

The Vice Chairman. You don't charge it to that particular property.

Mr. Rogers. No; we charge it to expense.

Mr. Gesell. You don't capitalize that?

Mr. Rogers. We don't capitalize it.

The Vice Chairman. Why don't you capitalize it? It is a part of your investment in that property, isn't it?

Mr. Rogers. We don't, because we have our doubts as to the real value of the farm.

The Chairman. As I understand your statement, it is simply this—that if the value of the farm in your judgment is not actually equal to the book value, then if you construct some building upon that farm, you do not add the cost of that construction to the book value, because it operates only to bring the real value up to the book value.

Mr. Rogers. That is correct; exactly, Senator.

The Vice Chairman. Does the cost of improvement find its way into any other item than as an item of cost of that particular farm?

Mr. ROGERS. No; not in that particular case. Now, in the event we had a farm with a book value, let us say, of $10,000, and we believed the real value of that property was $13,000, and we were constructing a new barn costing $800, in that event we would increase the book value of that particular farm $800.

The VICE CHAIRMAN. Let me ask you right at that point—I think we have got you there: At what book value are you carrying these farms that are not worth what you foreclosed them for?

Mr. ROGERS. Well, we are carrying some farms that are probably at this time not worth the full amount of the book value. They are few in number. What we look at is our farm real-estate portfolio as a whole. We have many farms, a great percentage of them, that are worth much more than the book value.

Now, if we have a farm that is injured to the extent of being worth materially less than its book value, we write that individual property down, but if we have a farm——

The VICE CHAIRMAN (interposing). You write it down. Then when you put a new building on it, why don't you write it up?

Mr. ROGERS. We have not followed that policy.

The VICE CHAIRMAN. Suggest that to your management, will you?

Mr. GESELL. Now, Mr. Rogers, in further reference to this question, am I correct in saying that most of these rehabilitation expenses that have been capitalized have been capitalized since January 1, 1932? I would assume that is correct, because your foreclosures took place mostly since then, and much of your expenditures.

Mr. ROGERS. I would presume that that would be the case, since 1932.

Mr. GESELL. It would be safer to say that probably 75 percent of these items capitalized have taken place since that time.

Mr. ROGERS. I believe it would.

Mr. GESELL. Now, if you will turn——

The VICE CHAIRMAN (interposing). Let me ask another question. I can't get this clear. When you put these improvements on properties that are not equal to their book value, you are merely trying to pull up the real value to the book value?

Mr. ROGERS. That is correct.

The VICE CHAIRMAN. I can't understand why you don't put the book value of the farm at its real value?

Mr. ROGERS. That was done, as I say, whenever there is any great difference. You may have a farm, let us say, that has a book value of $10,000, and you have an appraisal of, let us say, $9,400. The farm is being improved, the income from it is being improved, and in those cases we are not adjusting those small items.

The VICE CHAIRMAN. Let me ask another question and maybe that will clear it up: How much is the expenditure of the character which you have indicated that goes on these farms that are below book value, and with reference to which you make no inclusion in this item of improvements?

Mr. ROGERS. I would have to make an individual analysis of each property. I have no other way of doing it.

The CHAIRMAN. By and large, what would be your opinion? I should think that your answer would depend upon your general knowledge as to what proportion of farms on which improvements had been made were actually below book value.

Mr. ROGERS. Senator, I couldn't give you an idea. That is very difficult in handling upward of $80,000,000 of real estate.

The CHAIRMAN. Could you answer a question as to the whole portfolio? Is that above or below book value, or was it above or below book value when you began this program?

Mr. ROGERS. Today we believe that our value, real value, is $5,000,000 above our book value and that is arrived at by taking into account income and the intricate knowledge of these properties of the men who handle them.

The CHAIRMAN. All the work that you have done in rehabilitation and improvement has, of course, increased the value of these farms.

Mr. ROGERS. Yes; greatly.

The CHAIRMAN. All right; accepting the fact that the value now is so much greater than book value, what about the condition at the time you began?

Mr. ROGERS. Well, Senator O'Mahoney, you know it is very difficult to take a farm that has probably been worked hard by the owner, to try and save it, and he has not spent money on buildings at all; it takes money to bring that farm back to its real value, and it is all done over a period of years. We are constantly working with them.

The CHAIRMAN. I should think that it is perfectly obvious that in a depression, an agricultural depression particularly, many mortgaged farms would tend to depreciate because of just exactly the conditions that you now describe.

Mr. ROGERS. Yes.

The CHAIRMAN. The farmers didn't have the money to keep them up and buildings began to run down, and so forth and so on, so that when you began this program of rehabilitation, it would appear to me, without any knowledge of the facts with respect to your farms but as a general rule probably there had been a considerable depreciation of actual value.

Mr. ROGERS. Yes; there had been; and, of course, with the program starting in 1932, and really being more active in 1933, during that time the farms kept coming to us, you see.

The CHAIRMAN. Now, you have actually by this policy greatly increased the value of these farms?

Mr. ROGERS. Greatly increased it.

The CHAIRMAN. And all I was trying to find out was how greatly have you increased it?

Mr. ROGERS. Because of the changing portfolio I would be unable to say. And another thing, you have a slight change in land value generally over the country. We can see in different sections a gradual change in land values. For instance, land values, I believe, as indicated by the Department of Agriculture, have dropped slightly in the last 2 years—have gone off slightly in the last 2 years.

Mr. GESELL. Mr. Rogers, I was just wondering whether you were quite correct in your statement to Senator O'Mahoney. The rehabilitation expense to a large extent may have been simply money expended to bring the value of the land and property back to what they were at the time the original mortgage was made—isn't that correct—just because of this mining of the land and the deterioration that took place during this period of depression?

Mr. Rogers. Oh, we have gone 'way beyond that. We have some of these farms in finer condition than they have ever been in. For instance, in Minnesota our men made their crop rotations a little too short; in other words, they placed so many legumes on those farms that we actually got them too fertile and have had to crop them more heavily.

The Chairman. You have directed the farmer in these improved methods of agriculture, have you not?

Mr. Rogers. Oh, yes; and of course we furnish all the soil improvement crop seed.

The Chairman. Do you have special experts whose duty it is to help the farmer with respect to how he shall control the crops?

Mr. Rogers. That is correct, Senator.

The Chairman. You teach him the improved methods of cultivation, better methods of treating the soil?

Mr. Rogers. Yes.

The Chairman. Do you counsel with him with respect to the type and character and amount of crops which are planted?

Mr. Rogers. Yes, indeed. What we say is that each farm must have a certain percentage in soil improvement crops each year, and that is agreed upon with the tenant and he understands it, and I wish to say that tenants love the system, they love to have the improvements made on the farm and they work with us splendidly, wonderfully.

The Chairman. Do you have any contractual arrangements with the tenants by which this program is carried out?

Mr. Rogers. We have each field lettered. I wish I could show you one of those plans.

The Chairman. I would like very much to see one. Perhaps I am anticipating some of your questions, Mr. Gesell, on that.

Mr. Gesell. No, Senator; when you were out of the room Mr. Rogers offered those and Senator King felt that the time was too short, so we didn't get to them at that time.

The Chairman. I see.

Mr. Rogers. There are two types of farms. Now the one in green I believe is Montgomery County, Ky.

The Chairman. The one before me is Montgomery County, Tenn.[1]

Mr. Rogers. Well then, it is Tennessee. The other one, and I think you should have it also, Senator, is a very high type Illinois farm. These are just the essentials, the bare essentials of the working plan. You see, each field is lettered, A, B, and C, and then if you turn to the next page, to the cropping program——[1]

The Chairman (interposing). Now we are referring to the Illinois farm. Each field is labeled by your manager.

Mr. Rogers. That is the agreed plan of operation.

The Chairman. Agreed to by whom, with whom?

Mr. Rogers. It is worked out by our men and the tenant in making his lease agrees to operate in this way.

Now turn to the next page, Senator, and that is the cropping program outlined for a period of years.[1]

The Chairman. The rotation chart?

Mr. Rogers. That is the rotation chart, you see.

---

[1] See "Exhibit No. 2299," appendix, p. 15521.

The CHAIRMAN. I see. Now this rotation chart is worked out in the case of corn for the years 1939, 1940, 1941, 1942, and 1943.

Mr. ROGERS. That is right. Each field has its rotation.

The CHAIRMAN. In other words, here is the rotation for field A, and then in the next column the rotation for field B, then the rotation for field C, for field D, for field E, for field F, for field G, and for field H.

Mr. ROGERS. Yes.

The CHAIRMAN. All included in 320 acres?

Mr. ROGERS. That is correct.

The CHAIRMAN. That is quite a detailed plan, isn't it, for the improvement of agriculture on this farm?

Mr. ROGERS. Yes; indeed.

The CHAIRMAN. To what extent is the farmer consulted in the working out of this plan?

Mr. ROGERS. Our own men usually work the plan out, with, of course, the tenant who is on the property. The tenant is given, as a rule, an outline of this cropping system so that he knows what it is. Some of them have it up in their homes. The lease provides that each year these fields shall be planted to certain crops.

The CHAIRMAN. In other words, you issue a lease to the tenant by which he agrees to follow the program of farming which is devised by your experts?

Mr. ROGERS. Yes; that is right, and they work together on it. Now, there is a great elasticity in the use of crops. For instance, the one thing that we are interested in is that the soil-building crops, the legume seed on a certain area of the farm, is planted, and for the balance of the field whether he wished to put a field in corn or half in corn and half in potatoes, we are not particular about that; or if he wanted to use a small grain—wheat, barley, or rye—we meet his requests in that respect.

The CHAIRMAN. What is the term of such a lease?

Mr. ROGERS. Our leases are made on a 1-year basis. We have considered longer-term leases, but we would have to include in them a cancelation right in the event of sale.

The CHAIRMAN. You have a 1-year lease and a 5-year crop-control program?

Mr. ROGERS. Yes; regardless of what tenant may remain on the property, the soil-building program continues. The operation of the farm continues in the regular way.

The CHAIRMAN. You use the term soil building which brings to my mind the soil conservation. Do you cooperate with the Department of Agriculture in its soil-conservation programs?

Mr. ROGERS. You see, we are not permitted to go into the soil-conservation program. There is a limitation of $10,000 which practically bars us, and our policy is to leave that to the tenant. If he wishes to go in, we work out a modification of this plan, but you can realize that practically all of the farms that we have enter the soil-conservation program with little change because they have been on a soil-conservation basis for many years.

The CHAIRMAN. In other words, you don't have to do very much in bringing your farms up to the standard set by the Department of Agriculture?

Mr. ROGERS. No.

The CHAIRMAN. If anything.

Mr. ROGERS. Seldom anything, if anything. I will give you an illustration where we are having a little difficulty. In the State of Georgia we had 80 thousand acres go out of cultivation. We brought that back into cultivation by the use of large tractors and large tractor machinery, and then after we had it rehabilitated we put small homes up on it. A lot of those farms have been sold, but when the soil-conserving program goes back to any degree on a base acreage principle, it catches those farms that were not in cultivation during the depth of the depression period, or parts of it.

The CHAIRMAN. Do these leases contain any option to the tenant to purchase?

Mr. ROGERS. No; they do not. In the past 4 years 87.3 percent of all of our farms that have been sold have been sold back to farmers or men whose business is farming, and one out of eleven sales has been back to a former owner or a member of a former owner's family.

The CHAIRMAN. What is the relationship, the ratio between those sales and the total number of farms which have been taken over?

Mr. ROGERS. The sales you mean to date? Eleven million six hundred thousand dollars of sales in '39 represented about 12 percent of all farms that we owned.

The CHAIRMAN. I was asking you a few moments ago to compare the income of the company from the crop rents and whatever other income you derived under this program with the income which had formerly been received from the same farms by way of interest.

Mr. ROGERS. To date it is lower because we have been in the process of rehabilitation. Now, that farm in Tennessee—the one with the green plat—we have had only 2 years.[1]

The CHAIRMAN. Would it be correct to infer it is lower only because of the expense of rehabilitation?

Mr. ROGERS. I would like to answer that by saying that after our rehabilitation is completed, that is the rehabilitation of soil and rehabilitation of buildings, I believe that our income would be equal to or greater than the interest we are now receiving upon mortgages made on farms.

The CHAIRMAN. And from the point of view of pure investment, for the benefit of the company and its policyholders, which, in your judgment now, if you have had experience enough to form a judgment, would be better, the farm mortgage plan with payment of interest and the retirement of the mortgages, or the tenant lease program with the income from crops?

Mr. ROGERS. I would say that in the end we would have to take into consideration the rise and fall in land value and commodity prices, but inasmuch as under the law we are to dispose of these properties as soon as we can dispose of them readily, we look entirely to the question of sale.

The CHAIRMAN. Yes; I understand that, but the answer to my question is independent of that. Which would be in effect and in fact the better from an income point of view to the company?

Mr. ROGERS. I believe the rehabilitated farm would produce the better income by and large, from the experience we have had.

[1] See "Exhibit No. 2299," infra, p. 15521.

The CHAIRMAN. In other words, if the law did not require the sale of these properties eventually, the company would get a better income by holding them and following the tenant program?

Mr. ROGERS. Yes; I feel quite certain of that.

Mr. GESELL. And you believe an organization such as yours can, over such a broad range of the agricultural land, successfully and ably manage farm property?

Mr. ROGERS. Yes; I do.

Mr. GESELL. You don't feel that the size of the job or your absence from the territory, or any of the other factors which prevail, make it impossible for you to do a good farm-managing job?

Mr. ROGERS. No; I do not, because of the fact of the experience we have had. Take this year, I just received a report on $2,500,000 worth of Iowa farms which returned $7.85 per acre gross rental, or 9 percent on the book value, but that is a gross figure.

Mr. GESELL. How big a crop do you have each year? Have you any idea of that, Mr. Rogers? I remember reading an article here in Country Home magazine which said that you counted a $3,000,000 corn crop as a failure, that during '37 you harvested 50,000 bales of cotton, 10,000,000 bushels of corn, 5,000,000 bushels of wheat, 6,000,000 pounds of peanuts, and 1,000,000 pounds of tobacco.[1] Does that give some idea of the crop you have?

Mr. ROGERS. Yes; some idea. That includes the tenants' share. That is what the farms have produced.

Mr. GESELL. How many tenants do you have, between 50 and 60 thousand people?

Mr. ROGERS. The number of tenants is around 8,000, and with their families and their hired help, and so on, it would run to the figure that you have stated.

The CHAIRMAN. Mr. Gesell, may I interrupt? As I look at these plats, I think it would be probably impossible to reproduce the diagrams of the farms with our facilities.

Mr. GESELL. We have had trouble with the charts, I might say, that were introduced last time. Being in color they cannot be reproduced in the record.

The CHAIRMAN. I think that the information contained on these two sample plats is of so much interest that they ought to be in the record.

Mr. ROGERS. The S. E. C. has that first one, the diagram; and that other little fellow—not so small either, the one in green, the farm in Tennessee, I just had prepared a day or two ago. Those cases also contain an illustration of the rehabilitation, Senator O'Mahoney. Can you see the two pages of pictures?

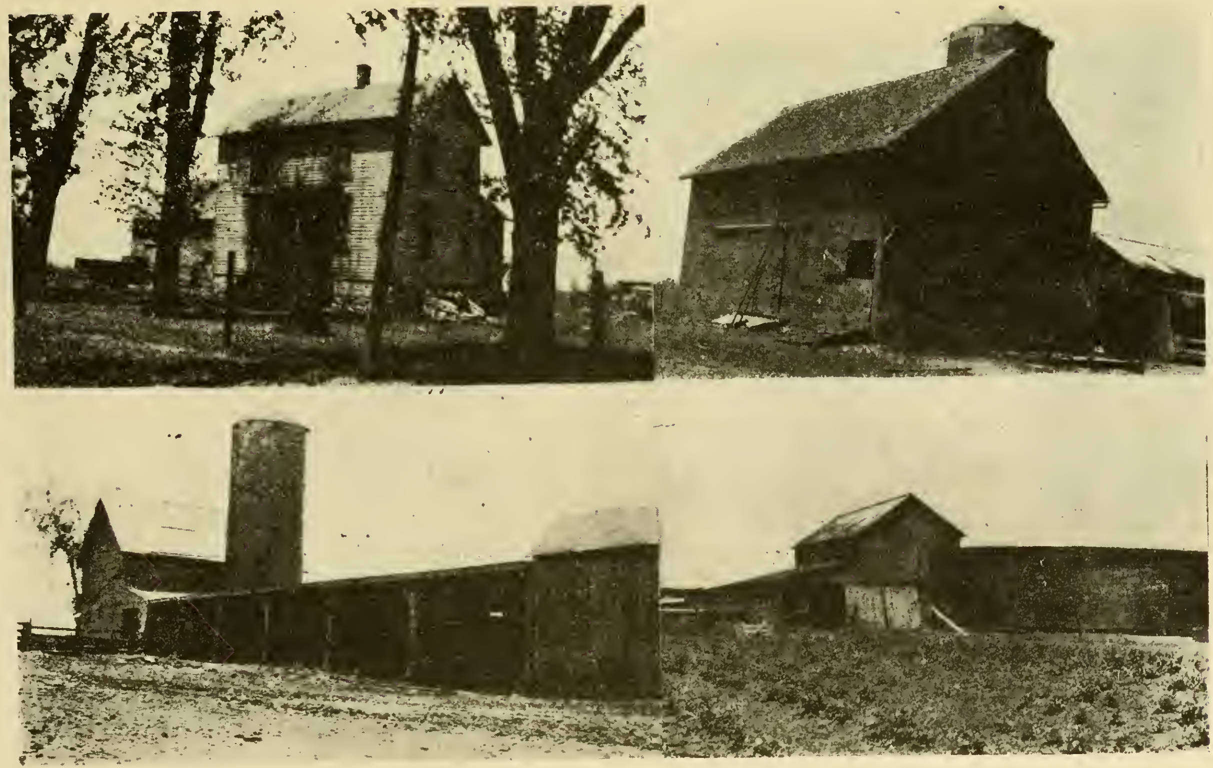
The CHAIRMAN. Yes; I noticed that, and of course we can't reproduce the pictures, either, very easily, although they are very interesting. There are pictures here of the before and after plan, showing the dilapidated condition of the farm buildings, both the residential buildings and the barns, and then the manner in which all of these structures have been improved.

Mr. ROGERS. Yes.

---

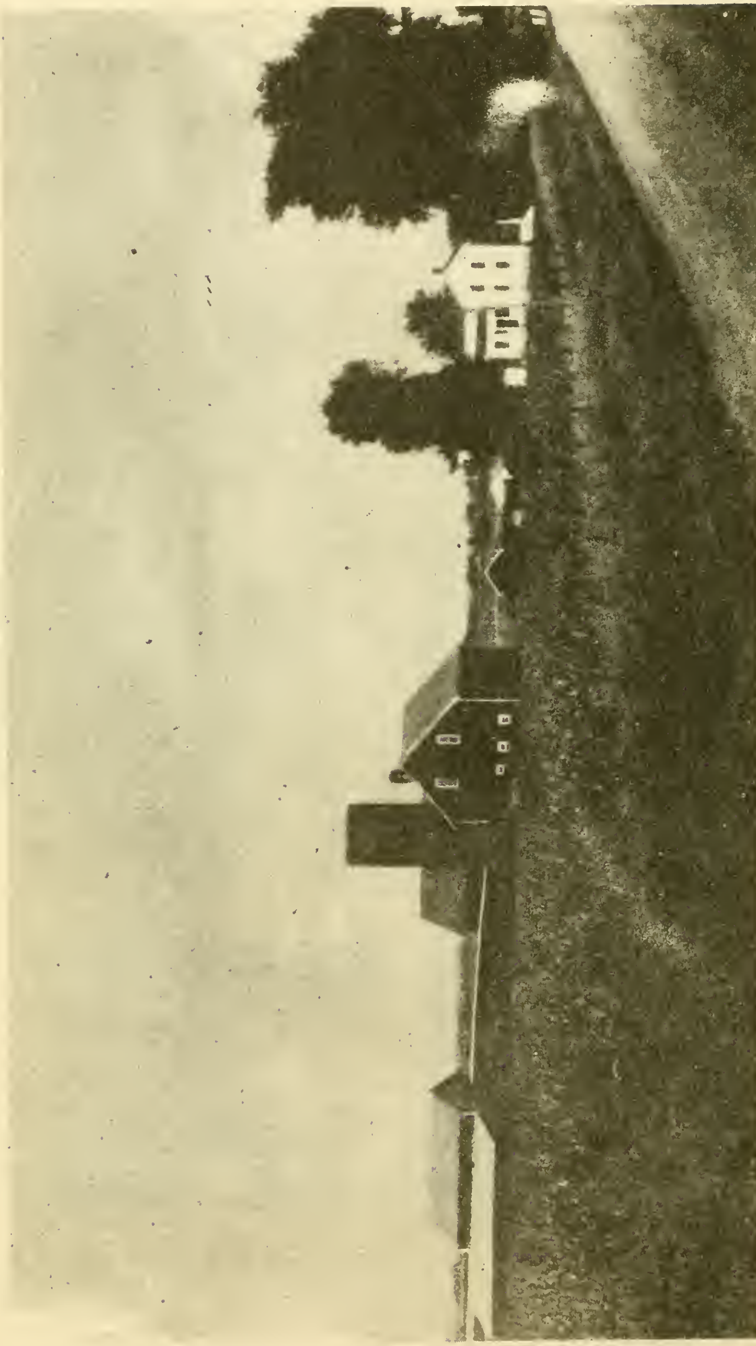
[1] See Ralph Wallace, "Putting New Life in 1,618,000 Acres," the Country Home, Magazine, October 1938, p. 7.

EXHIBIT No. 2299



BUILDINGS BEFORE REPAIR.
4358X-Graham—320 acres—Ogle County, Ill.

EXHIBIT No. 2299A



BUILDINGS AFTER REPAIR.
4353X-Graham—320 acres—Ogle County, Ill.

The CHAIRMAN. But it strikes me that it would be well to put in the record this tabular information on page 1 of the plat of the farm, and the rotation chart, don't you think so, Mr. Gesell?

Mr. GESELL. I haven't seen it, but I have no objection at all to its going in. Yes; I think that would be good information to go in.

Mr. ROGERS. The color tells the story of the contour of the land, every little knoll, every little depression is marked down. We spent

EXHIBIT No. 2299B

DWELLING BEFORE REPAIR.
8554X-Oglesby—370 acres—Montgomery County, Tenn.

EXHIBIT No. 2299C

STOCK BARN BEFORE REPAIR.
8554X-Oglesby—370 acres—Montgomery County, Tenn.

$500,000 in your State last year on this work, Senator Herring. I don't know how many millions we have spent in your State in bringing the farms up.

The CHAIRMAN. Let us admit to the record those portions of these two plats which I have mentioned.

(The plats referred to were marked "Exhibits Nos. 2299 and 2299–A to 2299–E" and appear on pp 15015–15018. The rotation charts bear the same exhibit number and are included in the appendix on pp. 15521, 15522.)

The VICE CHAIRMAN. You spoke of an item, percent gross income. Did that farm receive any benefits from the Federal Government?

Mr. ROGERS. No benefits at all. That is, 266 farms in Iowa this year with a book value of $4,909,000 produced the rental income of $463,000, or 9.33 gross income on book value, and $7.85 per acre.

The VICE CHAIRMAN. I don't know whether you understood me or

EXHIBIT NO. 2299D

DWELLING AFTER REPAIR.
8554X-Oglesby—370 acres—Montgomery County, Tenn.

EXHIBIT NO. 2299E

STOCK BARN AFTER REPAIR.
8554X-Oglesby—370 acres—Montgomery County, Tenn.

not. My question was whether there were any governmental contributions under any farm program that went into those figures?

Mr. ROGERS. No; none at all, Congressman.

The VICE CHAIRMAN. Were your farmers not cooperating with the Federal Government?

Mr. ROGERS. The tenants are.

The VICE CHAIRMAN. All the benefits that come from the Government in any sort of way go to the tenants as distinguished from the company?

Mr. ROGERS. As distinguished from the other, other than the parity payments, the price-adjustment payments. But we have not received any price-adjustment payments on the 1939 crop, and I do not know whether we are entitled to any or not.

The VICE CHAIRMAN. I don't want to go into detail.

The CHAIRMAN. We might get the opinion of the witness as to whether or not the House was correct in cutting that $360,000,000 appropriation off the parity payments.

Senator HERRING. Yes; I would like to get that.

The VICE CHAIRMAN. I don't think we ought to go into that.

The CHAIRMAN. I was just trying to worry this leader of the House.

The VICE CHAIRMAN. There is a question that I think is rather important, and that is whether or not any of these insurance companies that you know of, holders of large numbers of mortgages on farms, have ever undertaken to establish any advisory service to their mortgagors comparable to this service which you extend to the farmers, and if so, what has ever happened to it?

Mr. ROGERS. I tried that, Congressman, and we have run into this difficulty. We ran into the difficulty that the man would say, "If I spend $50 for legume seed, or $100 for legume seed, I will have to take that much out of what I will pay on interest or what I will pay on taxes." So often their farms were run down.

The VICE CHAIRMAN. Without going into detail, you have really tried to do it and it didn't work?

Mr. ROGERS. That is right.

The VICE CHAIRMAN. That is all.

Mr. GESELL. Mr. Rogers, one more question on the management of these farms. Have you made a profit or a loss in handling them?

Mr. ROGERS. Our figures show this, that on the farms that we have sold, taking into account——

Mr. GESELL (interposing). Now, I must interrupt because that is not answering my question.

Mr. ROGERS. Pardon me.

Mr. GESELL. I am going to come to the sales in a moment. Just in the handling of the farms from day to day, the management of the farms, do they make a profit or do you lose money on them?

Mr. ROGERS. Well, again we come into that heavy rehabilitation expense. If you eliminated the heavy rehabilitation expense, which we hope to have out of the way entirely by the end of next year, then I would say that we would make money upon them. This year we have a 2.02 net return after a million five hundred thousand dollars has been spent on rehabilitation.

Mr. GESELL. In other words, in capitalizing this rehabilitation expense your figures do show that you made money.

Mr. ROGERS. That would be true of the past 4 years.

Mr. GESELL. But if you hadn't capitalized your rehabilitation expense, you would have lost money on the farms and would count on making it at some other time?

The VICE CHAIRMAN. The witness said 2.02 profit.

Mr. ROGERS. Yes; that is right, after a million and a half spent on rehabilitation.

The VICE CHAIRMAN. In other words, they absorbed a million and a half and still made 2.02.

Mr. GESELL. What about '38, which is the figure we have before us here, Table 188? [1] It would show that you made a profit from '32 to '38 of $2,342,000, and the figures we have discussed show that you have capitalized $6,478,000, so that if those two were taken into account you probably have not made money on the farms.

Mr. ROGERS. Up to '38 our expenditures for rehabilitation ran more nearly $2,000,000, you see.

Mr. GESELL. And what were your profits in '38?

Mr. ROGERS. 0.97 in the black.

Mr. GESELL. So that you would say you made money without capitalizing this rehabilitation expense in '38?

Mr. ROGERS. Yes. Your book shows, and our book shows, a black return of 0.97, and of 1.16 in '37; and in 1936 our expenditures of rehabilitation were not as great.[2] That often is affected by weather conditions. We had 1.88 in the black.

Mr. GESELL. Taking the period '32 to '38, you said that approximately 75 percent of your rehabilitation expense occurred in that period. and if you were to take that off this figure of profit of $2,342,000, you would be a minus figure, would you not, for that period?

Mr. ROGERS. What profit figure do you refer to?

Mr. GESELL. The $2,342,000 appearing in table 188.[3]

The VICE CHAIRMAN. Anyway, Mr. Rogers, you had to build this property up before you could sell it?

Mr. ROGERS. Yes; that is right; and of course we made a lot of arrangements with former owners in this way, that there was no need of our going through foreclosure expense, and "We will gladly give you the 1 year full income from the property which you would be entitled to under redemption, and you deed the property over to us." Those properties would be included in the book value, you see.

As you are accumulating real estate you have two factors. You have farms which produce you nothing because you get them too late in the year, or you have worked out a compromise arrangement giving the former owner the crop and then you have the factor that you haven't had a chance to get it up into producing condition, so that as your real-estate portfolio begins to go down, then you have an accumulation on the opposite side. Do you understand, Congressman?

The VICE CHAIRMAN. Sure; I understand lots of things.

Mr. GESELL. There are a lot of companies, however, that do not capitalize these rehabilitation expenses.

Mr. ROGERS. We are one. We never capitalize rehabilitation expenses.

Mr. GESELL. What is the item of improvements of $3,052,000 appearing under the heading of Improvements?

The CHAIRMAN. That doesn't include rehabilitation. That is what he is talking about.

Mr. ROGERS. If we had a 7,500-acre farm, we broke it down into a number of units. We put new buildings on each property.

Mr. KADES. Mr. Rogers, who determines whether or not a particular improvement on a particular farm is to have its cost capitalized?

Mr. ROGERS. In the first place, we have a complete valuation on

---

[1] See Hearings, Part 10-A, p. 188.
[2] Ibid., p. 189.
[3] Ibid., p. 188.

every property. Then, when the recommendation for expenditures comes in, I have all that information before me and I make the recommendation to the real estate committee, and they are the ones who pass upon that or make final decision upon my recommendation.

Mr. KADES. Then you make the recommendation as to whether or not a cost is to be capitalized?

Mr. ROGERS. I make the recommendation; yes. We had a large estate, for instance, in the South, in South Carolina. We broke it into 18 small farms. You have to build new buildings in such cases.

Mr. KADES. Do you follow any standards or any particular policy in reaching that determination?

Mr. ROGERS. Largely the value factor.

Mr. KADES. Would the time factor enter into it? For example, if you had foreclosed a farm in 1932 and still held it, would that be the determining factor which you would take into consideration in determining, whether or not to capitalize improvement in 1939?

Mr. ROGERS. No; the value of the property; and the values are reviewed each year and are very carefully revised.

Mr. GESELL. Now, coming to your sales policy—we are almost through, Mr. Rogers.

The CHAIRMAN. Before you ask that question—a moment ago, in answer to one of my questions, you said that the tenants loved this program of cultivation and advice which you have instituted. What is the turn-over among tenants?

Mr. ROGERS. What is that?

The CHAIRMAN. What is the turn-over among the tenants?

Mr. ROGERS. I think that in the last 3 years—that would be an estimate; you have two types of turn-overs, one where we wish to change tenants, and one where he wishes to leave us—our requests have averaged about 4 percent, and that an equal number have wanted to leave us, so that our tenant turn-over, from our standpoint, is very small, but our tenants buy farms of others. You can realize that under this kind of a program, tenants can be built into purchasers, but they won't always buy the farm they live on.

The CHAIRMAN. I was very much interested in your testimony, which I think is very illuminating, because in our studies in the Department of Agriculture appropriations bill and in the Farm Security set-up we find almost exactly the same type of condition which you have described. The Farm Security Administration has been engaged, as part of its program, in seeking to put farmers on the land, and the relationship between the Farm Security Administration and the farmer who is put on the land is not unlike the relationship which you describe.

Mr. ROGERS. That is true.

The CHAIRMAN. The whole farm-tenant problem which Congress has sought to solve by the so-called Bankhead-Jones Act brings all of these phases into bold relief. Frequently, the Farm Security Administration finds that some farmers would fall into the 4 percent that you have described as the ones which you want to change.

Mr. ROGERS. Yes.

The CHAIRMAN. So that to my mind the outstanding problem, so far as agricultural land is concerned, is the relationship of the individual to the large organization.

Mr. Rogers. Yes; that's right.

The Chairman. Now, here you have drawn this picture of a huge institution which owns a very large amount of land and which has undertaken a rehabilitation program, a farm-development program not unlike that of the Farm Security Administration, for the benefit both of the tenant and of the company and then, likewise, for the improvement of the land.

Mr. Rogers. Yes.

The Chairman. The Farm Security Administration is doing likewise. We find, however, that frequently tenant farmers object to the decisions of the Farm Security Administration with respect to whether or not certain things should be done. I have often heard county agents criticized by farmers because county agents have sought to impose or stimulate improved farm practices. I have no doubt that your men have also heard criticism on the part of some farmers with respect to the methods and policies that you would like to carry out.

Mr. Rogers. Senator, in that connection the position that I have taken is that sometimes the tenant is correct and your expert is wrong, and every time a question of that kind arises I put the question very bluntly, "Who is right in this instance?"

Now, we outline to the tenant before he comes on our property just how the farm is to be operated so that he can say "yes" or "no" at that time. That might account for the fact that we have very, very little trouble. The Farm Security Administration is following very much this plan. In fact, some of my men that were trained in my organization are now in the Farm Security Administration and with it, and I believe that your soil conservation program also is coming around to this type of an operation on most farms. This plan, as you will notice, bears a number of "220," and it called a "220" plan, and the tenants know it, and we have tenants today that can plan a farm very expertly themselves.

The Chairman. You exercise great care in the selection of the tenants who go on your farms?

Mr. Rogers. Great care; yes.

The Chairman. So that before they go on they know what the company will expect them to do with respect to farming methods?

Mr. Rogers. Yes.

The Chairman. And that reduces the friction between the tenant and the company to a minimum?

Mr. Rogers. Yes.

Now, Senator, in that connection, with 8,000 leases a year for the past 3 years, which meant 24,000, we had litigation in 6 cases out of 24,000, and in working with that many people you can't have a perfect, 100 percent record.

The Chairman. You say that your ordinary lease is for a single year. Do you give any leases to good tenants for longer periods?

Mr. Rogers. Well, the understanding is so mutual between the tenants and our organization or our men that we desire good tenants who do a good job, and they know that we want them, and the same thing is true that the tenant who is on a good farm wishes to stay, so we renew those leases very early, but we always are confronted with a law that says "Sell," so that we must be in a position to sell.

The Chairman. So that because of the law which requires you to sell you can't enter into a long-term lease?

Mr. Rogers. Not very easily, no; and if we did we would have to carry that same provision, cancelation in event of sale.

The Chairman. Do you think it would be a good thing to change the law so as to permit long-term leases, or to change the law so as to give the tenant farmer an option to buy?

Mr. Rogers. Well, I have this feeling, that we should not own land or farms any longer than is reasonably necessary. I think that is correct. I would not like to see the law changed.

The Chairman. What do you mean by "reasonably necessary"?

Mr. Rogers. In other words these properties must be, in my opinion, sold back to the people on the land, and as they are gradually able to take them, they should be permitted to take them.

Mr. Gesell. Mr. Rogers, why is that? If you feel, as I recall your testimony, that you could probably make a better income managing these farms than you could under mortgage, and if you believe that you are successful and making a profit in the handling of these farms, why, from your point of view, is it desirable to turn them back to the men on the land? It seems to me there is something of a contradiction there.

Mr. Rogers. I was probably speaking from a social standpoint.

The Chairman. I am very glad to have you say that, because it has long been my conviction that one of our fundamental troubles in this country has been the divorcement of people from the land, from ownership of the land, and the more we can stimulate farm ownership and even the ownership of urban property, the better it will be for all concerned, including insurance companies and business of all kinds.

Mr. Rogers. Yes.

The Chairman. Because I think the trouble in this country is that there are too many people without property.

Mr. Rogers. I think you are correct.

Senator Herring. Mr. Chairman, I should like to ask Mr. Rogers, from his experience in farming in the manner in which he has farmed, has there been any large percentage of tenants that have been able to save enough to buy any considerable number of farms from him?

Mr. Rogers. Yes, Governor Herring. I think that last year 175 of our own tenants purchased farms. Now, there is a social problem involved at this time in that you have a good tenant that is doing a fine job, but he hasn't accumulated enough money to make what would generally be called a reasonable down payment. This year we sold $800,000 worth of land on what we call a character-sale basis, mainly to our own tenants. Some of them only paid 4 percent down. Several of those cases are in your State, and this year we are making an analysis of all of our tenants to see if we cannot in some way work out an arrangement where they will be the owners under contract, which will take care of this tenant situation as far as we are concerned.

We are now taking our best-trained agricultural experts and having them call upon and work with these contract purchasers. There is the responsibility of property ownership and the responsibility of debt that weighs heavily on the minds of a lot of people, especially young people, and when we are able to have these well-trained experts call at their homes, maybe twice a year or three times a year or once a month, and are always there to be called upon in the event these contract purchasers desire help or consultation, I believe that we will help them through that period of ownership that is most difficult.

The one thing that must be realized with this farm situation; the terrible catastrophe that occurred shocked the nerves of a lot of farm people on the question of debt. They reluctantly go into debt again and it takes time for them to recover.

Another thing, a lot of older men own these farms. You are now dealing with a lot of young people. One of our greatest prides is to take the young people and build them into purchasers of these farms.

Mr. Gesell. What do you do, Mr. Rogers, when you sell a farm and the tenant has to get out to find him a place somewhere else?

Mr. Rogers. That is one of our difficult problems, and that is one of the problems that is bothering us today, and especially March 1 in your State, Governor Herring. We have a perfectly fine tenant and the neighbor or someone has bought that farm and we must sell, and you have the case of the purchaser coming up to the door with his machinery, and so on, and the tenant that you have is a desirable fellow with no place to go. There are some of those cases.

Mr. Gesell. Then it becomes very important, doesn't it, as part of your program, to try to sell the farms back to the tenants?

Mr. Rogers. It is very important at this time and we are making an extraordinary effort to do that.

Mr. Gesell. Let me find out just how you do that. Do you sell the farms back in such a manner as to always require a cash down payment?

Mr. Rogers. We always require some cash down payment because we believe in taking over the ownership of a property, that a man should have some stake in it, even though it is a small stake.

Mr. Gesell. What percentage of cash down do you require on the purchase price?

Mr. Rogers. I just stated on the character sales, which are a special type, we have taken from 3 percent up to 9 percent. Our ordinary terms are 10 percent to the company, which we have endeavored to obtain.

Mr. Gesell. Ten percent to the company net if the purchaser will live upon and maintain the farm?

Mr. Rogers. Yes, sir.

Mr. Gesell. Twenty percent if the purchaser is a speculator or nonresident?

Mr. Rogers. Yes, sir.

Mr. Gesell. And am I correct that you will not consider a down payment of less than $250?

Mr. Rogers. We have modified that. We have some farms that are very small and some of our character sales have been made with a down payment as low as $100 on a very small southern farm.

Mr. Gesell. How do you price these farms for sale?

Mr. Rogers. The prices are arrived at by the field men.

Mr. GESELL. Independent of the book value you carry them at?

Mr. ROGERS. Absolutely independent of the book value.

Mr. GESELL. They go out and set a price and that is the price you ask.

Mr. ROGERS. You see, these men are on the properties, they must be on the properties at least 12 times a year. I require a report on the number of times each property is visited, from the field representative, along with the field manager, the supervisor, and also we frequently use the farm loan man's idea of value.

Mr. GESELL. Do you recall that letter, Mr. Rogers?

Mr. ROGERS. I know nothing of that letter because that was written by the man that preceded me in office.

Mr. GESELL. His policy must have been quite different from yours.

Mr. ROGERS. His policy was very much different in respect to farm management. My policy in reference to farm management is perhaps unique in the United States. It did not go into effect until I became manager of the division.

Mr. GESELL. According to this letter, prior to that time the sale of the property had a pretty distinct relation to the book value at which it was being held.

Mr. ROGERS. Yes; unfortunately, that man was very sick at the time that letter was written—very sick.

Mr. GESELL. Your policy has always been to set an independent price based upon the value of the property as your field men see it?

Mr. ROGERS. Yes; that is correct.

Mr. GESELL. Do you believe that this matter of a cash payment makes it more difficult to get the land back into the hands of the tenant?

Mr. ROGERS. Well, I would say that, not requiring a cash payment, the party purchasing not having a stake in the property, is not the best thing for the seller. I think he should have something there that is his, that he put into it.

Mr. GESELL. That isn't quite an answer to my question. My question was whether you think demanding a large cash payment makes it more difficult to get the land back into the hands of the tenant.

Mr. ROGERS. Demanding a large cash payment does.

Mr. GESELL. What about 10 percent?

Mr. ROGERS. I consider that a small cash payment.

Mr. GESELL. And you don't feel that demanding a 10-percent cash payment down makes it more difficult for you to get the land back into the hands of the tenants?

Mr. ROGERS. Well, of course my character-sale discussion would cover that.

Mr. GESELL. Would be an exception to it, but let's take a tenant who can't qualify as to character with your organization but still is a pretty good tenant. You want 10 percent down with him?

Mr. ROGERS. Yes, sir.

Mr. GESELL. Does that requirement make it more difficult to get the land back into his hands?

Mr. ROGERS. It makes it more difficult.

The VICE CHAIRMAN. I take it you want to get it back into the hands of somebody who will keep it.

Mr. ROGERS. Somebody who can work it, somebody who can keep it. I think the Federal land bank requires 15 percent; I am not sure.

Mr. GESELL. How do you advertise what prices your farms are for sale at?

Mr. ROGERS. We do not generally advertise the price of the farm.

Mr. GESELL. You mean to say you don't quote the price and set it up for all to see and all to look at? I should think if you were anxious to get rid of the farms as is pretty well necessary under present investment laws, you would want to advertise it in every way possible so as to find purchasers.

Mr. ROGERS. Not prices.

Mr. GESELL. You wouldn't advertise prices?

Mr. ROGERS. In the first place, the New York State insurance law requires that the sale—the approval of a sale—must be by the real-estate committee or part of the board of directors.

Mr. GESELL. Can't you advertise such and such a farm for sale, $250, subject to approval of our real-estate committee?

Mr. ROGERS. We do not advertise the prices, but we place what we consider a fair price, and it will be recommended. Our farm sales executives do that with the real-estate brokers and so on: "Here is a list of farms and the prices that we believe will be considered proper, suggested prices."

Mr. GESELL. And they deal with the broker on that subject?

Mr. ROGERS. Yes. What we find is this, that you have to have a buyer before you begin to talk price and when you get your buyer you get your man that is interested, then the matter of price comes up.

Mr. GESELL. Without stating a farm price, it may be more difficult to get buyers, may it not?

Mr. ROGERS. I doubt that, but, of course, that would be subject to opinion.

Mr. GESELL. How many farms have you had to repossess that you sell, on a percentage basis? Do you have many repossessions or do most of your sales arrangements go through?

Mr. ROGERS. Most of our sales arrangements go through. I think, out of 1,700 sales contracts at the end of 1939, we had 38 cancelations.

The VICE CHAIRMAN. That is very interesting. Will you develop how long those sales operated?

Mr. ROGERS. I couldn't say how long. In 1938 we had 26 cancelations out of some 1,300 sales in force.

Mr. GESELL. It is hardly right, is it, to relate the repossession to the sales made that year? The repossessions are frequently the result of sales made in the previous years, are they not?

Mr. ROGERS. What I was referring to was the sales contracts on our books and they may have been there a period of years. That would have to be a research study which I have never made, but the reason that I am going at it to have these trained agriculturists work with these contract purchasers is to keep the farms sold. One thing is to sell them, and especially on small down payments, but the next thing is to keep the farm sold, and that is the thing we are lending every effort toward.

The VICE CHAIRMAN. Have you any information as to how many of these persons to whom you sold have in turn sold these properties?

Mr. ROGERS. No, I haven't. There have been some resales.

Mr. GESELL. How many of your sales fall in the speculator class; in other words, where you require a 20 percent down payment?

Mr. ROGERS. I had that figure, I believe.

Mr. GESELL. I saw in your manual and I believe you have confirmed this on the stand, that you will ask 20 percent of the purchaser if he is a speculator or nonresident. I was wondering how many of your sales fall in that category?

Mr. ROGERS. I could say this: Out of a total of 2,985 sales, 379 were made to men other than farmers. In other words, 12½ percent were made to persons whose business is other than farming.

Mr. PIKE. And they were presumably carrying the 20 percent down payment?

Mr. ROGERS. They presumably would.

Mr. GESELL. I have no further questions.

The VICE CHAIRMAN. I would like to ask one or two questions and if I ask one that you have already covered, will you tell me?

In regard to tenants that go onto your farm, do you as a matter of policy render assistance by equipping the tenant with animals or machinery or any such thing as that?

Mr. ROGERS. We endeavor to select our tenants quite carefully, but if he meets with misfortune during the cropping year we have gone to his assistance in that way.

The VICE CHAIRMAN. The answer to my question, then, would be that you do require as a part of the qualification that the person who comes on your farm is equipped at least with the necessary tools and animals to operate the farm?

Mr. ROGERS. Yes; that is correct. We do finance a great many tenants during the year, and I think up to last year we had loaned tenants for operation $888,000. We had collected $26,000 of interest, and we had charged off as losses $8,000. That is how closely we work with these men.

The VICE CHAIRMAN. I think it is in the record that these persons to whom you make sales do continue to receive the benefit of your advice?

Mr. ROGERS. That is correct. We have purchasers, for instance, who say, "We demand that you give us that plan of operation at the time we purchase the farm." I made a check one time to see——

The VICE CHAIRMAN (interposing). I didn't mean to go into detail. I don't want to take much time, but I wanted to get that in the record.

Mr. GESELL. That was one other question along that line. How do you acount for the fact that your company has more properties held over 5 years than Prudential, Equitable, Northwestern or Mutual Life?

Mr. ROGERS. I would account for that in that map or chart which I showed Friday, where we had rather high concentration of ownership in the area that unfortunately was caught with that 1934, 1935, and 1936 drought immediately following the depression.[1] And another thing is, our rehabilitation program slows down sales a little because if you are selling a farm with a small down payment, you are taking all that a fellow has. If you sell him a farm that is in bad condition, you break him and you do not do yourself any good. I prefer on a 10 percent down payment, which is a small down payment, to sell a farm that is in good condition, both as to buildings and especially in good condition as to production.

The CHAIRMAN. In other words, you sell a better farm at a better price in your opinion by this program?

Mr. ROGERS. Yes.

The CHAIRMAN. And to farmers who are more likely to stay on the land and go through with the contract, is that your feeling?

Mr. ROGERS. Yes; that is right. As Mr. Henderson so ably said the other day, the farms must bail themselves out. The farms must pay for themselves, and to sell a farm to a man and take all the cash that he has, knowing that within a matter of a short time he has a new roof to put on a house and such as that, you have him broke. you have him discouraged, you don't have the same man that you have if you give him a complete going concern and then advice and counsel to help keep it going.

The CHAIRMAN. To what extent is your policy governed or formulated by state law?

Mr. ROGERS. I would say—you mean the New York State Insurance Law?

The CHAIRMAN. Any State law.

Mr. ROGERS. It has no effect, Senator.

The CHAIRMAN. There are no State laws governing the form of your contracts, contracts for sale?

Mr. ROGERS. No. Georgia may have a little peculiar law. It works out to make a little change, but all the laws are reasonable in that respect, I would say.

Mr. GESELL. And you have complete latitude as to how you shall manage and handle these farms?

Mr. ROGERS. Yes.

The CHAIRMAN. And there is no law governing tenant relations. of course, is there?

Mr. ROGERS. No, not that I know of.

The CHAIRMAN. What is the New York State law with respect to farm holdings?

Mr. ROGERS. After a farm has been held 5 years, you must ask the State insurance department for an extension of time to hold the real estate longer.

The CHAIRMAN. And it is the New York State law with respect to the 5-year limitation that actually controls?

Mr. ROGERS. Yes; that is correct.

Mr. GESELL. Have you ever been refused an extension, Mr. Rogers, any requests for extension?

Mr. ROGERS. No; I never have.

The CHAIRMAN. Is there any such law in Iowa?

Senator HERRING. Five years.

Mr. ROGERS. I think that refers to Iowa companies, does it not?

Senator HERRING. To Iowa companies, yes.

Mr. HENDERSON. We had quite a discussion of that in Mr. Murray's testimony.

Senator HERRING. As long as this memorandum went into the record—and I am quite interested in this conciliation council, having set it up, and Mr. Rogers wrote this just when it was being set up—

"I believe politics prompts the program of Governor Herring on the foreclosure of mortgages"—I am wondering as he became more acquainted with the work of the conciliation council if that suspicion was justified or otherwise?

Mr. ROGERS. I would say as it worked out, it was not justified.

The CHAIRMAN. Well, suspicions generally are not justified, whether they are held by life-insurance executives or by politicians or statesmen.

Mr. HENDERSON. May I say, Mr. Rogers, that I might see a redundancy here. In the Metropolitan National Farm Adjustment Credit Management Co., do you have a stamp plan? You seem to have about everything else.

Mr. ROGERS. Well, of course, in this agricultural thing, I have made a great study of it. I think there is much to be done, particularly in that section of Iowa to which Professor Murray referred.

Mr. HENDERSON. What you have said is that in reality you have the equivalent of a farm agent in Iowa; you certainly have a program, as these charts show, for conservation; you have a rehabilitation program; you have a seed program; you have a tenant cropper program; you have a sales agency; you have a credit agency; and you seem to have a bureau of agricultural economics, from the nature of your testimony; and the only frills that seem to be lacking are perhaps a stamp plan and a surplus disposal plan, and I expect if we probed a little further, in time we would find you had that.

Mr. GESELL. As a matter of fact, it is true, is it not, Mr. Rogers, that when you take these crops from the tenant you frequently hold them off the market until you get a price that is suitable?

Mr. ROGERS. No; we follow the plan of orderly marketing. We feel any holder as large as we are should not throw its crops upon the market at one time.

Mr. GESELL. That is just the point—so you do hold them off to keep the price stable.

Mr. ROGERS. Yes; to distribute them.

The CHAIRMAN. You control the marketing program and not the tenants?

Mr. ROGERS. Of our part. We have one-half of the corn crib and he has half.

The CHAIRMAN. He can sell his half and you manage your half?

Mr. ROGERS. That is true.

Mr. GESELL. It is true in many cases, isn't it, that the tenant asks you to handle his part of the crop and he takes the money rather than handle it himself?

Mr. ROGERS. Under the corn-sealing program, they would rather seal their corn and buy ours. [Laughter.]

The CHAIRMAN. Are there any other questions?

Mr. GESELL. I have no further questions.

The CHAIRMAN. Do any other members of the committee desire to ask Mr. Rogers any questions?

May I ask this one question? Isn't it a fact that you have frequently been consulted by Farm Credit officials and Department of Agriculture officials with respect to agricultural problems?

Mr. ROGERS. Yes; they have all these reports. Secretary Wallace discussed these reports with me in 1934, and I have given them throughout the plan, and the Federal Credit folks come up and we talk these things over constantly, the various departments. We use them to help us, too.

The CHAIRMAN. Perhaps we ought to call it the Wallace-Rogers plan.

Mr. Rogers, we are very grateful to you for your testimony. Thank you so much.

(The witness, Mr. Rogers, was excused.)

The CHAIRMAN. The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:35 p. m., the committee recessed at 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:10 p. m., on the expiration of the recess.

The CHAIRMAN. The committee will please come to order.

Mr. GESELL. The witness this afternoon is Mr. R. R. Rogers, vice president, Prudential Insurance Co. of America, Newark, N. J.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ROGERS. I do.

TESTIMONY OF R. R. ROGERS, VICE PRESIDENT, PRUDENTIAL INSURANCE CO. OF AMERICA, NEWARK, N. J.

Mr. GESELL. Mr. Rogers, will you state your full name and your position in the Prudential?

Mr. ROGERS. R. R. Rogers, vice president of the Prudential, in charge of mortgage loans, Newark, N. J.

Mr. GESELL. Your department of the Prudential handles both farm-mortgage loans and city-mortgage loans, is that correct?

Mr. ROGERS. That is true.

Mr. GESELL. First I want to ask you a little about the Prudential's holdings of farm mortgages and farm real estate. How many farms does the Prudential manage or own at the present time?

Mr. ROGERS. At the present time 5,940.

Mr. GESELL. And what does that represent in terms of amount of investment?

Mr. ROGERS. About $45,000,000.

Mr. GESELL. What is the size of your largest farm?

Mr. ROGERS. I think our largest farm is in Louisiana; it is a sugar plantation of about 2,500 acres.

Mr. GESELL. And your smallest?

Mr. ROGERS. I should say 40 acres.

Mr. GESELL. How many farm mortgages have you outstanding now?

Mr. ROGERS. About 35,000.

Mr. GESELL. Your largest and smallest there, please?

Mr. ROGERS. I think our largest is $372,000, which covers 21,000 acres of a very large cotton plantation, fully integrated, having cotton gins—a whole town—and the whole goes into the security for the loan. The smallest I don't know, but I should say that probably is 20 acres, and I don't even know where it is.

Mr. GESELL. What is your average mortgage loan?

Mr. ROGERS. About $5,000.

Mr. GESELL. About $5,000? Can you give us some idea of the history of the Prudential's farm-mortgage loans program? I think because of the testimony that has gone on here the last couple of days you have an idea of the subject the committee is interested in and could probably cover it faster if I don't interrupt with questions.

Mr. ROGERS. I hope so, Mr. Gesell; I will try it, anyway. The Prudential commenced farm lending in 1898—42 years ago—but didn't get into the business in a very heavy way until 1906. It has been actively engaged in making farm loans ever since that time, and in the intervening period it has lent to farmers more than three-quarters of a billion dollars. Up until 1922 the major part of Prudential's mortgage portfolio consisted of farm loans. After 1922 city loans increased much faster than farm loans, despite the fact that we continued to invest all we could in farm loans.

The CHAIRMAN. I didn't get that statement.

Mr. ROGERS. Despite the fact we continued to lend all we could in farm loans.

The CHAIRMAN. What was the phrase preceding that?

Mr. ROGERS. After 1922 city loans increased much faster than farm loans, despite the fact that we continued to invest all we could in farm loans. For the last few years our mortgage account has maintained a fairly even ratio of 20 percent farm loans and 80 percent city loans.

The CHAIRMAN. To what do you attribute the fact that city loans were increasing at such a rate as compared with farm loans?

Mr. ROGERS. I think as I go on it will be apparent, Mr. Chairman. The reason for the wide disparity is that our farm loans are definitely limited. There are just so many farms in the United States, of which about 50 percent will be mortgaged, and that ends it except for swapping back and forth.

Mr. GESELL. You mean, in other words, that there just isn't as big an avenue for investment?

Mr. ROGERS. Yes; definitely limited. The farm-loan debt in the United States is about equivalent to the city-loan debt of New York City; yet New York City loans will continue to advance because of new buildings, new houses, new mercantile establishments; but the farm-loan debt is fairly static.

The CHAIRMAN. In other words, the urban debt increased primarily because urban areas are expanding?

Mr. ROGERS. That is true.

The CHAIRMAN. And farm areas, on the other hand, tend to contract instead of expand?

Mr. ROGERS. I think you have explained it better than I could. City loans, of course, are an endless supply of mortgages; every new home creates a potential mortgage loan. Our over-all experience with farm loans has been very satisfactory; up until 1930 the farm-loan experience was almost perfect. Since then it has passed through some very bad years, but the restoration of a better farm condition has restored farm values to a point where we believe we will suffer no loss of principal. We appreciate, of course, the foreclosures of farms in many cases meant loss of homes, and we approached foreclosures with very great reluctance.

Foreclosures came about for many reasons. First, I think, and the major reason, was probably the abandonment of farms; and, second, inability and lack of desire on the part of the farmer to attempt to salvage a farm so heavily encumbered by first, second, and third mortgages, and delinquent taxes, and judgments, and what not.

Three. Absentee ownership, which had relied on farm rentals to pay living expenses and to pay taxes and mortgage requirements. He found his share of the yield inadequate for all of these things.

Fourth. The borrower in too many cases had ceased to be his own man; he was so tied up with chattel and crop mortgages that when his crop was harvested he had nothing to say about the disposition of the returns. This resulted in the subordinate creditors getting all and the senior creditors getting nothing.

And fifth—and this may seem strange, Mr. Gesell—the desire of the farmers to be foreclosed.

Mr. Gesell. Those were in cases that he was so burdened with debt that it was a relief for him to get rid of his debt?

Mr. Rogers. Quite true; and we had put in a plan which we thought was sound, and still think so, that as to any farmer who was heavily burdened in that way, we would foreclose, and after we had foreclosed our mortgage and cut off some of the subordinate obligations, we would sell that farm back to him or a member of his family, and if we were willing to sell that farm for less than our cost, that price would be available to him. In the first of those circumstances many farmers felt it best to be foreclosed and get a fresh start.

The Chairman. Do I understand your policy was to sell at cost?

Mr. Rogers. At our cost. We would sell the farm at a less price to——

The Chairman (interposing). You are speaking of farms to which you had acquired the title?

Mr. Rogers. That is right.

The Chairman. And did you follow the policy of not selling for more than cost?

Mr. Rogers. I beg your pardon?

The Chairman. Did you have a policy of not selling for more than cost?

Mr. Rogers. To the former owner; yes.

Mr. Gesell. You mean, the former owner could always get it back from you at cost?

Mr. Rogers. Yes.

Mr. Gesell. But you might be still quoting that property at more than cost to someone else?

Mr. Rogers. Yes.

Mr. Gesell. While we are there, on this question of sales, did you require a down payment?

Mr. Rogers. In that particular case, no.

Mr. Gesell. Will you tell us how it was arranged?

Mr. Rogers. We put this sort of a deal in process which we found to be very satisfactory and we have now extended it even further. The farmer, of course, had no money, but if he had enough stock and tools, or could get it, and if he had feed and seed or could get it, and if he would follow a program of farming upon which we could agree, we would sell that farm back to him without any down payment in cash, providing he would deliver each year one-half of the crop to us. That half of the crop would be sold at a time agreed upon between us, and out of the sales price of that crop we would first apply to interest on the contract of sale and second to principal.

Mr. GESELL. How long, under that arrangement, was he sure of staying on the farm?

Mr. ROGERS. That was a 3-year contract, and it made no difference if he had a crop failure the first year, he could pay us nothing. Providing he had done a first-class farmerlike job, he would not be without that farm.

Mr. GESELL. So that by giving him a 3-year period you avoided to some extent keeping him in a position of a man continually subject to be removed?

Mr. ROGERS. That is true. And by the way, when we sold him that farm back, we gave him the option of our going in and doing a first-class repair job. I mean by that, putting the buildings and so on in first-class condition and adding the cost of that to the price of the farm.

The CHAIRMAN. My understanding is that under this arrangement you had a hard-and-fast understanding with the farmer that the one-half of the crop which you retained, which you were to hold as yours, would be sold at a time upon which you mutually agreed.

Mr. ROGERS. True.

The CHAIRMAN. And that all of the proceeds of that would be applied on the farm debt one way or another.

Mr. ROGERS. All of the proceeds of the half; and he would retain the other half.

The CHAIRMAN. Of course, it would be applied first upon the interest and then upon the principal?

Mr. ROGERS. Your statement is right.

Mr. KADES. Mr. Rogers, I want to make sure I understand. Do I understand that the Prudential does not require a down payment in the case of a sale to a farmer whose mortgage was previously held by the Prudential?

Mr. ROGERS. As I go on, we have extended that now so that we sell farms to others than the former owner on that plan. From some we exact a small down payment; from others, if they have a good record of farming, we do not.

Mr. KADES. Then you don't feel, as the Metropolitan officials feel, that it is necessary that the farmer have a cash stake in the land before he be allowed to purchase the farm?

Mr. ROGERS. We think it would be preferable, but we still feel that we can sell farms on that basis and the farmer can buy them on that basis, and that has been proven by the fact that in the last 8 or 10 years we have sold a great many farms on that basis, and the farmer has been successful in his purchase.

Mr. GESELL. How much repossession have you had?

Mr. ROGERS. The repossessions in the first years, '31 and '32, were rather heavier, much heavier than we expected, and we were a bit ashamed of it. As a matter of fact, they went up around 25 percent. They have now come down to the point where the repossessions are less than 9 percent. I should say that when we first sold we didn't have a 3-year agreement. We have refined the process of the plan a little bit.

Mr. GESELL. Your repossessions were heavier when you had a shorter term. Now that you have put the man on for 3 years you find there is less repossession?

Mr. ROGERS. They really were not repossessed, because in many instances they were sold right back to the same people.

Mr. PIKE. I suppose there is a point where, under one of these contracts, he gets enough stake in the farm so he can again become the owner subject to mortgage.

Mr. ROGERS. Yes. This crop-payment contract runs out in 3 years, at which time we hope he has paid 10 percent. If he has not paid 10 percent we will continue it until he does, providing he is doing a first-class job. When he has paid 10 percent, if he demands it we will give him a deed. We would prefer then to carry him on a cash contract, but we will not object to giving him a deed if that is what he insists upon. We would rather it would go on the contract for a few years more, which is safer for him, and safer for us.

The CHAIRMAN. You don't find that State laws requiring you to dispose of the real estate necessitate a 1-year contract?

Mr. ROGERS. No.

Mr. KADES. In that respect also the policy is different from that of the Metropolitan?

Mr. ROGERS. I really don't know what their policy is.

Mr. KADES. This morning it was testified that 1-year——

Mr. ROGERS (interposing). Leases. That is rather different than a sales contract. I apprehend that Mr. Rogers' testimony this morning would have been, on his slim payment sale, practically what my answer is, and that is, that he would give a 3-year contract. I don't know.

Mr. KADES. Do you quote a sales price?

Mr. ROGERS. To this farmer?

Mr. KADES. Yes.

Mr. ROGERS. Oh, yes; a definite sales price is arranged before the deal is made.

Mr. GESELL. Do you advertise that sales price as a matter of public knowledge?

Mr. ROGERS. Yes. What we do—we don't advertise in newspapers. Farm sales are not made from newspaper advertising. Farm sales are substantially made to people living in the farming country, and we list these farms with brokers in the various towns, ex-bankers and people of that kind, and they are the people who find our customers. They all have our selling plans.

Mr. KADES. And your selling price?

Mr. ROGERS. And our selling price.

Mr. KADES. Then, in respect of the down payment requirement not being insisted upon, and in respect of making your sales prices known, your policy differs quite radically from that of the Metropolitan, does it not?

Mr. ROGERS. Again I say I don't know what their policy is. We do quote definite list prices.

Mr. GESELL. Will you proceed?

Mr. ROGERS. There were many other reasons for foreclosures, and we couldn't do very much about postponing foreclosures in such cases as I have enumerated. We were, however, very reluctant to bring foreclosures against owner-operators, and despite heavy subordinate debts, if those subordinate creditors would work with us in avoiding foreclosure we did not stand upon priorities.

If you would like me to explain further our foreclosure policy, I would be very glad to go into that.

Mr. GESELL. I would like to hear a little more about it; yes.

Mr. ROGERS. This is a memorandum, Mr. Gesell, written back in 1935 [reading]:

> As far back as July, 1931, we instructed our farm loan correspondents and farm branch offices that foreclosure prevention should be their major program, and in all worthy and deserving cases consideration should be given to borrowers in a program of further extention of time, based upon good moral risks temporarily embarrassed, and upon their recommendation we would be willing to give consideration to consolidating or funding the total debt, including principal, delinquent interest, and taxes, providing the new loan did not exceed 60 percent of the value of the farm.

That was in July 1931.

> On March 4, 1932, we again wrote to all correspondents and branch offices that we had found this refunding loan so helpful to our borrowers that we were willing to consider recommendations for this type of loan even if the new loan should exceed 60 percent of the value of the farm. In practice we would go up to 75 percent of a reasonable appraisal.
>
> On January 11, 1933, we again wrote to all correspondents and branch offices that, because of the very severe deflation of farm land values in the past 3 years, and of the prices of practically all agricultural products, it had become increasingly difficult for farm borrowers to meet the terms of their mortgage contracts, and because of our sincere desire to assist in every way possible the worthy and deserving farmer they were instructed:
>
> 1. To refrain from commencing any new farm foreclosures on owner-occupied farms unless such foreclosures were agreeable to the farmers.
>
> 2. To postpone the sale of any owner-occupied farms now in process of foreclosure, unless such sale was in accordance with the wishes of the farmer.

Mr. GESELL. You mean to say there was one time when you would undertake no foreclosure actions without the farmer's consent?

Mr. ROGERS. Yes.

Mr. GESELL. When was that?

Mr. ROGERS. That was during 1933.

Mr. GESELL. For the entire year 1933?

Mr. ROGERS. I think it changed in September 1933, for a very good reason, which I will explain later [reading further]:

> On June 30, 1933, all correspondents and branch offices were notified that we were in complete accord with President Roosevelt's proclamation requesting leniency in connection with farm loans, pending the operation of the farm relief act with its emergency credit relief measures.
>
> On September 15, 1933, we instructed all correspondents and branch offices that because delinquent farm borrowers now had an opportunity to refinance their loans through the Federal Land Bank system, a modification of our foreclosure policy was permissible to the following extent:
>
> 1. A continuation of our policy of withholding foreclosure action on worthy and deserving borrowers who have a probable chance of working out of their difficulties—

And may I say at this time that we had on many of those loans, most of those loans, from 3 to 4 years of delinquencies.

2. That foreclosure be no longer postponed in hopeless cases.

3. That foreclosure be no longer postponed in any case where the borrower is financially able to place his loan in good standing or is able to contribute substantially to that end but refuses to do so.

4. In all cases where our borrowers had placed or contemplated placing an application for a new loan with the Federal Land Bank of his district ample time should be given for the application to be acted upon.

Mr. PIKE. What was the date of that, Mr. Rogers?

Mr. ROGERS. That was September 15, 1933. You notice that that was a little stiffer.

Mr. PIKE. A somewhat stiffer policy than you had had.

Mr. ROGERS (reading):

I believe it indicates a complete understanding of the farm borrower's situation, and a willingness to go along with him in any workable program leading to the solution of his problem. At least, that has been our intention.

Further than that, fully realizing that some foreclosures are unavoidable, indeed are beneficial to the borrower, the lender and the state, our branch offices and correspondents have been instructed that the foreclosed borrower shall, upon title passing to us, be given an opportunity to repurchase the foreclosed farm without any down payment in cash, if necessary, providing he has an outfit of stock and tools and a desire and an ability to farm the land, under the terms of a crop payment sale that provides for his possession, of the farm for three years, half the crop to be delivered to us to be applied on principal and interest.

With respect to the renewal of existing mortgages, despite the fact that the law under which we operate does not permit of loans exceeding 66⅔ per cent of the value of the security, we have renewed, and are continuing to renew farm loans even though the face of the mortgage exceeds that percentage. In doing this we are relying upon the indulgence of our own State Department of Insurance, in the belief that we can not be criticized for continuing a loan on the basis of the original appraisal, while to call it for payment would work a grave injustice to the deserving borrower, since under present conditions the opportunity of refinancing elsewhere is, to a large extent, denied him.

Mr. GESELL. Let me ask here, Mr. Rogers, did you reduce interest during this period on your new loans?

Mr. ROGERS. Yes; you mean on our loans outstanding?

Mr. GESELL. On new loans being made, first of all.

Mr. ROGERS. I don't remember, Mr. Gesell. I would say that during that period we made very few new loans.

Mr. GESELL. What attitude did you take with respect to the interest on loans outstanding?

Mr. ROGERS. We treated them on a case basis. We felt that the man who had land and was fortunate enough not to be badly off should—could and should—continue to pay the interest rate called for in the mortgage. In all other cases where the farmer was in dire need we tried to get together with him and offered time, long before conciliation committees were established—to the end that we would not stand upon our priorities too much, and if we could work out a satisfactory relation with his subordinate creditors we would be willing to do that.

The CHAIRMAN. My attention was diverted for a moment. Was the witness asked in how many States farms are owned by the Prudential?

Mr. ROGERS. I think we are in 33 States and 3 Provinces in Canada. We are in every State where farm loans can be obtained in sufficient volume to make it an economic operation.

The CHAIRMAN. Where are your loans concentrated, for the most part?

Mr. ROGERS. We really are not concentrated. I would say we probably have more loans, although it is not a substantial amount, in the Middle West States, but that is because more loans are obtainable there.

The CHAIRMAN. With respect to foreclosures on farm loans, is there any concentration there?

Mr. ROGERS. No; our foreclosure experience, I would say, was fairly comparable over the entire country. We perhaps had a little better experience in the three Northwest States—Oregon, Washington, and Idaho. I think we had our worst experience in Montana.

Mr. GESELL. How much do you feel you must invest in a territory before you go into it?

Mr. ROGERS. I think Mr. Rogers' statement the other day was fairly correct. For instance——

Mr. GESELL (interposing). You find it takes about 5 million dollars to justify going into some territory?

Mr. ROGERS. And, if anything, a little more.

Mr. PIKE. What is your cost, what you call a satisfactory cost, of servicing, Mr. Rogers—a quarter percent, a half percent of the principal?

Mr. ROGERS. It depends on the size of the branch office. You are asking what would be a satisfactory cost. At the present time our over-all cost of our branch offices is about one-half of 1 percent, and of that half of 1 percent I would say that perhaps three-fifths of it would be mortgage-loan servicing, and the other two-fifths would be property management, so that if you are asking purely as to the cost of operating on mortgage loans, I would say that in a fairly sizeable branch office, 0.3 percent would do it.

Mr. GESELL. You have, according to your table, particularly table 161, a more rapidly expanding account than any of the others shown, have you not? [1]

Mr. ROGERS. I believe that is correct.

Mr. GESELL. What does that result from, just the fact that you want to loan money on farms, or any other factor?

Mr. ROGERS. Two results. First of all, we think we have had a very satisfactory experience with our farm-loan account despite the last few years of trouble; and the other and more compelling reason I think is that we have the idea that we got this money from all over the country and we were anxious to put it back wherever we could.

Mr. GESELL. That is a very interesting statement, Mr. Rogers, that you feel that you have some obligation to put the money back into the territories that you are taking money from. I believe that is what you said. Do you mean by that that, having farmers that are policyholders, you believe your company should loan on farms? Is that another way to state it?

Mr. ROGERS. That would be one way to state it, but it need not necessarily be to a policyholder; the important thing is that the

---

[1] See hearings, pt. 10–A, p. 161.

money of a policyholder in that territory would be spent back in the territory in which we got it.

Mr. GESELL. And in a certain sense, then, both the size of your present mortgage-loan account and its diversification, which I believe according to the table is greater than that of any other company shown, are the result of your desire to put back money where it came from?

Mr. ROGERS. Primarily.

Mr. GESELL. What first started you thinking along those lines, Mr. Rogers? Has that been a continual policy of the company?

Mr. ROGERS. I think that would go back to Mr. Duffield's time, long before I was connected with the company. It has always been the policy of the Prudential.

Mr. GESELL. I wondered whether it lay anywhere in connection with the Armstrong investigation, and some of the criticisms raised at that time.

Mr. ROGERS. It is true that, going back to the Armstrong investigation, one criticism of that investigation was that the companies, so I am told, were perhaps concentrating their loans more on the business side, and less on the residential and farm side, and while we were very heavily on the residential side at that time, we then commenced, as I said at the beginning of my paper, to invest more heavily in farms, and have ever since.

Mr. GESELL. Does this policy of diversification that you speak about impel you to go into territories where you do not believe you are getting the choicest farm loans?

Mr. ROGERS. No.

Mr. GESELL. You would feel that in all of these 33 areas that are shown on the tables you can make choice farm loans.

Mr. ROGERS. We know it from experience. That doesn't mean to say we haven't made mistakes and haven't had to withdraw from territories. Of course we have. That largely consists in expanding from a good territory out onto the fringes. It is a very natural desire to do that, particularly when those fringes have good years, and when they have those good years you are inclined to expand out, and when they have bad years you go back again. That is the way it goes.

The CHAIRMAN. You testified that there was no concentration of farm mortgages, that these mortgages were distributed rather equally over the 33 States in which you operate.

Mr. ROGERS. In accordance with the demand.

The CHAIRMAN. In accordance with the demand. Now, how about foreclosures?

Mr. ROGERS. Were they concentrated, do you mean?

The CHAIRMAN. Yes.

Mr. ROGERS. No; frankly I can't answer the question accurately but my belief would be from experience I have had with the account that we could not say that we have had a more disastrous foreclosure experience here or there. I would have to temper that by saying perhaps down in Georgia we had a rather bad experience to start with, although all our account is substantially sold out.

I think in some sections in Montana, we have had a worse experience than we anticipated. I rather think that the better sections, as a matter of fact, had a heavier concentration of foreclosures than the poorer sections.

The CHAIRMAN. When you say better and poorer, are you referring now to agriculturally better and poorer, or financially?

Mr. ROGERS. That is right, agriculturally.

The CHAIRMAN. Agriculturally better?

Mr. ROGERS. Yes. I mean to say the reason for foreclosures really was the drastic fall in farm prices which occurred following the war. Superimposed on that was a further drastic fall from 1929 on. We had a few foreclosures before 1929 but no economy could stand the tremendous drop in farm prices following 1929 and, of course, that means that good land and poor land was foreclosed together.

Mr. GESELL. Did you over-loan in some of these good territories, Mr. Rogers?

Mr. ROGERS. I haven't any doubt we all did, in instances. Of course, everybody made mistakes.

Mr. GESELL. I was trying to get some idea of the extent of the over-loaning in the case of the Prudential.

Mr. ROGERS. Over-loaning——

Mr. GESELL (interposing). It is all a matter of hindsight to some degree, I realize.

Mr. ROGERS. Let's say this, that in terms of the price level for farm commodity prices and land values, substantially, loans that were made in the twenties, in my opinion, were sound. However, we ran into a very different price level twice, and it was the running into that very different price level. We were over-lent in 1932 without a question of doubt. Who could foresee it?

Mr. GESELL. You have to look at it from the point of view of the price level at the time the loans were made.

The CHAIRMAN. Did you follow prices up in your loans?

Mr. ROGERS. All of us followed farm prices up to a point but, of course, no one followed war prices. I am particularly familiar with the Northwest from where I came, the Palouse country, for instance, to which Mr. Rogers referred the other day. Ordinarily that land, pre-war, would sell, good land, for $100 an acre. Now, for the Prudential, I made many millions of dollars of loans on that land, but even though that land sold for $200 and $250 an acre in the war we never put an appraisal on that land above $125. So our inflation value was 25. We loaned up to $62½ and in a few cases up to $75, and they were the choicest. Yes; we followed prices up a little bit, of course, but not in terms of the very heavy inflation of land values nor did the other insurance companies.

The CHAIRMAN. Then the deflation of farm values didn't materially affect your loan portfolio.

Mr. ROGERS. No. The trouble with the farm loan situation in foreclosure was the fact that the price level which existed was too low for farmers to operate——

The CHAIRMAN (interposing). That is the price level for farm commodities?

Mr. ROGERS. Yes, sir.

The CHAIRMAN. In other words, the farmer wasn't getting enough for what he was producing to enable him to carry on his operations?

Mr. ROGERS. You are quite correct.

The CHAIRMAN. And meet his debts.

Mr. ROGERS. I would even go further than that and say that but for the measures which were subsequently put into effect by the Federal Government, in my belief we would be in just the same fix today.

Mr. GESELL. And correspondingly the insurance companies would be in a fix.

Mr. ROGERS. Yes; and I think if they had not been put into effect that the insurance companies would have foreclosed a great many more mortgages.

The CHAIRMAN. In other words, the activity of the Federal Government toward raising agricultural prices was beneficial not only to the farmer but to the lender on farm property?

Mr. ROGERS. That is very decidedly so.

Mr. GESELL. Now, coming back to this matter of foreclosure, Mr. Rogers, what was your attitude toward scaling down of mortgage loans?

Mr. ROGERS. The scaling down proposition came, of course, when the conciliation committees were established. There wasn't a great deal of scaling down before that except in individual instances where we were approached by the farmer and his creditors and we got together and some scaling down was done.

I remember very well going out to Iowa to see Governor Turner, I think that was in 1934. Governor Turner asked in what way this very drastic situation which existed in the State of Iowa at that time could be cured—and I am referring now to the differences between the farmer and the lenders. I suggested to him that in Canada they had what they called debt-adjustment groups which were voluntary and perhaps the soundest way of bringing the farmer and the lender together, and if the farmer and the lender could be brought together—I should say if the farmer and the lenders could be brought together—the probabilities were that much of this bad atmosphere which existed in the farm country at that time would be cleared up.

Governor Turner did not put that plan into effect but Governor Herring did.

Mr. GESELL. You are talking about the Iowa Debt Adjustment Council that we had some testimony about?

Mr. ROGERS. Yes. Of course, that was not the only one. They were established in various States.

Mr. GESELL. Did your company cooperate with those various endeavors?

Mr. ROGERS. Yes; after having suggested them, I guess we had to.

Mr. GESELL. And you didn't find any difficulties arising out of the fact that you went to these debt-adjustment groups without consulting the borrowers?

Mr. ROGERS. No. At first the scheme didn't work very well, as a matter of fact, and I think it came largely to a question of mechanics. In the end it worked very well. The only difference I ever had with Senator Herring was on the question of how the thing should be approached. We felt, as Mr. Glen Rogers did, it was the farmers' problem. But in discussing the problem with Senator Herring, then Governor Herring, he was rather insistent that the insurance companies had nothing to lose in dealing with a program such as that and asked us if we would not do it and we agreed we would, and did, and I don't think we suffered anything by so doing.

Mr. GESELL. You were testifying from a memorandum setting up the foreclosure policy. Is there anything else you wish to add to what you have said?

Mr. ROGERS No; I think that fairly well covers it. I wanted to go a little more into the history of it. I can say that our farm loans, farm properties, fall under the supervision of branch offices much the same as the Metropolitan, and there is not much use wasting a lot of time on that, except you might be interested in knowing where they are located, to know how they serve the country. We have one at Atlanta, Ga., for the Southeastern States; one in Texas for Texas alone; one at Memphis for the deep South; one at Indianapolis for Indiana, Ohio, and northern Kentucky; one at Springfield for Illinois; one at Omaha for Iowa and Nebraska; one in Minneapolis for Minnesota, South Dakota, North Dakota, and Wisconsin; one in Kansas City for Kansas and Missouri; one in Winnipeg for Alberta, Saskatchewan, and Manitoba; correspondents at Spokane, Wash., for Washington, Oregon, Montana, Idaho; and in Phoenix, Ariz., for that territory.

This system of branch offices results in centralized control at the home office and decentralized administration, of course.

Mr. GESELL. Did those branch offices both manage the farms and handle the loans?

Mr. ROGERS. Yes; they are fully integrated.

Mr. GESELL. You make no use of correspondents?

Mr. ROGERS. We have a couple of loan correspondents for isolated territories. Aside from that, we are fully branch offices, and as I say, they are fully integrated, handling all phases of the business, including properties.

Mr. GESELL. Let me ask: Do you have a budget at the beginning of the year of the amount of money you want to put out in farms?

Mr. ROGERS. No; nor city loans, either. Our job is limited only by the amount we can get out. If we could get out twice as much we would be that much better satisfied.

Mr. GESELL. You mean to say as far as the running of your city and farm-loan divisions is concerned, that you could lend twice as much as you are now lending if you could find the people who wanted the money?

Mr. ROGERS. Yes, sir.

Mr. GESELL. And the policy of the Prudential is such as to desire to increase the mortgage portions of its portfolio?

Mr. ROGERS. Yes; our mortgages only constitute 25 percent of our assets and we would like it better if it was up to 50 percent.

The CHAIRMAN. You would like to increase your farm-mortgage portfolio to 50 percent of your total assets?

Mr. ROGERS. Our farm and city.

The CHAIRMAN. To 50 percent of your farm and city assets?

Mr. ROGERS. We would like our total mortgage account, farm and city loans, to reach approximately 50 percent of our total assets.

Mr. GESELL. And they are now 25?

Mr. ROGERS. Now 25.

Mr. Gesell. How much of the 25 are cities?

Mr. Rogers. Eighty percent cities, and 20 percent farms. What I wanted to say, Senator, was that we couldn't increase our farm-loan business to that extent if we wanted to. They are just not available. Whether we would be willing to increase our farm loan to that extent would be a question we have to discuss, but it is academic, because they are not available.

The Chairman. But you would like to increase your farm mortgages?

Mr. Rogers. We would.

The Chairman. Then your experience has been satisfactory with respect to farm mortgages?

Mr. Rogers. It has.

The Chairman. What percentage of your mortgages have been foreclosed? That may appear in that tabulation.

Mr. Rogers. You mean of all mortgages, or farm?

The Chairman. Farm.

Mr. Rogers. Twenty-nine percent of the total risk, as we figure it.

The Chairman. Has been foreclosed?

Mr. Rogers. We acquired about 13,500 farms.

The Chairman. Isn't that a pretty heavy percentage?

Mr. Rogers. Much too heavy; but, as I have said, these foreclosures were approached with great reluctance, and on our own figures I think we are not worse than second or third best in that respect.

The Chairman. Is it a continuing——

Mr. Rogers (interposing). No; no foreclosures are over——

The Chairman (interposing). Now, while this foreclosure proceeding was going forward were you still having a satisfactory experience with farm mortgages?

Mr. Rogers. Yes; we did on new farm loans.

The Chairman. New farm mortgages?

Mr. Rogers. Made on a different price level.

The Chairman. Foreclosure was a passing phase?

Mr. Rogers. We hope so.

The Chairman. And you feel now that the farm loans are once more productive of satisfactory revenue?

Mr. Rogers. We hope so. We are not wholly satisfied on that, Senator. I wish we could be. That uncertainty confronting agriculture, I think you will admit, is very great.

The Chairman. It is recognition of that fact which prompts the questions I am asking you. When you express the desire to expand farm mortgages it seems to imply a feeling that the farm situation is being adjusted and becoming stabilized.

Mr. Rogers. We have that feeling, and we have the feeling it is becoming stabilized. After all is said and done, there are factors that arise almost from week to week or month to month or year to year in the situation, and I am very much afraid this war isn't going to be very beneficial to the farmers; and when you talk about the year-to-year proposition, you know we have just passed, and are passing, through one of the greatest droughts that ever happened in this country, and it is going to have its effect on the crop next year, so there are always passing phases that arise in your mind to restrain you a little bit from doing what you would like to do.

On the other hand, I think it is useless to assume that farming is not always going to go on in this country, and I think it is also useless to believe that the Government can ever let go of the farmer's hand until some sound farm plan has been developed where he can go along on his own feet.

Mr. GESELL. Right on that subject, Mr. Rogers, does the Prudential want to manage farms?

Mr. ROGERS. No.

Mr. GESELL. You don't believe in proxy farming, so-called?

Mr. ROGERS. No.

Mr. GESELL. Well, now, will you explain that a little?

Mr. ROGERS. I think that farming is for farmers.

Mr. GESELL. If you had your choice between farm-mortgage loans or the operation and management of farmland, which would you choose?

Mr. ROGERS. Farm loans. Let me put it this way: We believe the interest on a sound farm sales-contract or purchase-money mortgage is preferable to the income that can be obtained from the farm.

Mr. GESELL. Now, is that decision or that statement you make based without regard to the sociological factors we were considering this morning, purely from the point of view of investment?

Mr. ROGERS. I think from a social standpoint also that that statement is socially correct.

Mr. GESELL. What I meant is, putting social considerations to one side, would you still prefer to have mortgage loans than the job of absentee managership of farm real estate?

Mr. ROGERS. Yes; we are selling our farms at the ratio of about 20 percent of those owned each year, and I hope that 5 years will see us out of the business.

The CHAIRMAN. I notice from table 180 that you have had a substantial increase in the amount of farm real estate which is owned.[1]

Mr. ROGERS. A substantial increase, you mean, since 1929?

The CHAIRMAN. Yes.

Mr. ROGERS. That substantial increase—about 55 percent has been disposed of.

The CHAIRMAN. In 1934, according to table 180, your total holdings had an admitted asset value of $39,795,000; increased the following year to $45,711,000; then increased to $50,634,000; then increased in 1937 to $50,754,000; and in 1938 we find the first decrease in this whole period. Then you drop to $48,882,000.

Mr. ROGERS. Yes; that is true. Of course, over that period you have to take into consideration that a great many mortgages were coming to us by the foreclosure route, and in the last few years many of them were passing out of moratorium, which restricted our being able to obtain them before.

M. GESELL. Table 182, Senator, shows the farm real-estate sales and our figures on the percentage basis which don't happen to appear on the——

The CHAIRMAN (interposing). One hundred and eighty-two?

Mr. GESELL. I am sorry; on 182 we have the figures with respect to how long the real estate has been held, and our figures show on a per-

---

[1] See Hearings, Part 10–A, p. 180

centage basis that the Metropolitan real estate is 64.82 percent, which has been held over 5 years; the Prudential, 46.89; the Equitable, 20.64; the Northwestern—— [1]

The CHAIRMAN (interposing). I don't find that on 182.

Mr. GESELL. No; you don't, Senator. I am giving you percentages computed from the figures on 182; and the Bankers Life shows 50.48.

Mr. HENDERSON. Give those percentages again.

Mr. GESELL. Those are taking the amount of real estate that has been held 5 years or more and comparing it with the total amount shown on the right-hand side of the page; just a computation based on the table.

Mr. KADES. Will you repeat those?

Mr. GESELL. Metropolitan, 64.82; Prudential, 46.89; Equitable, 20.64; Northwestern, 39.92; Travelers, 39.88. Dropping down to Bankers Life, and other big farming companies, 50.48.

The CHAIRMAN. What is that percentage?

Mr. GESELL. That is the percentage of the total farm real estate held as of December 31, 1938, which has been owned 5 years or more.

The CHAIRMAN. That is a rather large percentage for each of these companies?

Mr. GESELL. It is; yes, I think the outstanding——

The CHAIRMAN (interposing). I understood the witness to say that there had been striking reduction in the amount of farm lands owned by the Prudential.

Mr. ROGERS. I think you will find that on page 185,[2] Senator.

Mr. GESELL. Table 185 expresses on a percentage basis total sales computed on a percentage basis in terms of all the farm real estate owned as of December 31, 1931.[1]

The CHAIRMAN. This table shows that you sold 58.37 percent of all the real estate owned up to December 1931, plus subsequent acquisitions. In other words, you were following the policy of getting rid of your real estate?

Mr. ROGERS. I think we followed the policy that I have outlined in my discussion here—in other words, very sales-minded, and have done that on the basis that we have affixed these farms as going farms, both buildings and soil conservation; we have tried to do that job; we have let some of the farmers do it, and they have paid for it in additional privileges, and then I think we have been realistic about prices and terms.

The CHAIRMAN. In other words, your policy has been to sell and to sell as quickly as possible and as advantageously as possibly, I assume?

Mr. ROGERS. That is true.

The CHAIRMAN. But despite that policy, it still remains true, according to the table which I first cited, namely 180, that you still actually own $48,882,000 of farm value as of 1938? [3]

Mr. ROGERS. That is true.

Mr. PIKE. Do you have '39 figures yet, Mr. Rogers?

Mr. ROGERS. What we own in '39? Forty-five million.

Mr. PIKE. About $3,000,000 cut?

---

[1] Ibid., p. 182.
[2] Ibid., p. 185.
[3] Ibid., p. 180.

Mr. Rogers. That is true.

The Chairman. These sales, as I understood you to describe it, were, so far as the mortgagor was concerned, always upon the basis of the cost to you, or less?

Mr. Rogers. Oh, no.

The Chairman. Well, I misunderstood you.

Mr. Rogers. The basis of our sales—we were talking about the crop-payment sale a few moments ago and we were talking about the crop-payment sale in relation to the borrower that we had foreclosed, that we were giving him that deal. We would sell at our cost or at a sum less than our cost, providing we would sell that farm to somebody else for less than cost.

The Chairman. That is what I meant to say.

Mr. Rogers. Our sale policy is based on this, that every year these farms are appraised and a sales price is put upon them, two prices, a list price and a lowest-acceptance price. If we find that the list price that we have had on it in '39, and we have actively pushed that farm for sale, has not resulted in a sale, the probabilities are we will give consideration to a further charge-down of the sales price, so that we may move it.

In other words, our price may be too high.

The Chairman. You see there are two categories of sales, as I see it. No. 1, to mortgagor, sales to the mortgagor who has been foreclosed; No. 2, sales to a stranger.

Mr. Rogers. That is right.

The Chairman. Now, with respect to the first class, your policy has been to sell for cost or less?

Mr. Rogers. That is right.

The Chairman. Now, with respect to the second class, what has been your policy?

Mr. Rogers. Value of the farm.

The Chairman. And have you made a profit on that sort of sale?

Mr. Rogers. Yes—not a profit, put it this way: That on the sale of our farms so far of about 55 percent of our total holdings, we have recovered book cost, all sums previously charged off, all sums spent for rehabilitation, and a small amount for interest lost from the first default on the mortgage to date of sale. I would like to go a little bit further and say that I don't believe that we will be quite so successful with the last end of our sales program as we were with the first.

The Chairman. Now, then, combining the two, what has been the result?

Mr. Rogers. Combining the two?

The Chairman. Two classes. If you were to make a computation.

Mr. Rogers. That is the result.

Mr. Gesell. That is the result of all sales programs?

Mr. Rogers. Farm sales.

Mr. Gesell. Including the——

Mr. Rogers. Including the borrower.

Mr. Pike. In that, Mr. Rogers, you can't hold that offer out to foreclose the farms permanently, of course?

Mr. Rogers. No.

Mr. Pike. So that after a year or so he will no longer——

Mr. ROGERS (interposing). I should say that is for a reasonable period of time on offers arranged beforehand.

The CHAIRMAN. Then do I understand you to say that there has really been no loss of principal in handling of farm mortgages?

Mr. ROGERS. Not so far.

Mr. KADES. Mr. Rogers, you spoke of recovering the cost of improvements which were made to the farms. Do you capitalize those improvements?

Mr. ROGERS. We didn't capitalize rehabilitation, that is, repairs. If we built new buildings or did those things to a farm which would result in our not being able to charge it to expense—we charged everything to expense that we could legally, but when it came to capitalization, the things we had to capitalize we capitalized.

Mr. GESELL. You have taken, however, according to table 191, very substantial write-downs.[1]

Mr. ROGERS. Yes; about seven million two, I think.

Mr. GESELL. And those are greater than all the items capitalized according to this schedule, is that correct?

Mr. ROGERS. I assume that is correct.

Mr. GESELL. I noticed that your real estate is carried at 96.25 percent of the total amount of the mortgages foreclosed.

Mr. ROGERS. Yes; and of course really is reflected in the charts.

Mr. KADES. Mr. Rogers, did I understand you correctly that you charged to expense everything that you legally could, but that buildings and other permanent improvements of that character you capitalized? But then, according to table 191, you wrote down the book value.

Mr. ROGERS. That is right. In other words, we think that is correct bookkeeping, to capitalize what we have to capitalize, even though that overvalues the farm, and then subsequently upon appraisal of the farm, if we feel that farm is overvalued, we would make a charge-down—a charge-down in two ways, really. The Government allows for depreciation and obsolescence of buildings, and then a specific charge-off against the specific property.

Mr. KADES. Do you have a program of improvement and rehabilitation?

Mr. ROGERS. Oh, yes; immediately upon foreclosure it is common practice with all farm-mortgage people to program the farm or even the city property. The minute you get title you enter upon the property and have a survey made of the needs in the way of building materials and in the way of soil conservation, and subsequent to that time a program is made and maintained as to how the program shall be handled.

Mr. KADES. A few moments ago you spoke of leaving it to the farmer. I didn't get what you said. Would you mind repeating it?

Mr. ROGERS. The point I made there is this, that we may not have gone as far as many of the companies in our rehabilitation program. We felt we would do the necessitous things, the things necessary to arrest dilapidation—new sills under the barn, a new roof on the barn, putting boards back on the barn, even rebuilding the buildings if we have to do it. Those are the necessitous things

---

[1] See Hearings, Part 10-A, p. 191.

you must do to make the farm a going concern and make it attractive to the farmer to buy it.

Then there are certain nonnecessitous things that you can more reasonably leave for the farmer and his wife to do, because if you do them, it will be added to the price of the farm, and they are things perhaps which he can do even better than we do them. You wonder what. I would say if there was no bathroom in the farm house, quite likely we would not place one there. He might if he wanted to. Some of the rooms need papering and we wouldn't do that.

Mr. KADES. Would you build fences?

Mr. ROGERS. Yes; that is necessitous. We would fix the water supply.

Mr. GESELL. Do you enter into a farm-erosion-prevention program and crop-rotation program with the tenant?

Mr. ROGERS. Oh, yes; all farm handlers do that, it is common practice.

Mr. GESELL. How many of your mortgages were taken over by the Farm Credit Administration? Do you have that figure?

Mr. ROGERS. Yes; I have the figure of $18,000,000 of bonds, and I think some more were taken over where they paid cash. I think there was a period when the bonds were worth more than par and in that case they paid cash, but I have no record of their paying more than that.

Mr. GESELL. Were most of the mortgages in bad shape or were there some that you considered adequate security?

Mr. ROGERS. Some of them, possibly, but in most cases they were cases of dire need. It was a case where he owed storekeepers' bills, and so on, and it was a plan to refinance him, to start him off fresh.

Mr. GESELL. I meant to ask you what attitude your company took toward moratorium legislation.

Mr. ROGERS. We took no attitude at all, and we felt that that was and still is one of the incidents of the business and there isn't very much you can do about it. We tried to get these cases out of moratorium as fast as we could, and oftentimes accomplished it by setting up some form of lease option with the farmer whereby we lease him the farm and option it to him to buy, and that is as satisfactory to him as retaining it under the protection of moratorium.

Mr. GESELL. Do you usually have your tenants on a share-crop arrangement?

Mr. ROGERS. Oh, yes.

Mr. GESELL. What do you do with those crops?

Mr. ROGERS. You mean our share?

Mr. GESELL. Yes.

Mr. ROGERS. We dispose of it, and usually within the year it is harvested.

The CHAIRMAN. How many tenants do you suppose you have?

Mr. ROGERS. I should say about 5,900. We have 5,900 farms—it may be a few more than that.

Mr. GESELL. That is individual tenants. Taking into account their families and everything else, it would run a much bigger figure, wouldn't it?

Mr. ROGERS. Yes, 20,000 probably.

Mr. Gesell. I have no further questions of this witness.

The Chairman. Are there any other questions to be asked Mr. Rogers?

Where are these tenants scattered, Mr. Rogers?

Mr. Rogers. I would say that we have farms in every area in which we operate, and that would be from the eastern seaboard to the west coast. We don't loan in California. We do loan in Oregon, Idaho, Washington; we don't loan in the New England States because there is no demand there for farm mortgage money.

The Chairman. With respect to these tenants, did I understand you to say that you give them an option to buy the farms?

Mr. Rogers. We were referring particularly to tenants under the protection of moratorium. He doesn't like to be there any more than we like to have him there.

The Chairman. You mean under the moratorium?

Mr. Rogers. Yes; after all, it is a modified form of bankruptcy and anybody in a modified form of bankruptcy, or bankruptcy itself, is a little bit uncomfortable. We have found ways and means, and I think every other company has, too, of saying, "Get out. We will lease you the farm for 3 years with an option to buy, and what you pay in rent shall be applied on the option to purchase, interest, and principal, or at the end of the 3-year period we will retain the rent and you don't have to buy the farm."

The Chairman. With respect to the tenants who are not under moratorium of any kind, do they have an option to buy?

Mr. Rogers. Yes; of course they do.

The Chairman. What are the terms of your tenant contracts?

Mr. Rogers. Well, I have described the crop payment plan, that is the most available for tenants, isn't it? The next would be a small cash payment down, say 10 percent down with——

The Chairman (interposing). To a tenant?

Mr. Rogers. Yes; if he wanted to buy it.

The Chairman. I am not speaking now of the terms of sale. I am speaking now of the terms of the tenancy.

Mr. Rogers. Oh, the terms of the lease, you mean?

The Chairman. Yes.

Mr. Rogers. Of course, the terms of the lease would be in accordance with the custom of the country.

The Chairman. What is the length of such a lease?

Mr. Rogers. It is pretty hard to give more than a 1-year lease although Mr. Glenn Rogers testified this morning, I think, that most farmers, most tenants farming for institutions, life insurance companies, are well aware of the fact that if he is a good farmer his tenancy will be continued short of sale; but if a sale happens, unfortunately we must sell, and in those cases we, and I am sure the other companies, do our very best to place him on another farm we have.

The Chairman. You feel you cannot give more than a year's lease because of the requirement of law to dispose of the real estate?

Mr. Rogers. That is true.

The Chairman. How long do the tenants on the average occupy farms under lease?

Mr. Rogers. I can't tell you, but I think the fact that we have some farms that have been in our possession for 5, 6, and 7 years would indicate that if he was a good tenant, he has been there that long.

The CHAIRMAN. What sort of farming supervision do you exercise?

Mr. ROGERS. Much the same as has already been described to you. Our branch offices are broken down into two sections. First we have the mortgage side of it which has to do with the servicing of existing loans and the securing of new loans, the collection of interest and principal, and so on.

The CHAIRMAN. That is the lending side of it?

Mr. ROGERS. That is the lending side. These branch managers are in charge of two assistant managers; an assistant manager who has charge of the lending side, and an assistant manager who has charge of the property side, and under him he has what might be called the technical men or technicians. They have to do with the maintenance, that is, repair work and that sort of thing, soil conservation, and management and sale. That comes under the assistant manager in charge of properties.

The CHAIRMAN. I am thinking now of the agricultural program on the farm itself, particularly. Do you have agricultural experts at your offices?

Mr. ROGERS. Yes.

The CHAIRMAN. About how many agricultural experts in all are employed by the Prudential?

Mr. ROGERS. You mean on the lending?

The CHAIRMAN. My questions are now directed to farm activities alone, that is, the growing of crops, the management of the farm as a farm, not as a financial investment.

Mr. ROGERS. I would think from 120 to 125 men directly employed on the property side of the business.

The CHAIRMAN. And those men, I suppose, are ordinarily graduates of agricultural colleges?

Mr. ROGERS. Many of them are.

The CHAIRMAN. Now, to what extent do these men lay down programs for the farmers, the tenants, to follow with respect to the agricultural management of the farms?

Mr. ROGERS. Pretty fully. Ordinarily the farm is programmed as soon as we acquire it, programmed as to what we are going to do in the way of repairs and programmed as to what we are going to do in the way of farming. I don't think I can explain it nearly as well as Mr. Rogers explained it this morning, but a farm is programmed and when a tenant shows up to lease that farm we ordinarily discuss with him the program we have laid out for that farm.

The CHAIRMAN. Then before the tenant comes to the farm, you have already developed a farm plan for that particular area?

Mr. ROGERS. That is right.

The CHAIRMAN. With respect to the type of crops and the quantity of crops to be grown?

Mr. ROGERS. That is true.

The CHAIRMAN. And the method in which they are to be grown and harvested?

Mr. ROGERS. That is true.

The CHAIRMAN. And then sold?

Mr. ROGERS. That is true.

The CHAIRMAN. And the tenant farmer must take his instructions from the agricultural supervisor in your branch office?

Mr. ROGERS. It works a little differently than that with us, Senator, because the lease provides for what he shall do and how he shall do it.

The CHAIRMAN. Do you by any chance have a copy of one of those leases?

Mr. ROGERS. No; but I will be glad to send one down for the record if you would like to have it.

The CHAIRMAN. I would like very much to see one.

Mr. ROGERS. Now, our farms are largely in charge, perhaps 5 or 10 in a bunch, of an ex-banker in a community. After the lease is made——

The CHAIRMAN (interposing). An ex-banker?

Mr. ROGERS. An ex-banker—and there are plenty of them. He may be a real-estate man. In a section where we have a rather heavy concentration of farms, perhaps we will have 10 farms under his supervision. He is expected to see that the terms of the lease are carried out. He is also available to the farmer because he lives in the town where the farmer does business.

The work that our technicians do is really the supervision of the ex-banker to see that he is doing his job and to see that he is keeping the tenant up to the notch and has collected our share of the crop, and so forth.

The CHAIRMAN. I imagine the ex-banker would be better qualified to watch the financial affairs of the contract than to watch the agricultural program on the farm.

Mr. ROGERS. If the agricultural program has been set, so many acres in legumes so many acres in corn, if he has the copy of our program of that farm, which he has, he knows then how that farm should be handled and it won't always be handled in accordance with the program but substantially it will. As Mr. Rogers testified this morning, sometimes the tenant has a better idea than we do and he knows what land will produce better than we do, but it is a matter of arrangement between the tenant and ourselves, always having in mind that so much of that farm must be in soil-conserving crops.

The CHAIRMAN. Would you say that this sort of a program was an innovation?

Mr. ROGERS. No. No; I think it has been common practice. I was in the farm-mortgage business in 1893 and '94 and '95 and '96 when we had a very comparable situation, and my first work was in doing exactly what we are doing now with foreclosed farms. It isn't anything new.

The CHAIRMAN. And as long as you have been doing this sort of business, the insurance companies have been managing farms which they have foreclosed?

Mr. ROGERS. Yes; but in those days, 1896, the insurance companies didn't have any farm loans so it was individual investors you did that sort of thing for.

I might say the soil conservation in those days wasn't nearly—in fact, it wasn't any problem at all. The erosion and loss of humus and so on, in the soils——

The CHAIRMAN (interposing). Then conditions back in 1896 which you describe were those which existed between individual farmers and individual lenders for the most part.

Mr. ROGERS. That is right, except they were concentrated in mortgage companies.

The CHAIRMAN. I was thinking more of the institutional farm loans such as we have been discussing in this hearing.

Mr. ROGERS. They were institutional farm loans because the individual lenders sold to the New England savings banks and they managed them for the New England savings banks as they are being managed now.

The CHAIRMAN. With the same detail as to farm practice?

Mr. ROGERS. Almost.

The CHAIRMAN. Are there other questions?

Dr. LUBIN. Mr. Rogers, in the event that you take a farm which is in moratorium and lease it to the former owner, are the terms of sale always the same—namely, the face value of the mortgage plus accrued interest?

Mr. ROGERS. That is right.

Mr. KADES. Mr. Rogers, do you have any records to indicate whether some of the farm real estate held by the Prudential is sold to speculators?

Mr. ROGERS. Yes; I can only make a guess on it. I think I have said a number of times that I doubt very much whether 5 percent of our farm holdings—going back over the years—whether more than the 5 percent have been sold to speculators. There was a year or two when people were afraid of inflation when some speculators appeared and bought farms, but substantially speaking, there have been very few speculators in farm property.

The CHAIRMAN. Any other questions? If not, the witness may stand aside.

(The witness, Mr. Rogers, was excused.)

Mr. GESELL. If the committee please, that completes our consideration of the farm mortgage loan and farm real estate investments, and we will now turn for a short while to a consideration of the urban mortgages and urban real estate or city mortgages and city real estate, and the first witness will be Mr. McLaughlin of the Mutual Life of New York.

I might say for the benefit of the committee that the tables on city mortgages and city real estate commerce at 194, and continue through 261.[1] Perhaps a short summary would help.

Urban mortgages valued at $3,800,000,000 were owned as of December 31, 1938, of which $155,000,000 were insured under the National Housing Act. Urban mortgage acquisitions rose from over $48,000,000 in 1933 to $487,000,000 in 1938. The average interest rates on urban mortgages made in 1938 ranged as between companies from 3.9 percent to 5.2 percent. During the years 1932–38, inclusive, the 26 companies foreclosed urban mortgages in the amount of $1,200,000,000. At the end of 1938, there were $39,000,000 of urban mortgages in foreclosure.

Out of a total unpaid principal amount of urban mortgages owned at the end of 1938, $2,360,000,000 were on properties in New York, Chicago, Philadelphia, Los Angeles, Detroit, Washington, Cleveland, San Francisco, Boston, and Buffalo, with $1,230,000,000 of properties located in New York alone. Of all the urban mortgages owned $1,000,000,000 were on one- to four-family houses There were 10.5

[1] See Hearings, Part 10–A, pp. 194 to 261.

percent of urban mortgages in terms of unpaid principal amount delinquent as to interest for 3 months or more. In different companies this delinquency ranged from 0.87 percent to 33.68 percent of urban mortgages owned. In 1938 the average yield on urban mortgages was 4.59 percent. Foreclosed urban real estate owned by all companies rose from $11,000,000 to $905,000,000 in 1938. Urban real estate under contract of sale at the end of 1938 amounted to over $78,000,000.

The rate of income on mortgage investments ranged from 4.03 percent to 5.96 percent.

(Dr. Lubin assumed the chair.)

Acting Chairman Lubin. Mr. McLaughlin, do you solemnly swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. McLaughlin. I do.

TESTIMONY OF JOHN G. McLAUGHLIN, ACTING MANAGER, REAL ESTATE DEPARTMENT, MUTUAL LIFE INSURANCE CO. OF NEW YORK, NEW YORK, N. Y.

Mr. Gesell. Will you state your full name?

Mr. McLaughlin. John G. McLaughlin.

Mr. Gesell. And you are connected with the Mutual Life of New York, are you not?

Mr. McLaughlin. Yes.

Mr. Gesell. In what capacity?

Mr. McLaughlin. Acting manager, real-estate department.

Mr. Gesell. How long have you been the acting manager?

Mr. McLaughlin. Since July 1937.

Mr. Gesell. And you were with the department for some time before that, were you not?

Mr. McLaughlin. Yes, sir.

Mr. Gesell. Now, first of all, I wanted to ask a little about the city-mortgage loans of the company. Generally speaking, how much money do you loan a year on city mortgages?

Mr. McLaughlin. That varies. We have loaned as high as $40,000,000.

Mr. Gesell. In recent years how much has it run?

Mr. McLaughlin. In '34, '5, '6, the amount was small. In the last 3 years the average was about $6,500,000. In the last 3 years the aggregate was about $20,000,000.

Mr. Gesell. You loaned about $20,000,000 a year?

Mr. McLaughlin. No; in the last 3 years it was about 6½ million a year.

Mr. Gesell. You have loaned about $20,000,000 in 3 years?

Mr. McLaughlin. That is it.

Mr. Gesell. And on what type of properties do you generally loan?

Mr. McLaughlin. Business buildings, apartment houses, dwellings, office buildings, and various other commercial buildings.

Mr. Gesell. Am I correct in saying that most of your loans are on large buildings and apartment houses, office buildings, loft buildings, and things of that sort?

Mr. McLaughlin. I think about half of our loans at this time are on large buildings and in large amounts, $250,000 and up.

Mr. Gesell. What is the lowest loan that your company would be willing to make in the average run of things on a city mortgage?

Mr. McLaughlin. From $5,000 up.

Mr. Gesell. $5,000 up?

Mr. McLaughlin. Yes.

Mr. Gesell. You don't have many in the $5,000 class, do you?

Mr. McLaughlin. Very few.

Mr. Gesell. Where do most of them range?

Mr. Laughlin. From $250,000 up.

Mr. Gesell. That is on table 207, is it not, that over half your loans are above $250,000? [1]

Mr. McLaughlin. That is right.

Mr. Gesell. Now, in terms of territory, turning now to table 201, Mr. McLaughlin, you seem to have loaned a very substantial amount in the city of New York.[2]

Mr. McLaughlin. Yes, sir.

Mr. Gesell. In fact, about 89 percent of your loans are in New York City?

Mr. McLaughlin. That is correct. I might add, that from the beginning the Mutual has favored New York City loans, and they have proven to be very successful. We have not made many residential or farm loans since the later nineties, and the reason is because of the losses we sustained in farm and residential loans which were made in the eighties and later seventies.

Mr. Gesell. You have made no residential or farm loans since before 1900?

Mr. McLaughlin. Yes; that is right—no; that isn't correct. We have made residential loans; no farm loans.

Mr. Gesell. Residential loans have been rather slight, have they not?

Mr. McLaughlin. In comparison with the whole, very light; yes.

Mr. Gesell. You say that the Mutual has always favored loaning in New York City?

Mr. McLaughlin. That is correct, sir.

Mr. Gesell. And that is responsible for the high degree of concentration in that city?

Mr. McLaughlin. No doubt.

Mr. Gesell. Is the policy of the Mutual still to loan its money there?

Mr. McLaughlin. Not necessarily so. We tried about 1927 to diversify, and established I think some 20 or 23 agencies or representatives through the South and West, and in the Northwest, but shortly after that, as you know, we got into trouble, and our representatives have not been very productive, although they did the best they could under the then existing conditions.

Mr. Gesell. Is it fair to say, do you think, that at the present time the Mutual hasn't really got an organization which enables it to place city money out around the country?

Mr. McLaughlin. That is very true, although that is a matter on which we are working, and we have men studying the question in

[1] See Hearings, Part 10–A, p. 207.
[2] Ibid., p. 201.

States of the South and West, and a policy will soon be determined.

Mr. GESELL. Looking to see whether there should be a greater outlet for the funds?

Mr. McLAUGHLIN. That is correct.

Mr. GESELL. A greater diversification?

Mr. McLAUGHLIN. Correct.

Mr. GESELL. But in this period from 1900 up until '38 it has been the policy to loan in New York City?

Mr. McLAUGHLIN. Very largely.

Mr. GESELL. On the subject of residential loans, I noticed in table 195 that your company owns no F. H. A. mortgages.[1]

Mr. McLAUGHLIN. That is correct.

Mr. GESELL. You have never gone into that field?

Mr. McLAUGHLIN. No; not actively.

Mr. GESELL. May I ask whether you are able to loan all the money you want to loan on city mortgages and city real estate?

Mr. McLAUGHLIN. We haven't been lately.

Mr. GESELL. Do you have a "kitty," so to speak, of some amount that you want to get out, and, all other things being equal, that you would like to place in city mortgages?

Mr. McLAUGHLIN. Well, there would be no limit on the amount today. I would be very glad to put out a large sum of money.

Mr. GESELL. Is there any amount that you are expected to place out if you can find satisfactory loans?

Mr. McLAUGHLIN. I think the company would be very glad to place thirty or forty millions of dollars in satisfactory loans at this time for mortgages that would come within our requirements.

Mr. GESELL. What is there about the F. H. A. that does not meet your requirements?

Mr. McLAUGHLIN. That, I am not in a position to state. I will say this, that consideration has been given to the question of F. H. A. loans, but no definite decision arrived at. Recently we have had a research man come into the office to make a very careful study of the matter.

Mr. GESELL. Did you ever make any recommendations to the board of directors as to loaning, or not loaning in F. H. A.'s?

Mr. McLAUGHLIN. No.

Mr. GESELL. You made no recommendation with regard to that?

Mr. McLAUGHLIN. None at all.

Mr. GESELL. Was your opinion ever sought on that question?

Mr. McLAUGHLIN. No.

Mr. GESELL. With respect to farms, you say your company has not loaned on farms?

Mr. McLAUGHLIN. No.

Mr. GESELL. I notice there is one mortgage that keeps cropping up there, of $6,000.[2] There is some question as to whether that is a farm or isn't a farm.

Mr. McLAUGHLIN. That is really one of the holdovers from the time we made farm loans. We bought it in, and subsequently sold it, and now we have the loan, but we did sell that property. You might be interested to know that that was the home of Professor Lossing, a great American historian, and his farm.

---

[1] See Hearings, Part 10-A, p. 195.
[2] Ibid., pp. 161, 169, 172, and 173.

Mr. GESELL. And he was always sure it was a farm, wasn't he?

Mr. McLAUGHLIN. Well, it was a farm in those days. There is no question about that.

Mr. GESELL. What about farms generally? Why haven't you loaned in the farm field. Is it because of the organization your company has for getting its money out, or because of its history with loans?

Mr. McLAUGHLIN. The history with farm loans. We decided, as I stated, in the late nineties, to make no more farm loans.

Mr. HENDERSON. How long ago was that?

Mr. McLAUGHLIN. In the late nineties.

Mr. GESELL. And how many times has that question been reviewed so far as you know since that time?

Mr. McLAUGHLIN. It has been reviewed, but it has not been determined whether or not we would make farm loans.

Mr. GESELL. Was your recommendation ever sought on that question by the board of directors?

Mr. McLAUGHLIN. No; because I knew that would be contrary to the policy of the board, because of prior action.

Mr. GESELL. And did you ever make any recommendations—I take it probably not, because of that same question.

Mr. McLAUGHLIN. I never made any; no, sir.

I might say that the farm loans we had were made in New York State, Pennsylvania, and New Jersey. At that time we were only permitted to loan in New York State and the States contiguous.

Mr. GESELL. Those that were very near at hand?

Mr. McLAUGHLIN. Very near at hand—and we had plenty of them.

Mr. GESELL. Now, you have had to foreclose, like everybody else, have you not?

Mr. McLAUGHLIN. Yes, sir.

Mr. GESELL. I wanted to consider with you for a moment your city real estate account. Turning to table 223,[1] first of all, I note that your company has been successful in selling 15.92 percent of the city real estate which it acquired during the period indicated, in other words, from 1932.

Mr. McLAUGHLIN. Yes, sir.

Mr. GESELL. I wonder if you would tell us a little about what the policy of the company is with regard to the sales of real estate—what type of prices it asks for—and see if you can give us some reason as to why more haven't been sold.

Mr. McLAUGHLIN. We have no fixed prices. In other words, there is no established sales price for these properties, but as inquiries come in we have in mind at all times the existing book value of the property, and also we are possessed of the knowledge of what the property is really worth to someone who ought to own it, or feels that he ought to own it, and we get just as good a price as we can above the book value, but at the same time we don't always adhere to book values. We go below them as well as above them, as indicated in the charts which you have.

Mr. GESELL. By and large people must come to you about these properties?

Mr. McLAUGHLIN. They come to the office. Of course, it is generally known that we own these properties and brokers and others

[1] See Hearings, Part 10–A, p. 223.

interested in acquiring property, call at the office or write for a list of our foreclosed real estate, which list is very promptly furnished.

Mr. GESELL. Well, your lists are out in the hands of brokers, in other words?

Mr. McLAUGHLIN. Oh, yes.

Mr. GESELL. There are, I take it, many properties upon which you have had bids that you have not yet sold?

Mr. McLAUGHLIN. Oh, yes.

Mr. GESELL. Bids which you did not accept?

Mr. McLAUGHLIN. That is correct.

Mr. GESELL. Well, now, there are a few of those I would like to discuss with you a moment, if I may. Have you there your master book, or whatever it is, that shows the bids that are received on the various properties?

Mr. McLAUGHLIN. Which property do you have in mind now?

Mr. GESELL. First of all, let's take property 27,900. On property 27,900, what is the book value of that property?

Mr. McLAUGHLIN. Four hundred thousand dollars.

Mr. GESELL. Am I correct in saying that on October 30, 1935, you received a cash offer of $477,000 for that property?

Mr. McLAUGHLIN. What is the date? Yes.

Mr. GESELL. October 30, 1935.

Mr. McLAUGHLIN. That is correct, according to this record.

Mr. GESELL. There was a cash offer substantially above the book value which you now carry the property at, was it not?

Mr. McLAUGHLIN. Yes, sir.

Mr. GESELL. Again, if you take the case of property 27,237——

Mr. McLAUGHLIN (interposing). May we pursue this 27,900 just a little further?

Mr. GESELL. If you have any comments; yes. I would be interested in knowing why the offer wasn't taken.

Mr. McLAUGHLIN. The trouble with some of these offers, Mr. Gesell, is that they are not definite offers. That was not a written offer. I think it was an inquiry, and the broker was notified that we would not be interested because of the fact that there was nothing definite. It was not an offer that you could really consider an offer. Many of these things that you refer to as offers were only "feelers" by brokers.

Mr. GESELL. That kind of puts the broker in a difficult position, if he says, "I have a possible offer here of $477,000; would you be interested?" He isn't apt to go much further and get it down in writing and submit it to you, is he? It seems to me your advice cuts off further negotiations?

Mr. McLAUGHLIN. That would depend, entirely, upon the broker and other factors in connection with the matter.

Mr. GESELL. Well now, let's take some of the other properties, and perhaps we will get a better understanding that way.

Mr. McLAUGHLIN. I just want to see what the book value was at that time. That is in October 1935. The book value at that time was $550,000.

Mr. GESELL. That is what I am trying to get at. Apparently you were not interested because the offer at that time was below your book value.

Mr. McLaughlin. That is true to a certain extent, but we were fully satisfied at that time that the book value of $550,000 was a fair value of the property.

Mr. Gesell. Now, you have a book value of $400,000 and you still have the property.

Mr. McLaughlin. But there is quite a difference in conditions between '35 and this date.

Mr. Gesell. Let's take another one as an example. Let's take property 29,441. If my record with respect to that property is correct, you have had over 18 offers on that property since 1934.

Mr. McLaughlin. Yes, sir.

Mr. Gesell. And they have ranged from $225,000, which appears to be low, up to as high as $300,000. I believe there is one, yes, that is correct.

Mr. McLaughlin. On this property, Mr. Gesell, I do not see the offer of $300,000, but I can tell you very frankly we have been offered $285,000 for it. It is returning 6 percent interest on the investment and is considered one of our desirable properties.

Now, of course, there are properties upon which we necessarily must take losses. There are other properties upon which we expect to make a profit.

Mr. Gesell. What is your book on this now?

Mr. McLaughlin. The book on this is $241,000.

Mr. Gesell. And a $285,000 offer—in other words, an offer that would give you some profit—would not be acceptable?

Mr. McLaughlin. Not at this time; no, sir.

Acting Chairman Lubin. May I ask, Mr. McLaughlin, what the value of the mortgage was on that property when it was foreclosed?

Mr. McLaughlin. $235,000 was the principal of the loan, and the costs were approximately $7,000, not including the arrears of interest.

Acting Chairman Lubin. So that your book value is approximately the same as your investment in the property?

Mr. McLaughlin. Yes; and we have spent on the house twenty or twenty-five thousand dollars in rehabilitation work and deferred maintenance. The property has really cost more money than it shows there.

Acting Chairman Lubin. Would some of that be taken care of by depreciation?

Mr. McLaughlin. No, sir; the depreciation generally treated as part of the write-off each year.

Mr. Gesell. How long have you held that property?

Mr. McLaughlin. Since 1934.

Mr. Gesell. Now, it is over the 5-year line, isn't it?

Mr. McLaughlin. Yes, sir.

Mr. Gesell. And you have received something like 18 offers, including some offers at prices substantially above your book value?

Mr. McLaughlin. Quite correct.

Mr. Gesell. I take it that you are in agreement with me that real estate, city estate, or farm real estate, or any kind of real estate, is not, per se, a life insurance investment. It is really the result of a disastrous loan, isn't it? It is an involuntary investment.

Mr. McLaughlin. That is true, but it is one of the properties we have had to take over and conditions have improved. It is one that should enable us to recover some of the losses we have taken and will have to take on other properties.

Mr. GESELL. And your policy, then, with respect to the real estate that you acquire, whether it be an apartment house or a hotel or theater or garage or whatever it is you have happened to loan on, is that if you feel you can operate that property in order to make a gain, you will so operate it?

Mr. McLAUGHLIN. I think we ought to.

Mr. GESELL. And in effect, therefore, this acquisition of the property through foreclosure has put your company in the city of New York in the position of having a pretty direct management interest in many different kinds of enterprises, has it not?

Mr. McLAUGHLIN. You mean various kinds of business?

Mr. GESELL. Yes.

Mr. McLAUGHLIN. Yes.

Mr. GESELL. And I suppose the problems of running a hotel or loft building or apartment house are all slightly different?

Mr. McLAUGHLIN. Very different. We have no real hotels.

Mr. GESELL. So that your company is in the position of running buildings of these various kinds?

Mr. McLAUGHLIN. Yes, sir. Of course, you understand that the buildings we have are in the hands of management concerns, and supervised by our home-office force.

Mr. GESELL. Your management interest, so to speak, is indirect, through one of these management organizations?

Mr. McLAUGHLIN. Except for quite a large number of our single occupancy houses, which we have leased and manage from the home office.

Mr. GESELL. I was noticing from schedule 234 that it includes quite a list of properties; apartment houses, commercial hotels, club buildings, general stores, stores and apartments, stores and offices, office buildings, auto sales and show rooms, storage garages, theaters, loft buildings, warehouses, lumber yards, auto service stations, tenement houses, and even vacant lots? [1]

Mr. McLAUGHLIN. That is right.

Mr. GESELL. So that you are in a position of having a pretty direct management interest in a multitude of different types of properties, are you not?

Mr. McLAUGHLIN. That is correct.

Mr. GESELL. And from the instances we have cited here of your sales policy, you will continue to keep that interest until such time as you feel you can gain on properties an amount equal to their worth, even if that involves a profit over what it cost you when you took it over?

Mr. McLAUGHLIN. Will you repeat the question, please?

Mr. GESELL. You will continue to manage these buildings as owner if you feel that that management will bring you a profit ultimately, and will not accept bids to sell the properties which would simply result in your breaking even?

Mr. McLAUGHLIN. That is true—meaning the book value?

Mr. GESELL. Yes.

Mr. McLAUGHLIN. Yes; we have a number of such properties.

Mr. GESELL. How does the New York law with respect to 5-year ownership on this thing come into the situation? I suppose you are

---

[1] See Hearings, Part 10-A, p. 234.

conscious of that law and the desirability of getting the property off the books within the 5-year period?

Mr. McLaughlin. I am quite sure the commissioner will be very reasonable about that.

Mr. McLaughlin. We want to sell, and are going to sell, but I don't think we would be justified in sacrificing a property just because we have an offer for it. If we are reasonably sure it is worth more it seems to me we have a responsibility to keep it and endeavor to realize its worth.

Mr. Gesell. I was just getting at what your position was in that regard.

Mr. McLaughlin. I do want to impress upon your mind we want to sell our real estate.

Mr. Gesell. Now, on this question of sale again, in 234 our figures indicate that over 14 percent of your real estate is in old law tenement houses; that is correct, is it not? [1]

Mr. McLaughlin. That is right.

Mr. Gesell. Well, now, what are you doing about selling these old law tenement houses?

Mr. McLaughlin. Selling them just as rapidly as we can.

Mr. Gesell. They are buildings, I understand, which are in such a state of disrepair or otherwise that they will not meet the legal requirements for occupancy at the present time?

Mr. McLaughlin. Not all of them. Most of them are such that we would have to rehabilitate them, but some are not the type that ought to be rehabilitated.

Mr. Gesell. So they are, so to speak, real lemons, aren't they?

Mr. McLaughlin. I agree with you.

Mr. Gesell. Now, what do you do about them? Do you wait for some fellow to come along who is going to be able to put up the money to rehabilitate them or tear them down and put something else up—is that the kind of purchaser you must await?

Mr. McLaughlin. Well, sometimes they come along without much money, but willing to spend seven, eight, or nine thousand for rehabilitating, and we are very glad to sell upon very reasonable terms, conditioned, of course, upon such an expenditure. We feel that if a purchaser spends his money it is just as though he paid us that much cash on account.

Mr. Gesell. Now these old-law tenements must be rather difficult to value, are they not?

(Mr. McLaughlin nodded assent.)

Mr. Gesell. Particularly if you think of them in terms of book value?

Mr. McLaughlin. I think everything is very difficult to value.

Mr. Gesell. Particularly an old-law tenement?

Mr. McLaughlin. That is true. We have sold, though, $1,329,000 of old-law tenements.

Mr. Gesell. Yes; and I believe you have more of them now than any other company here, do you not?

Mr. McLaughlin. That I can't answer.

Mr. Gesell. Have you written those properties down?

Mr. McLaughlin. Very materially.

---

[1] See Hearings, Part 10–A, p. 234.

Mr. GESELL. Additional write-offs on them, I understand, this year?

Mr. MCLAUGHLIN. Yes.

Mr. GESELL. Now, what about these loft buildings? I see that they constitute over 13 percent of your real-estate portfolio.[1] Those are rather difficult problems, too, are they not?

Mr. MCLAUGHLIN. Just at the moment.

Mr. GESELL. And what has been your procedure with respect to vacant land? I notice there again your vacant land accounts are about 13 percent of your urban real estate, vacant property.[1]

Mr. MCLAUGHLIN. You include the vacant land from which the buildings have been removed?

Mr. GESELL. Yes.

Mr. MCLAUGHLIN. Well, the Belmont lot has a few million dollars in value and there is a building being erected on the property at a cost of over $800,000. We have been taking a loss on this property of about $123,000 a year; it is a property that has been a problem up to the present time, but under the leases that have now been executed the company will net between 2½ and 3½ percent on $4,000,000.

Mr. GESELL. So there is one that has proven to be satisfactory?

Mr. MCLAUGHLIN. That is going to work out very nicely.

Mr. GESELL. And I suppose one consideration in holding onto this real estate is whether or not you are making money on it, is it not? I mean if you have this real estate in your portfolio and it is operating at a profit, it is more desirable to hold and wait for a rise in prices than it is operating at a loss?

Mr. MCLAUGHLIN. That is true. Of course the average person who has any desire to buy a piece of property today, wishes to buy it under the market, and under what we feel is a fair value for it.

Mr. GESELL. Though we have had cases here where you are being offered above book?

Mr. MCLAUGHLIN. We would have to analyze those offers a little more carefully because we have offers all the time and some of them are just simply ridiculous. You take an offer and come to an agreement to submit it to the committee, and then what often happens? The broker isn't able to deliver, but he ascertains about the amount for which the company is willing to sell the property, because we have gone to the committee with it. As a matter of fact he is told to bring his client down to sign a contract. That is very bad, from the company's point of view, but we have no redress.

Mr. GESELL. It is bad business for people to know what you really want for the property?

Mr. MCLAUGHLIN. Well, you get down to a price where you trade it to a lower price than you really want to take.

Mr. GESELL. I was noticing on table 227 that you are the only company of the top 10 that has lost money on its real estate.[2] I wondered if you had anything you wanted to say about that? It seems to me that goes to the question of whether or not it is desirable to continue to hold this real estate.

Mr. MCLAUGHLIN. Well, may I just add to the vacant properties, we had two in the Bronx that were sold and they have been resold since

[1] See Hearings, Part 10–A, p. 234.
[2] Ibid., p. 227.

at an additional profit, so I am informed. Well, now, I would like to review that just a little. About 1927 or 1928 Mr. Manchester, who had been with the company for many years and was a statistician, loved to delve into old records, went back to almost the beginning of the Mutual lifelong business and developed the fact that, taken as a whole, the Mutual Life had suffered no real losses as the result of foreclosed real estate. Many properties taken in in the early days that looked to be hopeless, enhanced tremendously in value and the company had the advantage of those gains to overcome the losses sustained on farm and residential properties. I have been through two or three depression periods, not as bad as the present one and I believe that it is only a question of time when there will be a sufficient recovery in real estate values to allow us to work out this foreclosed real estate problem in a very satisfactory manner.

When you stop to consider that—from 1900 to date—the Mutual Life has made loans aggregating about 700 millions of dollars, and this is all we have out of those 700 millions of dollars; it looks as though the record isn't such a bad one after all.

Mr. GESELL. I was more interested in discussing with you how you handled your real-estate accounts, what your problems are, how you approach them. I quite realize that many other investments of the Mutual Life have proven satisfactory and lots of real-estate loans have proven satisfactory, but you are faced with the fact, are you not, that you are the only company of the big 10 that is losing money on its real estate, according to these schedules, and that you have a very high degree of concentration?

Mr. McLAUGHLIN. You mean income? You are talking about income, are you not?

Mr. GESELL. Yes; net income or deficit.

Mr. McLAUGHLIN. I think I can answer that. We charge all our deferred maintenance and the greater part of our rehabilitation expense to general expense, which goes against the property, and I venture to say based on normal operating expense, the figure would be very different.

Mr. GESELL. Do you take any depreciation?

Mr. McLAUGHLIN. Only the write-offs. Taxes paid on vacant land lowers lowers very much the income from our properties.

Mr. GESELL. Well, now, on some of these largest real-estate properties, I had one or two questions.

Mr. HENDERSON. Before you get into that may I ask a question: Do you make loans on vacant properties?

Mr. McLAUGHLIN. We have, but very few.

Mr. HENDERSON. What were they?

Mr. McLAUGHLIN. You mean unimproved properties?

Mr. HENDERSON. Yes.

Mr. McLAUGHLIN. We do not make loans on unimproved property.

Mr. HENDERSON. But you do on property that is not occupied by a tenant?

Mr. McLAUGHLIN. That is right. Most of our vacant properties today are the result of demolition of buildings we took them over, except one or two.

Mr. HENDERSON. You sometimes tear them down in order to escape the tax burden?

Mr. McLaughlin. Not necessarily to escape the tax burden, but more particularly because the building isn't worth trying to do anything with.

Mr. Kades. With reference to the old-law tenements, Mr. McLaughlin, can you fix the approximate date of the old law which is referred to?

Mr. McLaughlin. 1901, I think.

Mr. Kades. 1901. Are these mortgages as old as that?

Mr. McLaughlin. Some of them; some are older.

Mr. Kades. Do you have many records to indicate how many of these properties were loaned on prior to 1901?

Mr. McLaughlin. I suppose the foreclosed real estate is what you are talking about?

Mr. Kades. I am speaking with reference to table 234, which is entitled "Urban Real Estate Owned." [1]

Mr. McLaughlin. Yes; that is the real estate owned. I think very few of these properties came to us through mortgages that were made prior to 1900. It would be a very small percentage of the total.

Mr. Kades. Well, weren't you aware at the time that the mortgage was made, then, that the old law was in existence?

Mr. McLaughlin. When these mortgages were made?

Mr. Kades. Yes; that the new laws were in existence?

Mr. McLaughlin. Well, these loans were probably made before the new laws came into existence. Around 1900, the old law tenements were certainly a good investment because they threw off a large income. Since the new laws it is very different. Some of those old tenements—I suppose you are referring to the old cold-water tenements more than anything else?

Mr. Kades. That is it.

Mr. McLaughlin. Yes; they don't amount to much; we have very few.

Acting Chairman Lubin. Mr. McLaughlin, I note that these tenement houses, these old law tenements, still are very good sources of income; in fact, relative to other types of real estate, they come third on your list.

Mr. McLaughlin. Will you repeat the question, please?

Acting Chairman Lubin. According to this table 234, your tenement houses are still one of the best sources of income you have, in the sense that the ratio of book value and gross income is higher than for any other type of real estate you own, with the exception of apartment houses and loft buildings.[2]

Mr. McLaughlin. Of course there are tenements and tenements, and probably those are the new law tenements about which you are speaking.

Mr. Gesell. They show under the caption "Old law tenement houses," I believe.

Mr. McLaughlin. The multiple dwelling law, you know, had a lot to do with this. I think that was a law of about 1929—certain old tenement houses when made to comply with the Multiple Dwelling Law proved to be a satisfactory investment.

---

[1] See Hearings, Part 10-A, p. 234.
[2] Ibid.

Mr. GESELL. I would like to offer for the record at this time this schedule prepared by the Mutual Life Insurance Co. to apply to the investment questionnaire showing for the 10 largest urban real-estate properties owned, the name of the property, the book value, the adjustments made in that value, the date the property was taken, the date of the first default, the date of the last appraisal, and the amount, and the revenue income, and other information with respect to those properties. That is offered subject to correction.

Acting Chairman LUBIN. It is accepted.

(The schedule referred to was marked "Exhibit No. 2300" and is included in the appendix on p. —.)

Mr. KADES. Mr. McLaughlin, I am not clear on your reply to my question. Are all the mortgages shown as "Tenement houses (old law tenements in New York City and similar property elsewhere)" on table 234, mortgages made before the multiple dwellings law went into effect? [1]

Mr. McLAUGHLIN. Those loans were made before the multiple dwelling laws went into effect. That would be prior to 1929.

Mr. GESELL. I have no further questions for this witness.

Mr. Polk, a trustee of the Mutual Life, is here and anxious to get away today, and he is on the real-estate committee and I think we can continue the discussion with him, if the committee has no further questions of Mr. McLaughlin.

Acting Chairman LUBIN. There are two questions I should like to ask Mr. McLaughlin, if I may. I note you said the commissioner of insurance of the State of New York would no doubt be considerate relative to your holding this property beyond 5 years. Does he have authority to exempt a company from the provisions of the law?

Mr. McLAUGHLIN. He has a perfect right, upon application being made and given sufficient reason to grant the extension, and he has of late been granting them of 2 to 3 years.

Acting Chairman LUBIN. Is it the policy of your company when you see a piece of real estate is going sour at any time to write down the book value beyond the outstanding mortgage?

Mr. McLAUGHLIN. Many of those properties are below the principal of the mortgage.

Acting Chairman LUBIN. When that property is sold, you show a profit on the books?

Mr. McLAUGHLIN. A profit, if in excess of the book value.

Acting Chairman LUBIN. So for that year at least, the year in which you sell the property, in the event that it was sold after the property has been written down on your books, you show a net profit from your real-estate transactions?

Mr. McLAUGHLIN. That is true, sir.

Acting Chairman LUBIN. Are there any other questions?

You may be excused. Thank you so much.

(The witness, Mr. McLaughlin, was excused.)

Mr. GESELL. Mr. Polk.

Acting Chairman LUBIN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. POLK. I do.

---

[1] See Hearings, Part 10–A, p. 234.

TESTIMONY OF FRANK L. POLK, TRUSTEE, MUTUAL LIFE INSURANCE CO. OF NEW YORK, NEW YORK, N. Y.

Mr. GESELL. Will you state your full name and your occupation, please, sir?

Mr. POLK. Frank L. Polk.

Mr. GESELL. And you are a lawyer, are you not, Mr. Polk, and a member of the firm of Davis, Polk, Wardwell, Gardiner& Reed?

Mr. POLK. I am.

Mr. GESELL. You are also a trustee of the Mutual Life, are you not?

Mr. POLK. I am.

Mr. GESELL. How long have you been a trustee?

Mr. POLK. Since 1930, October 1930, I believe that is right.

Mr. GESELL. Mr. Polk, you have been assigned, among other committees, to the real-estate committee, have you not?

Mr. POLK. As of June 1931.

Mr. GESELL. And there is also, I understand, a special subcommittee of that committee which has even a more direct connection with the problems of the mortgage-loan division of which you have also been a member for some time?

Mr. POLK. On special mortgages, only. It has no closer touch with all of the mortgages, but with a certain class of mortgages.

Mr. GESELL. What type of mortgages are they?

Mr. POLK. Mortgages that are up for extension or renewal of the mortgage.

Mr. GESELL. You are a member of that committee?

Mr. POLK. I am a member of that committee.

Mr. GESELL. I wanted to consider with you, Mr. Polk, some broader questions of policy with respect to the city mortgage loaning activities of the company. First of all, on this question of F. H. A. mortgages and residential loans, can you explain for us the policy of the Mutual in not taking that type of investment?

Mr. POLK. The matter was considered two or three times informally and referred back for report. We have not decided we would not take them, but when the question first came up, which I think was 2 years ago, we had a very large portfolio in Government bonds. These F. H. A. loans are for 20 or 25 years. In the case of default, they then get, I think it is, a 2% obligation, and we felt that this particular class of loan at that time was so new and so untried, there were so many questions as to the wisdom of taking that class of loan, we decided for the moment not to take them. But that is not a final decision. We are reviewing it again now and the chances are that we will probably take some. That is how we met that particular situation, Mr. Gesell.

Mr. GESELL. There is shown by the table a pretty striking difference between the five largest companies, for instance, three of which have none and two of which have 51 million and 34 million, respectively.[1]

Mr. POLK. Yes.

Mr. GESELL. Mr. McLaughlin having told us your company was looking for outlets for funds in the field of city loans and residental loans and loans of that character, I was particularly interested in why that was not taken.

---

[1] See Hearings, Part 10-A, p. 195.

Mr. POLK. We are considering it again and the chances are we will probably take it, but that hasn't been settled. It hasn't come up to the committee. That is just my own personal opinion.

Mr. GESELL. With respect to loans on housing developments, your company has no loans of that character?

Mr. POLK. No; we have no loans of that character.

Mr. GESELL. Will you explain your policy in that regard?

Mr. POLK. That is a special field and requires a large investment and very careful check on the part of the company making the loan. We felt that at the moment that was not a field we cared to go into, the lending on large properties of that character. That, too, is subject to review and change.

Mr. GESELL. That question has, however, been considered by the board?

Mr. POLK. Yes; by the committee, not by the board, and that, too, wasn't formal action by the committee, it was just discussed among the members of the board and no loans of that character have been presented.

Mr. GESELL. Did I understand the question of the F. H. A. loans didn't go before the board but was discussed by the real-estate committee?

Mr. POLK. No; I don't think it was submitted to the board.

Mr. GESELL. Is it the practice to pass on questions of policy that way without a vote and sort of informally, sitting around the table?

Mr. POLK. Yes; that has been the usual practice.

Mr. GESELL. It occurred to me, for example, that in the question of those two lines of investment, that might be something where the board would wish to take formal action and make a record decision.

Mr. POLK. We haven't taken final action yet. Members of the committee have discussed it with other members of the board.

Mr. GESELL. With respect to the question of farm investments, your company carries no farm mortgages. I wondered if you could perhaps elaborate on Mr. McLaughlin's testimony in that regard.

Mr. POLK. That is all before my day. The position of the company has been, at least the feeling was, that we had a very unfortunate experience with farm loans sometime past, and to go into it now would need a very elaborate organization to service them and to give the kind of service that apparently these companies that go into that field give. I was very much interested in the testimony of these two gentlemen who testified today, who go into the agricultural study of the land, and so on, which indicates a very elaborate organization.

Mr. GESELL. And your company has not felt that it wanted to build up that type of organization?

Mr. POLK. No.

Mr. GESELL. Has the question come up for review before the board since you have been a member, as to whether or not you would loan on farm properties?

Mr. POLK. Oh, it is generally understood that we would not. It has been mentioned frequently.

Mr. GESELL. You see what I am considering with you in a way is how the trustees function on these investment problems.

Mr. POLK. It has been mentioned on many occasions that we did not go into farm mortgages.

Mr. GESELL. Have you had any special surveys made in that field of investment since you have been on the board?

Mr. POLK. Not on farm mortgages.

Mr. GESELL. No kinds of investment studies made to see whether that might be an outlet for your funds?

Mr. POLK. No; we are convinced it would not.

Mr. GESELL. What about this whole problem of getting money back where it came from? Your city mortgages are lumped very heavily in New York City. You have no farm money out. You are not active in the field of residential loans. Those three things taken together would make me wonder a little as to whether or not you hadn't perhaps considered the desirability of putting your funds out into channels of investment which would perhaps come back nearer to the policyholder and to the locality where the money came from.

Mr. POLK. I think we have gone on the theory that safety of investment was the desirable point to work toward and haven't looked at it from the standpoint of putting the money back in a particular locality where it came from.

Mr. GESELL. In other words, this matter of safety, rather than diversification in a territorial sense of types of investment, was the matter of interest?

Mr. POLK. I think so.

Mr. GESELL. In the matter of safety, as I remember back in the days when I was studying economics, one thing they used to tell me was that diversification is a pretty important thing. We miss it in your city account, don't we?

Mr. POLK. We do. In view of existing circumstances, the question could very well be raised as to whether that was wise business judgment, but when those loans were made back in the twenties, before my day, I imagine what prompted the committee and the board to make those loans was that New York real estate was considered the best investment that anyone could put their money into. No one ever contemplated the time when New York real estate would be in the condition it is at present. That may have been bad business judgment. Not only was that true of New York capital seeking this kind of investment, but all over the country they were coming to New York for mortgages, and from abroad.

Mr. GESELL. In other words, it was an awfully good basket but you were still putting all your eggs in it, weren't you?

Mr. POLK. Yes.

Mr. GESELL. And what about your policy now?

Mr. POLK. Oh, ever since '27 we have been trying to diversify.

Mr. GESELL. That is interesting. You haven't had much success?

Mr. POLK. No.

Mr. GESELL. Why haven't you?

Mr. POLK. Again I have to speak from hearsay partly, Mr. Gesell. In '27 when the first survey was made and Mr. Shields, then manager, was sent out into the field to see what could be done, very little could be done at that time because of the demand for money. Good mortgages in these localities were immediately gobbled up by the local people. In other words, that was not the psychological moment to get it spread out. We made the survey two or three times, and Mr. Shields, I think about that time or later, secured the services of a number of agencies who were supposed to send mortgages in, but that was not very successful. But the survey was made again, and then of course in '33 and '34 no one was making many real estate mortgages anywhere, particularly out of town. That was a field that was unknown territory so far as our experts were concerned, and it was a risk we hesitated to take in that time in view of the trying situation in '32 and '33 and '34; but now we are taking a certain number of mortgages where we can get them in the suburbs and in the cities where we can get them, and we are distinctly in the market.

We are now setting up an organization to go even more intensively into that.

Mr. GESELL. Then you feel on the basis of the experience you have had that there are some advantages to be gained from a broader diversification?

Mr. POLK. Oh, distinctly.

Mr. GESELL. And you are lining up your investment program in that way?

Mr. POLK. Yes.

Mr. GESELL. I would be a little interested to know, Mr. Polk—I suppose you have had a chance to look at this "Exhibit No. 2250" [1] a little?

Mr. POLK. Yes.

Mr. GESELL. In your day-to-day work as a director, had you realized that on some things the Mutual was as much out of line with the other companies as these tables have disclosed?

Mr. POLK. Probably not, because I don't think we ever had the figures brought to our attention. We knew, of course, we were out of line because we had this New York real estate, and particularly some of these large properties, like the Belmont and the old Vanderbilt property on Fifth Avenue, and one or two unimproved pieces that we put rather large mortgages on. So we knew we were out of line, but exactly how much I didn't know. I knew we were undoubtedly out of line.

Mr. GESELL. On this question of the sale of property, coming to the period where you are faced with the problem of managing or getting rid of the properties you have had to take over, can you give us a little fuller idea of what the trustees' policy is with regard to the disposition of real estate?

Mr. POLK. I think that the policy of the trustees of our institution is probably the policy of all the institutions in New York. In other words, if you have a piece of property that is completely insolvent, you had better get rid of it as quick of you can, regardless of what you paid for it. Of course, that more particularly applies to these smaller properties. Then if you have something in the nature of a wasting asset, gradually sliding downhill, you had better get rid of that. Of course, it may be making a little money, but it is in a neighborhood that is changing and that had better go.

If you have property that is well situated, even though it isn't earning much, we don't think that New York real estate is permanently down, and we feel as the courts have indicated, and have defended in these various questions that have come before it, that the fair market value is what a willing purchaser would pay a willing seller. But, of course, there are not many willing purchasers these days. So there

[1] Hearings, Part 10–A.

you had better hold your property until you can get somewhere near what its real value would be. In other words, if you have confidence——

Mr. PIKE (interposing). That is what impresses me, Mr. Polk. It seems that the result of the business judgment is that you are waiting for a real-estate market to do some selling.

Mr. POLK. Not entirely. For instance, we have sold 109 properties out of 417. I didn't realize it was as many as that. We have done very well on those sales.

Mr. PIKE. Yes; but still you have sold only 15 or 16 percent.

Mr. POLK. Yes; it would be the height of folly to sacrifice a piece of property like the site of the Belmont.

Mr. PIKE. Oh, I didn't mean to criticize the policy, but that seems to be the essence of the judgment; that there aren't enough willing buyers around now, and we are waiting.

Mr. POLK. We may, unfortunately, have made an error in business judgment. We had large units. The purchasers for large units are few and far between.

Mr. PIKE. That is what I meant by waiting for the market.

Mr. POLK. Therefore we think it is bad business policy for us to sell at this time.

Mr. PIKE. I don't question the wisdom of the policy.

Mr. POLK. But it is one of those things one never knows.

Mr. PIKE. It is hard to tell.

Mr. POLK. We don't think the grass is going to grow in the streets of New York, in other words.

Mr. GESELL. But your policy and problems with respect to the disposition of real estate are in part the problems created by your loaning policy, aren't they?

Mr. POLK. Exactly.

Mr. GESELL. The fact that you loaned in large amounts now places you with a job of getting rid of these big properties, which is more difficult than little properties?

Mr. POLK. When they were taken on there was great competition for those loans in those days. I know I would have thought, if I had been on the committee at that time, that we had done rather well getting those large loans.

Mr. GESELL. And the fact that you have loaned all in one area perhaps makes the job of getting these willing purchasers even more difficult?

Mr. POLK. Of course, there are a great many willing sellers in Manhattan at the present moment, and not many willing purchasers. Of course, they know these properties are hanging over the market, and if they feel these various insurance companies and savings banks are going to dump the properties——

Mr. KADES (interposing). Mr. Polk, in the light of the fact that the company is not averse to holding real estate in urban areas, has the real-estate committee ever considered the possibility of securing an outlet for its funds through the construction financing of large-scale housing projects for modest rental?

Mr. POLK. Have we ever considered them?

Mr. KADES. Yes.

Mr. POLK. Not the large-scale housing, but the F. H. A. loans we are reviewing again, now.

Mr. KADES. I am sorry, sir, I didn't understand what you said.

Mr. POLK. I have a bad voice. We have not considered the large loans for large developments. That is a little bit out of our line, but we are considering the F. H. A. loans.

Mr. KADES. I didn't mean, sir, loans for large developments; I meant the actual construction for investment purposes, of large-scale housing projects, similar to that of the Metropolitan in the Bronx.

Mr. POLK. Oh, no. We have not done it so far.

Mr. KADES. Has it been considered?

Mr. POLK. Yes; not very seriously. It is being considered again now.

Mr. GESELL. One of these problems with respect to sale is this whole problem of valuation, isn't it?

Mr. POLK. Yes.

Mr. GESELL. If you value your properties at a high price and feel you should not take a loss on the average, you may have much greater difficulty getting rid of your properties, may you not?

Mr. POLK. That would be true, but I think we take each piece of property by itself.

Mr. GESELL. You see, these tables would indicate that of all of the 26 companies, your company is next to the highest in the valuation of its real estate, if you take a percentage of gross income.[1]

Mr. POLK. Oh, yes. Of course, as Mr. McLaughlin pointed out, if you take out one or two properties out of that, you can bring the return on gross income down very rapidly.

Mr. GESELL. It is about 14 percent now and it would be something to bring it down to 5.8, which is the figure of the New York Life.

Mr. POLK. That is a very brilliant record.

Mr. GESELL. Is it a matter so much of brilliance, Mr. Polk, as just realism?

Mr. POLK. I would prefer not to characterize it.

Mr. GESELL. It is a matter of what your approach has been to problems of valuation, isn't it?

Mr. POLK. Yes; but I think, for instance, where you have large units, each problem is different. I think we have a very different problem, for instance, from most of the other companies.

Mr. GESELL. You mean because you have more large-sized properties?

Mr. POLK. I think that makes a very different picture. By the same token, if the turn comes we will get out very rapidly.

Mr. GESELL. Because a few sales will get much more of your portfolio out?

Mr. POLK. Yes.

Mr. GESELL. Well, I was interested in this schedule which came before your committee showing your various properties, both the book value and the assessed value, the value of the properties determined by two independent appraisers, and the value approved by the committee.[2] Now, this schedule showed, by and large, as of

[1] See Hearings, Part 10–A, p. 234.
[2] "Exhibit No. 2335," on file with the committee.

December 31, 1938, that these properties had a total book value of $52,833,000, that they were given a book value of $51,279,000 following the appraisals, but that the appraisals were in many cases, even the highest of them, less than the book value given the properties by the committee.

Mr. POLK. Yes—that is, by the subcommittee. We were overruled.

Mr. GESELL. This was as of 1938.

Mr. POLK. Oh, 1938; I beg your pardon.

Mr. GESELL. You were overruled in 1939, were you not, but in 1938 your recommendations on the valuations of these properties went through?

Mr. POLK. Yes.

Mr. GESELL. And those recommendations were for book values in many cases higher than the highest of the two independent appraisals?

Mr. POLK. We went over each separate piece of property and there are two reasons why that figure is higher than the high appraisal. One was that, for instance, where we were writing off against property and the write-off had been a write-off the year before, we would write off this year, and the question was whether we would write down to the appraisal or whether, if we were moving in that direction, that wasn't sufficient.

Mr. GESELL. In 1939 you wrote down to the highest appraisal?

Mr. POLK. You take that question of value. We had two appraisals. I am quite certain that if we had gone out and got another appraiser we would have had a much higher value. I know, of the two appraisers we had, I think there is a spread of about $5,000,000 between the two.

Mr. GESELL. Yes; there is, but here is a property, for instance, on Twenty-first Street, where both appraisers gave you a $200,000 value, and you valued it at $250,000.

Mr. POLK. There must have been some special circumstances.

Mr. GESELL. That is No. 26128.

Mr. POLK. Probably income on the property. If you give me a list of those, Mr. Gesell, I will be glad to get the sheet.

Mr. GESELL. I am sure if we went down the whole thing we would have quite a time on each one.

Mr. POLK. I think probably the income return on that justified the higher appraisal.

Mr. GESELL. Let me ask you this, your valuations are made before or after the declaration of the dividend?

Mr. POLK. Before.

Mr. GESELL. Is that correct, Mr. Polk. When is the dividend date?

Mr. POLK. No, they make an estimate before, and the actual valuation is made afterwards.

Mr. GESELL. So you are in this position, are you not: You declare your dividends, let us say, in November, some time in the month of November, and your final valuation of your properties doesn't take place until after the year ends?

Mr. POLK. The final declaration of the dividend, yes.

Mr. GESELL. The final valuation of the property takes place after the year-end, does it not?

Mr. POLK. The final valuation after the year-end, yes.

Mr. GESELL. And your dividend recommendations——

Mr. POLK (interposing). In 1938 it was before the end of the year; I am quite sure. In 1939 it was not.

Mr. GESELL. As a general practice, what is your procedure in that regard?

Mr. POLK. I think back over a period of years you would find that it was before the end of the year.

Mr. GESELL. Your dividend recommendations, then, come after the write-downs are taken on your property?

Mr. POLK. Sometimes, and sometimes before; about that time, except in 1938. In 1938 I think it was late.

Mr. GESELL. It seems to me that in any event you declare dividends before you value your properties; it must be very difficult to take a realistic position.

Mr. POLK. As a matter of fact, it is not, because this year we went down considerably lower than the figure we first arrived at.

Mr. GESELL. Is it the policy of the Mutual, on properties where it thinks it deserves a profit, to hold out until it can obtain that profit, and not to sell on a basis where it will break even?

Mr. POLK. I should say the policy would be to break even, but there may be exceptions to that rule. One or two that you cited are exceptions. I don't recall the particular instances, but I should say, generally speaking, if we got out even, that would be all we could hope to do.

Mr. GESELL. If you got out at book, you would be satisfied?

Mr. POLK. In most instances, yes.

Did you ask when we wrote up our properties? I don't think we ever have written up our properties.

Mr. GESELL. I didn't ask you that, but since you raise it, I think you have. I believe there are cases on this schedule,[1] at least a few, where you did write up to the lowest appraisal, if your book was below.

Mr. POLK. I think our total write-up is $250,000 against a write-down of $15,000,000.

Mr. GESELL. On an over-all, there isn't any question that you wrote down.

Mr. POLK. I think if we wrote up at all, there must have been some special circumstances.

Mr. GESELL. Here is a property, 27177, that you wrote up $20,000 from a book value of 220 to the highest appraisal of 240. That is 360–72 West Fifty-fifth Street, and 830 Forty-ninth Avenue. That was written up $20,000. I don't think it is important.

Mr. POLK. No; I would be very glad to drop you a line about that.

(Senator O'Mahoney resumed the chair.)

Mr. GESELL. There are several others. One is written up $61,000, so I guess there have been some cases.

Mr. POLK. There may have been.

Mr. GESELL. I have one further question, Mr. Polk, and I will have finished. Taking into account these various matters we have been discussing, do you believe that the Mutual Life has made an adequate disclosure to its policyholders of the condition existing in its city-mortgage loan and real-estate account?

[1] "Exhibit No. 2335," on file with the committee.

Mr. Polk. I should think so, with the write-off we made this year, and with the statement we put in our book.

Mr. Gesell. You misunderstood; not have you adequately fulfilled your trusteeship, but have you adequately disclosed the condition of the account to the policyholders; not have you been conservative.

Mr. Polk. It seems to me we have. I mean, we have a write-down this year of $6,000,000, I think, and we continually speak of the reserve as a contingency fund against further real-estate write-offs. As a matter of fact, we don't think we will have ever to make those, because that property is in our hands and we don't have to sell it.

Mr. Gesell. Do you believe, for example, that the policyholders should know the degree of concentration which exists in your account? You see, we have been discussing here the fact that over a period of years you have had this concentration, and now, from the glorious point of hindsight perhaps it wasn't so advisable. What about the matter of disclosures to policyholders during that period?

Mr. Polk. There would be no objection to it. As a matter of fact, I think it is a question of value, whether that property would have been any more valuable if it had been, for instance, in other cities. It all comes down to what the policyholder is interested in, the protection he is going to get. For instance, the concentration makes our property a little harder to sell, and as you say, hindsight is better than foresight, but I don't think we are withholding any information from our policyholders.

Mr. Gesell. I am just trying to consider with you the whole character of the annual report of most insurance companies to their policyholders, whether or not from the point of view of some of these items in the field of investment there should not be perhaps a greater disclosure?

Mr. Polk. I can see no objection to it, where the various mortgage loans are located. I can't see any objection to that at all.

The Chairman. Well, any policyholder who desired to know about it would be advised, would he?

Mr. Polk. Oh, certainly.

The Chairman. There wouldn't be any withholding of information?

Mr. Polk. There is no secret about it; as a matter of fact, all our competitors know it.

The Chairman. The judgment of the company would be that the most valuable would be in the concentrated area?

Mr. Polk. That is right.

The Chairman. Now, then, Mutual policyholders are to be found in how many States of the Union?

Mr. Polk. I imagine all the States.

The Chairman. So that all of the policyholders who are paying premiums into the Mutual are contributing to this tremendous investment in New York City real estate?

Mr. Polk. Certainly.

Mr. Gesell. It was that fact that prompted me to ask whether or not you might not have felt it would be more to the interest of the policyholders to disclose this particular policy over the years.

Mr. Polk. Well, Mr. Gesell, again that was the line you opened on a little while ago. It is a question in my mind whether at the time those investments are made—I don't think for one moment trustees considered they were putting money back in New York because it was New York, for the love of the home town; they were putting money in New York because it was then considered, New York real estate, the best investment a person could make.

The CHAIRMAN. It is also true, I suppose, that most policyholders have no desire to make any study of the investments by their companies, and they are willing to entrust that responsibility and that duty to the companies?

Mr. POLK. Yes.

The CHAIRMAN. Now, whether or not it is a good thing in the last analysis, as Mr. Gesell says, is a matter for judgment after the fact?

Mr. POLK. Surely. Doubtless.

Mr. GESELL. I am trying to pose to Mr. Polk the question of the adequacy of the reports of these various companies to their policyholders, not with the idea that anything has been withheld or concealed, but simply to determine——

The CHAIRMAN (interposing). I understand.

Mr. GESELL. Often from hindsight we might look at the matter.

Mr. POLK. I can't see the slightest objection to that being put out.

Mr. GESELL. I think perhaps it is true, don't you, Mr. Polk, that there may have been less development in the field of liberalization of policyholder reports than there has been in certain stock companies. For example, take Mr. Brown's company, Johns-Manville, of your own board; he has gone quite a bit further than the Mutual in explaining intricacies of the operation of his company to his stockholders, has he not?

Mr. POLK. Yes. As a matter of fact, Mr. Gesell, I always believe in putting out as much information as the policyholders will read. My observation is they read very, very little, but that is no reason why it shouldn't be put out, and those people who do wish given that opportunity to read.

Mr. GESELL. It is always the fellow who reads who raises questions?

Mr. POLK. He raises questions.

Mr. GESELL. I wondered whether in the years you have been on the board the directors have considered the question of liberalizing or changing the report to policyholders?

Mr. POLK. I am sure it would be the attitude of the board, to put any information in there that would interest the policyholders, that the policyholders would desire to have. It may be we have been old fashioned about it, and haven't approached it more enthusiastically on our own account, but there is not the slightest objection to giving that information. Of course, we do aside from our annual report get out the investment report and, of course, we have to give to the superintendent of insurance a complete list of all our securities.

Mr. GESELL. Oh, yes.

Mr. POLK. I know that doesn't answer your question.

Mr. GESELL. All right.

The CHAIRMAN. Has the insurance department of the State of New York ever raised any questions about this?

Mr. POLK. Never.

The CHAIRMAN. Has the insurance department of any State in which you operate ever raised any question?

Mr. POLK. Never been raised at all.

The CHAIRMAN. To what extent do the insurance departments of the various States make inquiry into the character of investments?

Mr. POLK. Well, of course, we have to make a very detailed report to the State of New York—every item of property—and they can come in and express their views as to character, as to our valuations, and as to how we are managing it, and all that is very thoroughly reported to the New York State office.

The CHAIRMAN. That is true of the New York department?

Mr. POLK. And the same information is sent to every State, to the superintendent of insurance of every State.

The CHAIRMAN. Is that sent to the superintendent of insurance in response to inquiries from these other States, or is it sent as a matter of course?

Mr. POLK. As a matter of course.

The CHAIRMAN. You follow the practice, then, of submitting to the insurance departments of the various States the same reports that you eventually make to the department in New York State?

Mr. POLK. Exactly.

Mr. GESELL. Of course, there are some States which have special requirements in addition to that?

Mr. POLK. I don't think any are more strict than New York.

Mr. GESELL. I think Mr. Howe indicated there is one company, New England Mutual, which filed four different statements of surplus.

The CHAIRMAN. Now, do the other States ever raise any questions with respect to the report?

Mr. POLK. Not that I recall; no.

The CHAIRMAN. It is the tendency, then, or at least it has been the practice, rather, for the insurance departments of the various States to accept without question the report made by the State of New York?

Mr. POLK. As far as I know, Senator; yes.

Mr. PIKE. New York is regarded as about the strictest State in its requirements, is it not, one of the strict States?

Mr. POLK. I think so, but I don't want to make invidious comparison among the States.

Mr. KADES. Mr. Polk, would you favor making as much information available to policyholders as to creditors?

Mr. POLK. Beg your pardon?

Mr. KADES. Would you favor making as much information available to policyholders as to creditors?

Mr. POLK. As to creditors?

Mr. KADES. I understood you to say earlier that your creditors know. Did I misunderstand you?

Mr. POLK. Thank heaven; no. I said our "competitors."

Mr. KADES. Then substituting the word "competitors," don't you think the policyholders as a matter of policy ought to have the same information?

Mr. POLK. Oh, yes; but they get the information as we get the information about them, from their reports to the State superintendent of insurance, I imagine.

Mr. KADES. And any policyholder that wants it could obtain it from the State superintendent of insurance?

Mr. POLK. Of course, as Mr. Gesell says, that may not be all. It isn't necessary to convince me on that; if they want it, they can have it.

The CHAIRMAN. No further questions? Mr. Polk, we are indebted to you for your testimony.

Mr. POLK. Thank you very much, sir.

Mr. GESELL. No more witnesses for today.

The CHAIRMAN. Then you are ready to go over until tomorrow? The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 4:40 p. m., the committee recessed until 10:30 a. m., Tuesday, February 20.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, FEBRUARY 20, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to adjournment on Monday, February 19, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman) and King, Representative Sumners (vice chairman), Messrs. Pike, Henderson, Kades, and Brackett.

Present also: Representative Vincent Harrington, of Iowa; James V. Hayes, Department of Justice; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; Helmer Johnson, attorney, and Arthur J. Leary, accountant investigator, Securities and Exchange Commission.

The Chairman. The committee will please come to order.

Mr. Gesell. The first witness this morning is Mr. Smith.

The Chairman. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Smith. I do.

TESTIMONY OF GEORGE W. SMITH, PRESIDENT, NEW ENGLAND MUTUAL LIFE INSURANCE CO., BOSTON, MASS.

Mr. Gesell. Will you state your full name and your position for the reporter, please, sir?

Mr. Smith. George Willard Smith, president, New England Mutual Life Insurance Co., Boston.

Mr. Gesell. Mr. Smith, will you tell us how long you have been associated with the New England Mutual?

Mr. Smith. I started with the New England Mutual 35 years ago as a clerk in the actuarial department.

Mr. Gesell. And you left the company for a while, I believe, did you not?

Mr. Smith. I left the company after 5 years and was then assistant actuary, and later actuary of the Massachusetts insurance department. I was then called to New York and was actuary of the Association of Life Insurance Presidents, and in 1922, I came back to New England Mutual as vice president. I have been with it since that time and was made president in 1929.

Mr. Gesell. Now, the New England Mutual has its home offices in Boston, does it not?

Mr. Smith. That is correct.

Mr. Gesell. In how many States do you operate?

Mr. Smith. We operate in 39 States.

Mr. Gesell. Thirty-nine States.

Mr. Smith. In 39 States.

Mr. Gesell. Just so we can refresh our recollection from these tables a little, can you tell us what its assets are and how much insurance it has in force?

Mr. Smith. The figures?

Mr. Gesell. The '39 figures will be fine.

Mr. Smith. The insurance in force on December 31, 1939, was $1,573,841,000, represented by 410,375 policies.

The Chairman. Four hundred ten thousand?

Mr. Smith. 410,375. The assets were $468,860,455.

Mr. Gesell. Your company is almost exactly in the middle of this group of 26 that are covered in the investment analysis, is it not?

Mr. Smith. I believe so.

Mr. Gesell. From table 102,[1] I observe that your mortgages account for 10 percent of your portfolio, rather of your admitted assets, and that your real-estate accounts for 7.64 percent of your admitted assets, thus making your real estate and mortgages 17.6 percent of your total assets or portfolio. Those mortgages and real estate are entirely on urban properties; is that correct?

Mr. Smith. The mortgages are entirely on urban properties, but here is a narrow field, because the mortgages are entirely on business properties in urban centers.

Mr. Gesell. And you have no farm properties at all?

Mr. Smith. We have no farm properties.

Mr. Gesell. Or farm mortgage loans?

Mr. Smith. No farm mortgage loans.

Mr. Gesell. Before coming to a discussion of your city mortgage real estate holdings, I want to get some idea of the machinery that you have for putting money out on city mortgages. Do you have a branch manager system or a correspondent system, or what type of system do you use?

Mr. Smith. You might call it a correspondent system. It consists largely of old-established mortgage offices in the 42 cities in which we operate.

Mr. Gesell. Now, you use correspondents entirely for loan purposes?

Mr. Smith. We do; with the exception that during the past 2 years——

The Chairman (interposing). May I interrupt, Mr. Gesell? You have 42 offices?

Mr. Smith. We take them from general mortgage offices, usually, in some 32 cities.

The Chairman. You operate in 42 cities?

Mr. Smith. Yes, sir.

The Chairman. Where are those cities?

[1] See Hearings, Part 10–A, p. 102

Mr. SMITH. I cannot tell all the cities. I can give you the ones that occur to me: Chicago, Kansas City, St. Louis, Houston, San Francisco, Denver, Detroit, Rochester, Norfolk, Va.

The CHAIRMAN. Would it be proper to say that you operate in the principal urban centers of the country?

Mr. SMITH. I would say that we operate in the principal urban centers with the exception of two or three of the more prominent centers such as New York. We do not operate in New York City.

The CHAIRMAN. Philadelphia?

Mr. SMITH. We do not operate in Philadelphia.

The CHAIRMAN. You have 410,000-plus policyholders?

Mr. SMITH. Yes, sir.

The CHAIRMAN. In how many States?

Mr. SMITH. Thirty-nine States.

Mr. GESELL. You say you use correspondents entirely? Do you have any contract in writing with these correspondents?

Mr. SMITH. I do not know that we do.

Mr. GESELL. Your reply to the investment questionnaire states that you have no correspondents under written contract. What type of arrangement do you have with them?

Mr. SMITH. The usual arrangement has been that they will give to us mortgages or submit to us mortgages on business properties of the type which they think would fall within our coverage.

Mr. GESELL. And there is no understanding between you and them as to what the quality of those mortgages shall be, or what guarantees they make in submitting them to you, or anything of that sort—just a verbal understanding that you are looking for a certain kind of mortgage?

Mr. SMITH. Insofar as I know.

Mr. GESELL. Can those correspondents submit to you loans for their own account as well as loans which they broker?

Mr. SMITH. I do not know of any such case that has come to us, although it is possible that it may have because it would come to the mortgage department. It is not the general practice, certainly.

Mr. GESELL. You mean it is not the general practice for them to submit their own loans?

Mr. SMITH. Correct.

Mr. GESELL. But there is no prohibition against them submitting their own loans?

Mr. SMITH. I can't answer.

Mr. GESELL. The questionnaire states the correspondents are permitted to make first or junior mortgage loans for themselves for their own account, which would indicate there were at least some cases where they have made them for their own account.

Mr. PIKE. That doesn't mean, though, that those loans are submitted to the company, does it? I didn't quite get the implication of that.

Mr. GESELL. That is what I am trying to find out, whether they are simply permitted to make loans for their own account while acting as correspondents for the New England Mutual or whether they are permitted to submit loans for their own accounts.

Mr. SMITH. As a matter of fact, they submit loans to the New England Mutual but not for their own account.

Mr. GESELL. Who makes the appraisals on the loans that you make?

Mr. SMITH. The appraisal is made sometimes by independent appraisers and sometimes made by our correspondents in the various cities.

Mr. GESELL. Most frequently it is correct, is it not, that the correspondents make the appraisals on the loans themselves?

Mr. SMITH. Up to the past few years that has been the practice.

Mr. PIKE. No check by the company on the appraisals?

Mr. SMITH. There is a frequent check by the company on appraisals.

Mr. GESELL. How often is that?

Mr. PIKE. I would be interested to know.

Mr. SMITH. That is not done in all cases, but we frequently have two appraisals made of some property which is under discussion.

Mr. PIKE. You mean two independent appraisals?

Mr. SMITH. Two independent appraisals and one independent appraisal different from that of our mortgage connection.

Mr. PIKE. But not directly by yourself. You don't have an organization which appraises directly?

Mr. SMITH. We do not; no.

Mr. GESELL. And as a general rule, these mortgages come to you appraised by the correspondent himself?

Mr. SMITH. That is correct.

Mr. GESELL. And in the run of cases, unless you have some dispute as to the property, they are not checked by home office employees or independent appraisers?

Mr. SMITH. The home office mortgage department will always, in the course of their routine visits, look over the property and from their own knowledge will check up the appraisal, but they are not looked upon as independent appraisers.

Mr. GESELL. And, of course, that check is after the loan is made, isn't it, in the matter of the regular servicing of the loan?

Mr. SMITH. It is not always afterward. It is frequently done before the loan is acted upon.

Mr. GESELL. Who pays for the appraisals in the regular cases? Is it true that the borrower pays for those appraisals at the time the loan is made?

Mr. SMITH. The borrower has paid in many cases in the past. In recent years the company has paid for many of the appraisals.

Mr. GESELL. In the cases where the correspondent makes the appraisal and submits it, in those cases it is usually the borrower who pays for it, is it not?

Mr. SMITH. I believe that is true.

Mr. GESELL. Do the correspondents submit to you earning figures on these properties at the time a loan is under consideration?

Mr. SMITH. They submit the earning figures on the properties in question.

Mr. GESELL. Are those earning figures checked by your own staff in any way?

Mr. SMITH. Frequently.

Mr. GESELL. How is that done?

Mr. SMITH. It is frequently done by visit and a check on the actual rents or other income from the property.

Mr. GESELL. That is prior to the making of the loan?

Mr. SMITH. Frequently.

Mr. GESELL. There are cases where that check is not made, I take it?

Mr. SMITH. We have a great many very old loan offices whose integrity has never been questioned as to the figures which they have given.

Mr. GESELL. And in those cases where you have come to rely from experience on what the correspondents submit, your custom is not to check on the figures they make available?

Mr. SMITH. That would be checked on the next visit of the representative.

Mr. GESELL. After the loan has been made.

Mr. PIKE. Suppose you are loaning on a new building on which there has been no appraisal, then you have to estimate the income from that building—that is, if you loan on such a building?

Mr. SMITH. We also would rely upon the earnings of buildings in the surrounding locality.

Mr. PIKE. The going rate in the area. Your home office then must have a considerable familiarity with the general conditions in each city in which it loans.

Mr. SMITH. In this type of loan we have a very exact knowledge of conditions.

Mr. PIKE. In your home office?

Mr. SMITH. At the home office; yes, sir.

Mr. GESELL. On many cases I suppose when these earning figures are submitted, it is important to know the duration of the leases which give rise to such earnings. Do you check into those leases independently or depend on the correspondents there?

Mr. SMITH. We check very carefully into the leases. We depend partly on the correspondents but we check very carefully into the leases, substantial leases which enter the income account.

Mr. GESELL. Your correspondent system is geared, as I understand it, almost entirely for the purpose of making loans on business property in cities?

Mr. SMITH. At the present time.

Mr. GESELL. You have no farm investment, I believe you said?

Mr. SMITH. We have no farm investment.

Mr. GESELL. Why is that, Mr. Smith?

Mr. SMITH. The sole reason is that we started many years ago to lend on mortgages on business properties and we have not gone to another field extensively as yet.

Mr. GESELL. That is hardly a satisfactory explanation. You in effect say that you haven't loaned on farm property because you felt you ought to put your money in city property. I wondered what type of studies you had made of the farm situation and what factors there were that particularly impelled you not to go into that field.

Mr. SMITH. The two contributing thoughts which have been presented many times in our finance committee meetings have been, first, that the field was very well covered, and second, that to go into farm mortgages would require a very much larger organization and a change in our office control.

Mr. GESELL. You mean first of all the competition was pretty stiff for that type of loan and there were other lenders well organized loaning in that type of property, and secondly, if you had to set it up you would have to change materially your field organization?

Mr. SMITH. That is correct.

Mr. GESELL. What consideration was given of the desirability of your going into that field simply because of the necessity you might feel of getting money back into the areas where it had come from? I take it you sell policies in farming communities and to farmers and in typical farming States.

Mr. SMITH. That is correct. We send money back into those localities, however, by investments in those States throughout the country.

Mr. GESELL. You mean through bonds, primarily?

Mr. SMITH. Interstate bonds of various types, public utilities.

Mr. GESELL. Did you give any consideration to that question of whether it would be desirable to put the money back in a little more direct way into the particular locality where it had come from?

Mr. SMITH. Our money comes very largely from cities. We have a very small rural policyholder group, and our money has gone back substantially to the cities through our business property loans.

Mr. GESELL. Is that one of the reasons that your company makes loans on these city business properties, the fact that your money did come primarily from cities?

Mr. SMITH. That probably may have been a primary reason when our mortgage business was more active. In recent years the question of competition and the field being so well covered has also come into the picture.

The CHAIRMAN. You say probably. Do you think, Mr. Smith, that that thought was in the minds of the managers at the time when investment in urban property was decided upon as a good policy, that is to say, the thought of investing in the communities in which the policyholders lived?

Mr. SMITH. We have always been, as I have just stated, largely an urban company.

The CHAIRMAN. Yes; I understand that.

Mr. SMITH. It is my understanding—I can't say because I was not present at meetings many years ago, but it is my understanding it was the opinion of our finance officers and finance committees that we could best bring the money back to many localities through urban business loans.

The CHAIRMAN. Then you think there was a conscious policy of attempting to invest in the areas from which the premiums were derived?

Mr. SMITH. That has always been true. The New England Mutual being a very old company was the first life-insurance company to come into many States for investment.

The CHAIRMAN. And you think it was done consciously for the primary purpose of securing investment in the localities from which the premiums were being derived, or was it because of your judgment that urban property afforded the best real-estate investment, Mr. Smith? I can see, for example, that the two things might not harmonize. A policy of investing in the locality from which the premiums come might not result in giving you the best investment, although it would be, of course, a service to the area which produced your revenue. I can see, on the other hand, that the investment of funds in highly profitable, highly successful urban business property might be, from many points of view, the best sort of investment for the funds, and that it might be the judgment of management that it would be better for the policyholders to invest in a wealthy community rather than in a community in which the policyholders lived. In other words, the two theories don't necessarily harmonize. So I am wondering whether there was a conscious choice upon the part of management between the two?

Mr. SMITH. At the time the mortgages were taken—not these particular mortgages, but at the time our mortgage field was extended to certain urban localities, it was with the idea of having mortgages in the Middle West and the Far West, the South, to a limited extent in the East, because through that means we could put our money to work in those localities directly, and that has been done rather continuously over a long period.

The CHAIRMAN. Why do you say rather than the East?

Mr. SMITH. The East has been pretty well covered by banks, as far as the larger cities of the East in our type of mortgages. We, for example, have very few mortgages in Boston, because there is very little demand that comes to us for mortgages there. They are taken care of by savings banks to a large extent. That is also true of Philadelphia, and we never have entered New York to any extent for mortgage placement.

Mr. GESELL. Do you have correspondents in those cities?

Mr. SMITH. In Boston the only correspondent would be through our home office.

Mr. GESELL. You see, you say there has been no demand. If you are not geared to touch the needs of a particular community, I can see why you perhaps would never get to that community.

Mr. SMITH. At the present time we are securing some mortgages from the New England area through our own efforts through our mortgage department, and we are attempting to extend that quite materially.

Mr. PIKE. Does counsel intend to go into the reason for not lending on homes and apartment houses?

Mr. GESELL. That is next on the list, Mr. Pike. You have very few residential loans, only $89,000 worth, I believe.

Mr. SMITH. That is right.

Mr. GESELL. You say your money has come primarily from cities. That prompts me to ask the question why you haven't gone into the field of residential loans.

Mr. SMITH. The same reason applies there as applied in farm mortgages; the field is so well covered.

Mr. GESELL. The field of residential loans is so well covered? That is very interesting. In what communities, particularly, Mr. Smith?

Mr. SMITH. It is covered in our New England area very thoroughly. It is covered in many parts of the country by loaning organizations, life-insurance companies.

Mr. GESELL. Well, there have been recently, for instance, considerable possibilities of getting into the small-home field through the purchase of F. H. A.'s. That is correct, is it not?

Mr. SMITH. That is correct.

Mr. GESELL. Your company is one of the companies which has not gone into the F. H. A. field of investment, is it not?

Mr. SMITH. That is correct. The law doesn't permit us to do so.

Mr. GESELL. I notice there are several other companies here which have found that a rather important field of investment. Now, you say the law doesn't permit you in Massachusetts.

Mr. SMITH. The Massachusetts law was amended 6 months ago so that F. H. A. loans might come into the investment field of life insurance, but prior to that time, the limitations in our Massachusetts law were such that we were not allowed to go into the F. H. A. field.

Mr. GESELL. How does it happen that the John Hancock has invested in them every year since 1935? Have they violated the law?

Mr. SMITH. Maybe on a different valuation basis. I can't answer that.

Mr. GESELL. They operate in Massachusetts, do they not, Mr. Smith?

Mr. SMITH. Correct.

Mr. GESELL. The same city as you do?

Mr. SMITH. That is right.

Mr. GESELL. Their reports to us indicate they have been purchasing F. H. A.'s in a total amount of $364,000 worth in the period from '35 to '38.

The CHAIRMAN. Do you recall the provision of the Massachusetts law which was interpreted?

Mr. SMITH. I don't recall exactly the provision, but we had a provision that the loan should not exceed 60 percent of the value of the property, and many of the F. H. A. loans have been in excess of 60 percent. It is possible that very carefully selected F. H. A. loans may have been below 60 percent, and come into the portfolio of other companies in that way.

Mr. GESELL. Did I understand you to say within 6 months the Massachusetts law has been modified in this respect?

Mr. SMITH. I have been told so, that it has been changed during the year 1939.

Mr. GESELL. To what percentage; or do you know?

Mr. SMITH. I cannot tell you the exact percentage.

Mr. GESELL. Well, now, what about apartment houses? You don't have any apartment houses at all, I notice, in this table.[1]

Mr. SMITH. We have no apartment houses.

Mr. GESELL. Why have you not gone into apartment houses?

Mr. SMITH. The general statement holds true that we have had a very narrow mortgage field and we have not extended it.

Mr. GESELL. All we are seeking, Mr. Smith, is not to criticize you because of that fact, but to find out why you have felt it desirable to narrow your field to such a limited type of investment.

The CHAIRMAN. The point, Mr. Smith, is simply this: You told us that your real-estate investments are in business properties, and counsel is trying to determine what considerations moved you to make that selection and to stay out of certain other fields which other companies have gone into. There must be some reason for it. It doesn't involve the slightest criticism of your policy at all.

---

[1] See Hearings, Part 10-A, p. 208.

Mr. SMITH. It has been partly that we have not increased our home-office organization and the field organization to cover those three classifications; that is, the farm-loan field, which we have thought was very well covered, the residential field, which we have thought was well covered also, and the apartment-house field, which we have had no experience in and which we are not particularly interested in going into.

The CHAIRMAN. You mean that your staff was so trained that in your opinion it was better qualified to handle business loans than to enter these other fields?

Mr. SMITH. That is true.

Mr. GESELL. Let me see if we can approach it this way for a moment: Do you get as much money out every year in the field of mortgage loans as you desire?

Mr. SMITH. We do not.

Mr. GESELL. If that is true, I think the questions as to why you haven't gone into other fields are even more appropriate, Mr. Smith. If you are looking for avenues to put your funds in and have a restricted policy offsetting that, I am prompted to ask even more pointedly why you haven't gone into some of these other fields of investments. It would be a matter of training your staff perhaps to accommodate them to a new type of investment but I should think if you wanted to get your funds out that would be highly desirable.

Mr. SMITH. We have thought it a question to investigate very fully and we are investigating various forms of mortgages, more fully than we have in the past few years. It is more beneficial for a company to enter a new field of mortgages at a time when the rates are satisfactory as income and when the valuations are normal, rather than to enter new fields of mortgages under somewhat abnormal conditions such as those which prevail today. In other words, the rate on mortgages is lower than it has been for a long period, and the valuations are very hard to determine equitably.

Mr. GESELL. In other words, with conditions such as we have been finding out exist at the present time in the mortgage field, it takes very trained men to make a success of that type of investment. Is that your point, and that there isn't quite as much leeway for mistakes and experimentations and the adaptation of your policies to the problem?

Mr. SMITH. I would answer that by saying that a company which has a going organization—a well-trained field organization—for these other types of mortgages could go forward under conditions that exist today satisfactorily, perhaps, but a company which takes up that new field of mortgage coverage may do so at some loss.

Mr. GESELL. How much money do you want to get out in this mortgage loan field?

Mr. SMITH. A larger proportion than we now have.

Mr. GESELL. But how much, everything being possible, how much would you like to get out in the mortgage loan field?

Mr. SMITH. It is very difficult to give an exact figure. We would like to see our mortgage account increase each year safely.

Mr. GESELL. And how much of an investment would you like to get out if you could make safe investments? How much money would you like to get out?

124491—41—pt. 28——26

Mr. Smith. Five to ten million dollars a year, perhaps.

Mr. Gesell. In recent years, how much have you been getting out?

Mr. Smith. Very much less than that. We have been getting out between one to three, probably.

Mr. Gesell. So there is a leeway of from four to two million dollars more a year which you would like to invest if you were able to do so safely?

Mr. Smith. That is correct.

(Senator King assumed the Chair.)

Acting Chairman King. I suppose the record of the H. O. L. C., taking over so many thousands of homes and having foreclosed so many of them because of the inability of the owners to pay, and the experience of those who loaned upon apartment houses, particularly in the large cities, New York, Washington, and elsewhere, which have not been very satisfactory, had some influence in determining the policy which your company would make with respect to loaning upon homes and upon apartment houses?

Mr. Smith. Well, that was what I intended to bring out in saying that in going to a new field under present conditions, it is more difficult than it would be under normal conditions.

Mr. Gesell. Of course, your policy with respect to farms, residential loans, and apartment-house loans, dates back over many, many years, does it not?

Mr. Smith. It does.

Mr. Gesell. How old is the company?

Mr. Smith. It was chartered in 1835.

Mr. Gesell. How long has it been since you have been loaning in the residential loan fields and the apartment-house field and the farm field?

Mr. Smith. We have never had farm loans, to my knowledge.

Mr. Gesell. In the entire history of the company?

Mr. Smith. In the entire history. We have had very, very few residence and very few apartment-house loans in the last 40 years.

Mr. Gesell. So that the recent experience that Senator King refers to would be more likely something that would make you hold back from going into these fields at the present time, but it wasn't a determining factor in your going into them in the first place.

Mr. Smith. I think it is probable that we shall enter some of these fields at least when normal conditions exist.

Mr. Kades. Mr. Smith, did I understand you correctly to say that one of the primary reasons why you did not enter the farm-mortgage field was that you would have to create a supplementary organization that would be rather large and expensive?

Mr. Smith. That is one of the reasons.

Mr. Kades. Would that be true if you used the correspondent system and made the loans on the basis of appraisals and investigations submitted to you by correspondents?

Mr. Smith. I think it could be done in that way, but I know very little about the farm-loan machinery and I am not able to answer the question exactly.

Mr. Kades. You don't have any doubt concerning the soundness of the correspondent system?

Mr. Smith. I know very little about it. I am not able to express an opinion on it at all.

Mr. GESELL. You use the correspondent system entirely, you testified, as far as your city loans are concerned?

Mr. SMITH. Our city loans; yes.

Mr. GESELL. You mean you don't know anything about the farm correspondent system?

Mr. SMITH. No.

Mr. GESELL. What about the city correspondent system for the apartment-house loans?

Mr. SMITH. I assume it would work out in a similar way for the correspondent system for business properties.

Mr. GESELL. I should assume so too. I wonder why you haven't used it.

Mr. SMITH. I can only say it is one of those reasons that we have thought the cities were well-covered, that that field was well-covered. We are exploring it at the present time.

Mr. GESELL. Now, table 201 would indicate that 24.20 percent of your mortgage account rests in the city of Chicago, and table 219 would indicate that over 33 percent of your real estate is in the city of Chicago.[1] Can you acquaint the committee with the facts which have led to that particular concentration in that area?

Mr. SMITH. On page 201, that shows that we have $10,473,000 in Chicago. Can you give me the other page?

Mr. GESELL. The other is 219, which is the real-estate account.

Mr. SMITH. One goes with the other very largely. We have had a very active correspondent in Chicago.

Mr. GESELL. That was what I had in mind. The fact that you have so many loans there has been because of the character of the correspondent rather than because of any policy determined upon by the board of directors per se to put its money there, is that correct?

Mr. SMITH. That is generally the case.

Mr. KADES. I beg your pardon, sir, I didn't get the answer.

Mr. SMITH. There is no determined amount set by the board of directors for any city.

Acting Chairman KING. I assume the directors or the board, before they determine to make loans in Chicago, or any other place, obtained all the information they could pertaining to financial conditions in those districts, particularly Chicago, and the real-estate market, particularly with respect to business property and home properties, and determined that it would be a safe risk to make loans there. By that, I mean, did you act exclusively upon the judgment of a correspondent, or did your board of directors make any independent investigation or inquiry as to the wisdom of making loans in that section?

Mr. SMITH. The members of our finance committee of the board of directors have investigated conditions in person by going to Chicago at various times. Our treasury officials are in Chicago many times a year, and we have been actively in touch with conditions in Chicago for many, many years.

Acting Chairman KING. Then you weren't dependent alone upon the correspondent?

Mr. SMITH. We were not.

Mr. GESELL. You, in other words, passed upon the individual merits of the loans before making them. The correspondents would

[1] See Hearings, Part 10–A, pp. 201 and 219.

determine that, I understand, but I believe you said quite specifically that the reason you have so much real estate and so many loans in Chicago was because the correspondent there was particularly energetic in getting such loans.

(Senator O'Mahoney resumed the Chair.)

Mr. SMITH. That is correct. I might add, however, that we have a type of loan in Chicago which comes to us because we specialized in that particular class. If we specialized in apartments—some apartment house loans would come to us from Chicago. As we have had a substantial number of business property loans in Chicago in the Loop district, it has been natural that many mortgages which were in prospect should come to us rather than perhaps to some other company.

Mr. GESELL. That comes back to the fact that originally you put a lot of money in the Loop, doesn't it? Do I understand that was determined mostly because of the type of correspondent you had rather than the result of a considered policy determined upon in advance by the board of directors as to what cities and what localities it was going to put its money in? That was simply a matter of policy, wasn't it?

Mr. SMITH. The cities are decided upon by the finance committee of the board. In the cities the type of property and the location is decided upon also. For example, in Chicago the Loop district has been a section which we have a large percentage of our business mortgages in.

Senator KING. A few loans in the Loop district would consume a large part of the loans which you made in the whole city, would it not?

Mr. SMITH. It could easily do so.

Mr. GESELL. But did the board of directors determine in advance that it wished to have this degree of concentration in the city of Chicago, 24 percent of the mortgages, or was that the result of the other factors?

Mr. SMITH. That was the result of the other factors.

Mr. GESELL. The determination of the board was, "We will loan in Chicago."

Mr. SMITH. That is correct.

Mr. GESELL. And then there was a check on each loan as it was submitted.

Mr. SMITH. That is correct.

Mr. KADES. What is the extent of the correspondent's financial interest in the making of the loan?

Mr. SMITH. The correspondence is very voluminous. It consists of letters back and forth, telephone conversations.

Mr. KADES. You misunderstood my question. I mean the correspondent, the agency which I understood placed the loan. What does the correspondent get paid for placing the loan?

Mr. SMITH. The correspondent receives a fee, usually, or has received a fee in the past for placing the loan.

Mr. KADES. How much?

Mr. SMITH. That I cannot say.

Mr. GESELL. Who pays him the fee?

Mr. SMITH. The fee in some cases has been paid by the borrower in the past.

Mr. KADES. You have no idea of how much he is paid?

Mr. SMITH. There is a differential in the amount of the interest which goes to pay the correspondent for his services.

Mr. KADES. Can you give me the range of that differential?

Mr. SMITH. It would be within one-half of 1 percent, from one-quarter to one-half of 1 percent. It covers the original commission and servicing of the loan.

Mr. KADES. One-half of 1 percent per year?

Mr. SMITH. Total.

Mr. KADES. Did I understand that the correspondent is paid one-half of 1 percent of the principal amount at the time the mortgage is made?

Mr. SMITH. If the interest was 4½ percent, the correspondent might receive a differential of one-fourth percent per year.

Mr. KADES. Then he does receive that each year?

Mr. SMITH. Each year during the course of the loan.

Mr. KADES. Then it is very much in the interest of the correspondent to place as many mortgages as possible?

Mr. SMITH. It is to his interest to do so.

Mr. KADES. And in the light of that, you don't maintain a review staff in the home office to review each loan?

Mr. SMITH. We do.

Mr. KADES. I understood you to say you only made spot checks.

Mr. SMITH. Oh, no; I didn't make myself plain. Every loan is very carefully examined, and visits are made to all of our loans in frequent cases by a home-office staff.

Mr. KADES. How many correspondents do you have in Chicago?

Mr. SMITH. We have two at the present time.

Mr. GESELL. Can you put these loans back with the correspondent within a designated period if they are not satisfactory?

Mr. SMITH. I do not know that we have that provision.

Mr. GESELL. You have no written contract, so I suppose you can't, isn't that right?

Mr. SMITH. I do not know that any action of that kind has been taken.

Mr. GESELL. Can you tell us in how many cases the commission to the correspondent has been paid for by the borrower?

Mr. SMITH. I cannot, sir.

Mr. GESELL. Is it the majority of your loans?

Mr. SMITH. I cannot answer that.

Mr. GESELL. One other thing, turning to table 202 and the tables that follow, I noticed that there are many, many States in which you have a very small investment, such as, for example, Alabama, Nebraska, New Jersey, and Virginia.[1] How do you service those loans? We heard testimony here the other day on the farm field that it was necessary to get about $5,000,000 into a locality to justify the type of intensified service that was necessary to properly handle those loans. Now, you have city loans of very small amounts in some of these territories, and I was wondering how you serviced them and how you managed them.

Mr. SMITH. In the smaller cities we service them through our general mortgage office. In the larger cities they are serviced through the office which gives us the loan, or another management office.

---

[1] See Hearings, Part 10-A, pp. 202-206

Mr. GESELL. You mean you rely in the smaller places at least upon the correspondent servicing the loan.

Mr. SMITH. We rely on the correspondent, plus the servicing which comes from the home office and through the visits of home-office mortgage men.

Mr. GESELL. Those must be rather infrequent, are they not, those trips, because of the expense that would be involved in sending a man from Boston way out to one of these States to look after an investment of three or four or five thousand dollars?

Mr. SMITH. Yes; we do not send one out for that small amount.

Mr. GESELL. So, in effect, where you have in a locality such a small investment you must rely almost entirely upon the correspondents for the servicing, is that not correct?

Mr. SMITH. Very largely.

Mr. GESELL. With respect to the size of your loans as indicated by table 207, my figures from that table would indicate that over 74 percent of your loans are $100,000 or above.[1] I take it that is the result of the fact that you have been in this restricted field of business-property loaning. That is much greater than, for example, the Prudential which has much more money to get out than yourselves but yet has some 44 percent of its loans under $10,000.

Mr. SMITH. That is correct. Our average is around $100,000.

Mr. GESELL. Is that the result of your policy to loan on business properties?

Mr. SMITH. It comes as the result of that.

Mr. GESELL. You can't find business properties to loan on below this $100,000 in any substantial amount?

Mr. SMITH. We do find them. Of course, the average being $100,000, there are some below and some above.

Mr. GESELL. There are 74 percent above, so it can hardly be said to be the average. You have relatively few below $100,000.

The CHAIRMAN. I note from this table that the company appears to have only $280,000 in loans of less than $10,000.[2]

Mr. GESELL. Yes, that figure is about 0.6 percent of the entire amount.

The CHAIRMAN. So, in connection with the servicing question a moment ago, it is quite apparent with such a small amount in small loans the servicing problem is not particularly difficult.

Mr. GESELL. I don't believe that is apparent, Senator, in view of the fact that we were discussing the question of loans being far away from the home office and scattered widely through many territories and not close to any loaning office.

The CHAIRMAN. But it would seem to me a company of the size of the New England could select $280,000 worth of business property loans of such a high grade that the servicing probably would not be very necessary or important in connection with it, meaning they wouldn't have to be supervised by long distance trips. But it is a small matter.

Mr. GESELL. I was asking whether or not you were able to find business properties that would amount to less than $100,000.

Mr. SMITH. We do find a number of them, but the number does not loom large in our totals.

---

[1] See Hearings, Part 10–A, p. 207.
[2] Ibid.

Mr. GESELL. Do you seek them, actively seek them, or are your correspondents pretty well advised that they should give you these larger loans?

Mr. SMITH. We are seeking them now and have been for the last 2 years.

Mr. GESELL. Prior to that time you did not seek them; is that correct?

Mr. SMITH. Prior to that time, general mortgages submitted were larger than, say $25,000.

Mr. GESELL. Turning to table 211, I notice that you have 21.48 percent of your mortgages delinquent 3 months or more, and that 6.67 percent of your mortgages are over 3 years delinquent.[1] Have you any comments you wish to make on those figures?

Mr. SMITH. This particular type of property has been going through an experience which is not necessarily the experience of other types of property. One reason for the delinquent interest, the overdue interest, has been the increased taxes which have come so largely on business properties, and also the inability to raise rents. Those two factors have had a substantial bearing both on interest which is overdue and also on foreclosures.

Mr. GESELL. So that in effect, the fact that you have such a large number of mortgages delinquent is the result in part of your having loaned in this restricted field of investment?

Mr. SMITH. I believe that is correct.

Mr. GESELL. Now, with respect to the capitalization of interest, turning to table 214, I note there that your company has capitalized more interest on urban mortgages than any of the companies shown on table 214, an amount equal to $2,381,000.[2] Will you explain to us just how you capitalized this interest and what are the factors that impelled you to do so?

Mr. SMITH. The interest shown as capitalized on the table in question should not be included in the table of mortgages, as that interest, with the exception of the year 1938, has never entered our mortgage account and has not been capitalized.

Mr. GESELL. Will you explain how it got there?

Mr. SMITH. In filling out the questionnaire, the amount of interest shown for the years 1932, 1933, '34, '35, and '36, is the amount of interest which was capitalized to our real-estate account when those mortgages came to us through foreclosure.

Mr. GESELL. You mean that at the time you foreclosed the mortgage and there was interest delinquent on that mortgage, the amount of the delinquent interest was added to the value of the real estate?

Mr. SMITH. That is correct.

Mr. GESELL. It is a capitalization of interest, regardless of whether it is capitalized to the mortgage or capitalized to the real estate.

Mr. SMITH. That is true, but it should not be capitalized twice as it appears to be in this record.

Mr. PIKE. Were those items taken into income, Mr. Smith?

Mr. SMITH. They were not taken into income. This was kept as a separate account, separate from income.

Mr. PIKE. So that at the end of the foreclosure you would have the face of the mortgage, plus accrued interest unpaid during the

---

[1] See Hearings, Part 10-A, p. 211.
[2] Ibid., p. 214.

proceedings, plus taxes that had been accrued and paid you, and you would take that in as the total?

Mr. SMITH. That is correct.

Mr. GESELL. What do you mean, it wasn't taken into income? How do you do it without taking it into income?

Mr. SMITH. We have kept an exact account of the interest which had accrued on these mortgages but it has come through our mortgage account.

Mr. GESELL. Where does it go? What do you do with it?

Mr. SMITH. It was the amount overdue which was kept track of but did not enter as an accrued item.

Mr. GESELL. The capitalization of it means that you have taken it in, doesn't it?

Mr. SMITH. We took it into our real-estate account.

Mr. GESELL. So to that extent it was taken into the income account?

Mr. SMITH. At the end of that period.

Mr. GESELL. So that it does have a direct effect upon your company's earnings statement, does it not?

Mr. SMITH. At the end of that period.

The CHAIRMAN. At the end of what period?

Mr. SMITH. At the time the mortgage entered our foreclosure account.

The CHAIRMAN. And how often would that happen?

Mr. GESELL. It happened in the case of all of it, did it not, Mr. Smith?

The CHAIRMAN. Does it happen at the end of each year?

Mr. SMITH. Only at the time the mortgage entered the foreclosure account.

The CHAIRMAN. Now, of course, as mortgage A goes through this bookkeeping account in 1 year and mortgage B in the next year and mortgage C the next year, I don't mean to imply there was any duplication, but how often does this capitalization of interest show itself upon your books, annually? In other words, when a mortgage has been foreclosed, when do you put the delinquent interest into capital?

Mr. SMITH. Only once, at the time the property comes to us.

The CHAIRMAN. Whenever it comes to you?

Mr. SMITH. That is correct.

The CHAIRMAN. Does it not show then as income?

Mr. SMITH. It would come to us then through income, capitalized—I am not a bookkeeper so I may not be exactly correct.

The CHAIRMAN. Neither am I; that's why I am trying to get this thing clear. You seemed to indicate that the table [1] was incorrect because it showed that this was capitalized and that the unpaid interest is taken account of as though it were income. Now, I want to know on what basis you make that criticism, because if it is wrong, of course we would like to know. But it doesn't appear from what you have said yet that it is incorrect.

Mr. SMITH. My point was that the table gives the impression that we have capitalized that interest into our mortgage account, and therefore shown our mortgages at a higher figure. But we have also

[1] See Hearings, Part 10–A, p. 214.

capitalized the same amount of interest and added it to our real estate.

Mr. GESELL. When in fact you have simply capitalized the interest at the time the mortgage was taken over into real estate on foreclosure, and therefore you have only shown your real estate greater than it was instead of both your mortgages and real estate?

Mr. SMITH. That is correct.

Senator KING. When you obtained title to the property then you capitalized it?

Mr. SMITH. That is correct.

Senator KING. Suppose the property at that time, when you obtained your title, was very much less in value than the obligation which was due you, including the interest, would you enter it then as the value, the entire value of the loan and the interest?

Mr. SMITH. That is essentially an old accounting—not an old accounting practice but an accounting practice which was in operation in the company up until 1936. During 1936 capitalization of interest was discontinued.

Mr. GESELL. You continued it after that didn't you, in your mortgage account?

Mr. SMITH. In our mortgage account we capitalized $30,000 in 1938.

Mr. GESELL. That is right, so, though you discontinued it at the time the, mortgage was taken over into real estate you did continue to make some capitalization on the mortgages themselves of this interest?

Mr. SMITH. In this instance I understand—I am not equipped with all the details—that there was a particular reason in that one mortgage for putting in $30,000. That is not a general practice. We do not capitalize interest on mortgages.

Senator KING. Assume that a piece of property is foreclosed, the amount due at the date of foreclosure is $10,000, including the delinquent interest. Now, when you entered that upon your books would you capitalize the $10,000, notwithstanding the fact that at that time the property, by reason of depreciation, was worth only $8,000?

Mr. SMITH. That was the practice up to 1936.

Senator KING. To capitalize at the amount due the company?

Mr. SMITH. Well, on the basis that the company wanted to know the amount due the company, plus accrued interest and taxes.

Mr. GESELL. It must also have been done because you wanted to raise your income, was it not? It had that difference.

Mr. SMITH. The question of cost was the controlling reason.

Mr. PIKE. I see that you have a reserve of $2,000,000 against your urban mortgage account.[1] When was that put on, if I may ask?

Mr. SMITH. I believe that was put on—it has been added to, but it was put at $2,000,000 in 1938.

Mr. PIKE. That canceled in effect about 80 percent of the interest capitalization. You capitalized two million four of interest and put on a two million reserve against the urban-mortgage account.

Mr. SMITH. That is true.

Mr. PIKE. I don't know whether there is any connection between the two or not.

---

[1] See Hearings, Part 10–A, p. 229.

Mr. SMITH. There is some connection. We have put up the $2,000,000 as a special fund for depreciation. We have also charged down $600,000 during the year 1939. The total amount is $2,600,000.

Mr. PIKE. That is since these tables were made?

Mr. SMITH. Yes.

Mr. KADES. When a mortgage goes into default, how does the correspondent become paid? For example, you stated earlier on a 4½ percent interest-bearing mortgage, the correspondent would get one-fourth of 1 percent. When the interest goes into default, how do you settle with him?

Mr. SMITH. We have paid the offices which service these mortgages in default a monthly fee in the last few years.

Mr. KADES. You mean after the mortgage goes into default in interest, the correspondent no longer is utilized and you set up your own office?

Mr. SMITH. It may be the same office through its management department, it may be another office, but we pay a fee to the office for servicing such mortgages which have come through foreclosure.

Mr. PIKE. It then becomes a problem in real-estate management.

Mr. SMITH. It then becomes a problem of real-estate management; yes. As I say, it may be the same correspondent in some cases, but it is more frequently the management department of that office or a different management department.

Mr. GESELL. How often do you appraise your real estate?

Mr. SMITH. I cannot give an exact answer to that because appraisals are frequently made at the time of extension or during the course of the loan.

Mr. GESELL. After foreclosure how often do you appraise your real estate?

Mr. SMITH. There is no definite answer that I can give.

Mr. GESELL. Do you employ independent appraisers to appraise your real estate after foreclosure?

Mr. SMITH. It is not our custom to do so.

Mr. GESELL. Do you regularly appraise all of your properties?

Mr. SMITH. We have no plan of appraising all properties at the present time because we regard present-day appraisals as of little value in establishing the real value of the property for sale.

Mr. GESELL. How do you establish it?

Mr. SMITH. Partly on the basis of location, partly on the basis of the building, partly on the basis of the land, and partly on the basis of the tenant that leases the building. There are other factors that come into it.

Mr. GESELL. Those are the same things it seems to me that an appraiser takes into account, are they not?

Mr. SMITH. I believe they all come into an appraisal.

Mr. GESELL. Then you say in effect that you have your own way of telling what the property is worth? That is what it comes down to.

Mr. SMITH. I would say that the appraisals are made at different times and there is no statement that could be made about a regular plan of operation.

Mr. GESELL. Let's go over to table 242 here.[1] Your real estate is carried at 12.25 times gross income, is it not?

---

[1] See Hearings, Part 10-A, p. 242.

Mr. SMITH. That shows in this table.

Mr. GESELL. There are only 3 companies in this table of 26, I believe, that have a higher valuation measured on that basis.[1] Take the stores and apartments, for example, you carry them at 19.51 times gross income. Do you believe that is a conservative valuation?

Mr. SMITH. I am unable to tell you about the particular properties in that classification.

Mr. GESELL. Take your auto sales showrooms, carried at 24 times gross, do you believe that is a conservative valuation? Or your vacant property, carried at 45 times gross?

The CHAIRMAN. Does the study, Mr. Gesell show—of course, it is not apparent on the table—at what time or what average time these properties were acquired, how many years prior to 1938?

Mr. GESELL. That is a table that shows for the real estate—table 220, I believe is the number—which shows for the real estate the amount held prior to 1929 and the amount acquired each year thereafter.[2] On the basis of those figures, you will notice that 38.65 percent—that is a computation from the figures of the New England statement—have been held over 5 years. Our figures indicate they have more real estate held over 5 years than any of the top 15 companies.

The CHAIRMAN. More than 38 percent?

Mr. GESELL. More than 38 percent.

The CHAIRMAN. What could be said as to whether or not the gross income in 1938 approximated the income from the same properties in the preceding years? Was there a decline in the income but no decline in valuation, in other words?

Mr. SMITH. Our gross income was practically the same. I haven't the figure in mind, except that I do have the figures of net income in mind. The net income on all of the real estate owned was 2 percent and a very small fraction, for both 1938 and 1939.

The CHAIRMAN. What I am getting at, Mr. Smith, is, for example, this item of automobile sales showrooms which you are carrying at 24.7 times gross income. Does that represent an unusual condition as of 1938, or does it represent a normal condition? Is that the normal ratio? Did your income, for example, from automobile salesrooms fall off after you had acquired the properties?

Mr. SMITH. It did. We have an example of that in Kansas City, where we have several automobile salesrooms, and there has been a loss of tenants in those particular salesrooms due to a moving a block or two away of the automobile showroom area.

The CHAIRMAN. That would mean, then, though your income fell off, you did not reappraise your property or scale it down to meet the reduced income?

Mr. SMITH. Because another tenant may come in next year which makes it unnecessary.

The CHAIRMAN. In other words, you are living in hopes that it may come back.

Mr. SMITH. It is difficult to bring it up every year through the loss of a tenant.

Mr. GESELL. How much have you written off on your real-estate account?

---

[1] Ibid., pp. 230–254.
[2] Ibid., p. 220.

Mr. SMITH. A very small amount.

Mr. GESELL. And it is true, is it not, that these values are quite high, Mr. Smith, there is no question about that?

Mr. SMITH. I think it shows in the table the values are higher probably than would be recognized by a sale in today's market.[1]

Mr. GESELL. How much would you say your real-estate account is overvalued?

Mr. SMITH. I do not know that it is overvalued in the long run. On the basis of selling on today's prices it would be overvalued. On the basis of the future, I have strong doubt whether it would be overvalued.

Mr. GESELL. How much would you say it is overvalued on the basis of present-day conditions?

Mr. SMITH. I have no idea.

Mr. PIKE. It rather strikes me that whereas in farm mortgages we have got down to fairly realistic valuations, that in the valuation of the urban property insofar as we have gone into it, these appraisals represent or include quite an element of hope for conditions to come back, and one element you mentioned, Mr. Smith, this increase in taxes which is deductible from gross income, it seems fairly doubtful the realization of a hope that that item will drop off so as to give us more net. We have only touched this urban thing, but the general impression is to me that we in some way hope to get back on the net income to the 1920's to justify these appraisals, whereas in the farm mortgages by and large the rosy spectacles have been taken off.

I don't know that that is a fair statement, but I am getting that impression, that in the urban real estate the appraisals represent more than an analysis of present-day conditions.

Mr. SMITH. I might say that the foreclosure trend came to this type of mortgages a year or two after it came, or several years after it came to the farm, and a year or two after it came to the dwelling house mortgages. We, therefore, have reason to assume that it will be slower in coming back to a normal balance.

Mr. PIKE. You think you are a little behind, and attached to that have been the factors of increased taxation and often lower rents?

Mr. SMITH. On the question of valuation, I say it is impossible to give a present-day valuation on locations which are good going locations, and that is evidenced by some of our sales.

We know that some of our properties here must be sold at a loss compared to the value we carry them on the books, but there are also many properties there that will be sold at a substantial profit. I have one in mind this last year, for example, which came to us at $100,000 in one of our cities. We received a bid of $125,000 for a sale price. On this type property, the first bid is always an asking bid. You have to hold out for what you consider to be the proper value of the property. We refused to accept it except to say we think it is worth more money and how much more would they give us. In the course of the week, we had exchanged telegrams four times and we sold it inside of 4 days after the first bid came to us, to the same man, for $175,000.

Mr. GESELL. Of course, Mr. Smith, it is a little hard for me to understand the theory upon which you overvalue some properties, be-

---

[1] See Hearings, Part 10-A, p. 242.

cause you realize that there may be some profits in others. It seems to me a realistic way to do would be to mark your property down, and if you do make a profit as a result of conditions, that you could then properly show that profit at that time, rather than having the condition of the account concealed behind the valuation practices employed. You follow me on that, I presume?

Mr. Smith. I follow you on that. I disagree on the theory because if you mark down all of your properties to what you may consider is the present market price, in view of abnormal conditions you are practically confined to that present book value in any bid as a sales price.

Senator King. Wouldn't it be rather difficult with a fluctuating market, with the fluctuating prices for commodities as well as in real estate, farms, urban properties, large established business houses—wouldn't it be rather difficult to make an appraisement every day or two to adjust the values that you carry on your books to the fluctuating values represented in the market?

Mr. Smith. I think it would be an impossibility.

Mr. Gesell. Let's go over here to New York Life Insurance Co. and see if it is an impossibility. They show there a real estate carried at 5.8 times gross.[1]

Senator King. And then adopt a policy or practice that it may be normal or subnormal or above normal. It might not be the policy which every business or every individual desires to follow, or was required to follow along sound business lines.

Mr. Henderson. I think, Senator King, one of the things we have been trying to get at, and I think Mr. Pike made an indication of it, was how long you let an overvaluation stay—what is the proper time, having in mind the obligation to policyholders and also to your land, and the laws regulating the holding of real estate, to take your licking and at what time you should take your profits.

Senator King. In view of the fact that we said we were at the bottom of the depression and we are on the ascending scale and are soon to get back to normal or above normal, I am inclined to feel that people are justified in realizing some of the optimism that exists in the country. I should think that, after all, your judgment should be predicated upon the bottom prices.

Mr. Henderson. In some of this you have a measurement of real value in terms of what its income is, Senator, over this whole period, and Mr. Gesell has pointed out the case of one company which has used three or four times the appraisal value of another company; and he is also stressing that there is a lack of uniformity on the appraisal of these things which I think is a very interesting matter—to know what the value of assets back of insurance policies is.

Senator King. If you ever used experts upon the stand to determine the value of mining properties or stocks, you have realized the changing views and the uncertainty of the human mind.

Mr. Gesell. One way we can get at this question of valuation may be to see how much of your properties you have sold. Let's look at table 223.[2] Your company has sold less in its real estate than any of the other 26 companies, has it not?

---

[1] See Hearings, Part 10–A, p. 232.
[2] Ibid., p. 223.

Mr. SMITH. In this class of property there are very few opportunities to sell at the present time. In the larger mortgage field of foreclosures, you would find a very much better result.

The CHAIRMAN. The Massachusetts law requires a sale after 5 years, does it not, Mr. Smith?

Mr. SMITH. Except with an extension which may be granted.

The CHAIRMAN. Have you found it necessary to obtain extensions?

Mr. SMITH. We have in several cases.

Mr. GESELL. You must have in 38 percent of your real estate.

The CHAIRMAN. You say in several cases.

Mr. SMITH. Many cases.

The CHAIRMAN. How close an examination does the Massachusetts commissioner give to properties of this character and the sale of this character?

Mr. SMITH. He gives very careful attention to it.

The CHAIRMAN. Have you had any difficulty in getting extensions that you requested?

Mr. SMITH. There is often a hold-up of some long period until the Massachusetts department can make a study of the question and give its opinion about the advisability of extensions.

The CHAIRMAN. Is it your testimony that there is great difficulty at the present time in disposing of urban business property?

Mr. SMITH. There is great difficulty in disposing of urban properties at the present time, of this type, because there are so few offers to purchase.

Mr. GESELL. In other words, Mr. Smith, many of the properties we are discussing here all go back to the original loaning policy of the company, do they not—the fact that you have concentration in certain areas, that you are having difficulty in moving a property, that you have greater interest delinquencies, that you have to hold your property longer, that you have it valued higher, is all a result of the fact that you have had a very restricted loaning policy?

Mr. SMITH. That is correct, I am very sure.

Mr. GESELL. Now, how do you price this stuff that you want to sell? Do you quote a price publicly or do you hand out prices to brokers, or how do you do that?

Mr. SMITH. We are constantly trying to find purchasers for the properties at whatever price they will give.

Mr. GESELL. Do you set prices on these properties?

Mr. SMITH. We do not set them.

Mr. GESELL. You do not set prices on the properties?

Mr. SMITH. When the offer comes to us, we will consider a price.

Mr. GESELL. How can you sell them if you haven't set a price? It seems to me you put an awful lot of initiative in the hands of the buyer.

Mr. SMITH. In the case of some properties that we believe should be sold below the value at which they are carried, we make efforts to have a price submitted.

Mr. GESELL. But there is no set price; for instance, if I wanted to buy property from you, I could not go and say: "Here, they hold these buildings; here is what they want for them. This looks like a good bargain; I'll buy them." I can't do that. Is that correct?

Mr. SMITH. Our real estate man would know the cost we have on our books. A case came up a few days ago. We sold a property for $20,000 which stood on our books for $50,000.

Mr. GESELL. The question is, though: How do you price, if you do, your property so that anyone interested in buying will know what he has to pay? It is a question, is it not, a buyer taking the initiative and then bargaining the matter out with your representatives?

Mr. SMITH. It is very largely a case of bargaining with our representatives, but it is impossible to try to sacrifice these properties at the present time to the disadvantage of the interests of our policyholders.

Mr. GESELL. Don't you know what price would be to the advantage of the policyholders at the present time? I am sure you do.

Mr. SMITH. A price which would give us at least as much as we had in the property.

Mr. GESELL. Would it not help the disposal of the properties if you set those prices out and indicated what you wanted for them?

The CHAIRMAN. My own reaction is that that might not be the effect. If it is true that there is a slow market, there probably would be no advantage in setting the low prices which you would be willing to take.

Mr. SMITH. That is true in practice, without question.

Senator KING. I think the psychology would be bad. Immediately people would say: "They are selling this property for $5,000 and it cost them ten, and all the rest of the property in this vicinity must go down in value."

Mr. SMITH. It has an effect on the surrounding value.

Senator KING. Absolutely; upon your other holdings. That is the way it strikes me, not being a real-estate man.

Mr. GESELL. That is very interesting. If Senator King is correct, that means that companies such as yours are really in a position to dominate the whole question of real-estate prices in the communities where they have been operating. Do you think that is true?

Mr. SMITH. It isn't true in our case, I know.

Mr. KADES. Do your mortgage correspondents handle other accounts than yours?

Mr. SMITH. In some cases.

Mr. KADES. Wouldn't it be in the interest of those correspondents, then, not to sell your property?

Mr. SMITH. We have had no case of that kind come to our attention.

Mr. KADES. But there is a possibility of a case of adverse interest, isn't there, when your agent is also the agent for others?

Mr. SMITH. That very rarely happens, and when an agent wishes to make a sale, it is a question, usually, of selling for one company.

Senator KING. A few million dollars' worth of property in Chicago or New York would be a good deal like one swallow making a summer; it wouldn't determine the value to any very great extent of all surrounding property, particularly when that property is not owned by persons who want to sell, or don't want to sell.

Mr. GESELL. That means then, does it not, Mr. Smith, if Senator King's observation is correct, if you did advertise these prices, it would not have any effect on demoralizing the market?

Senator KING. It might or might not, but I would rather trust the man who has some responsibility to their stockholders than I would trust some empirical approach to the situation—I am not indicating there is any empirical approach here.

Mr. GESELL. Have you any special organization set up, Mr. Smith, to sell real estate?

Mr. SMITH. In the home office we have brought in men who are technically trained during the last 2 years to increase the sale of real estate.

Mr. GESELL. How many such men do you have?

Mr. SMITH. We have two such men brought in in the last 2 years.

Mr. PIKE. How much of a territory can they cover, Mr. Smith?

Mr. SMITH. They cover the entire country.

Mr. PIKE. They work through the correspondents, I presume?

Mr. SMITH. We have some one of our real-estate officers traveling through the country all of the time.

Mr. GESELL. Has your property had a net income or deficit? Table 227 indicates that you have had a net income of 2.07 in 1938.[1]

Mr. SMITH. That is true.

Mr. GESELL. Am I correct in saying that much of that net income is attributable to a particularly good piece of property which you have in Houston, Tex.?

Mr. SMITH. That is correct.

Mr. GESELL. From these figures that you submitted to us, I note that of the net cash income for the period from January 1, 1930, through December 31, 1938, this particular Houston property has paid you $650,000 out of a total net cash income of $962,000. So, it has been a pretty important property for you, has it not?

Mr. SMITH. It is a contributing property.

Mr. GESELL. Without that, your real estate would have operated at a loss, would it not, at a deficit?

Mr. SMITH. I haven't seen the figures, but there would not be a deficit although the figures would be much smaller.

Mr. GESELL. That completes any questions I had on the real-estate matter. There is one other thing I wanted to discuss with you. Our tables show that your company has had the greatest increase in premium income of any of the 26 companies, and that in terms of increase in assets, it has grown almost as rapidly as any other company. The premium income has increased 57 percent, the assets have increased 84 percent since 1929, according to our table. Also, I notice from the sales questionnaire reply that you had rather significantly increased the agency force of your company, it growing from 610 agents in 1926 to 1,320 agents in 1934. That all indicated to me that your company is in a period of a sales program, or is out in an effort to get new business and increase its size, or something of that sort. I wonder if you had any comments you wanted to make that would explain those figures to us.

Mr. SMITH. I would be very glad to give you some of the reasons which account for the growth during the past 10 years if you would like to have me give them to you.

Mr. GESELL. Yes, I would.

[1] See Hearings, Part 10–A, p. 227.

Mr. SMITH. The New England Mutual, as you know, is what is known as an ordinary company, doing ordinary types of business, no industrial nor group, and no substandard.

Mr. PIKE. What do you mean by substandard business, Mr. Smith? I don't quite understand that.

Mr. SMITH. Substandard business might be defined as business on individuals who have some departure from normal.

Mr. PIKE. Physically, you mean?

Mr. SMITH. It might be an overweight, for example, 40 pounds overweight.

Mr. PIKE. Would that include people in extra hazardous occupations?

Mr. SMITH. It might include those, also.

Mr. PIKE. That is a recognized branch of business which you don't do?

Mr. SMITH. Which we do not do. The New England Mutual has, during this period, increased rather substantially its insurance in force and has written a fair amount of new business, has a substantial increase in assets.

You asked for the reasons, and I can say that they are several, which relate to certain characteristics of this particular company. One of those is that we are known to have what is called a liberal policy contract.

Mr. PIKE. In what respect would that be, Mr. Smith?

Mr. SMITH. A liberal policy contract in our case might mean, or does mean, that we give, for example, the full reserve as a cash surrender value without a surrender charge.

Mr. PIKE. Say as against 90 or 95 or some other figure?

Mr. SMITH. Some other figure.

Mr. GESELL. Have you been somewhat more liberal in your medical examinations?

Mr. SMITH. I should say that we have not, as shown by our mortality.

Mr. GESELL. You haven't been taking risks turned down by other companies?

Mr. SMITH. Occasionally we will take one turned down by other companies, but probably more cases turned down by us are taken by other companies. I think we find we hear from our agents that other companies are more generous, and their agents claim we are more generous. It is somewhat a matter of opinion.

Mr. GESELL. Have you been on a vigorous sales drive?

Mr. SMITH. We have not had what you call a vigorous sales drive, because we have never urged our policyholders to buy more insurance than could be properly applied to the individual. In other words, we have a very active sales effort to place the amount of insurance which the man needs, but no more, and that is shown by a very satisfactory termination record.

Mr. GESELL. Someone sent me the other day a sheet entitled "Payton's Pilgrim's Progress" from your Los Angeles agency, which says two things that interested me very much. It refers to the fact that dividends or rather rates are about to be increased, and it bears the caption, "Tell 'em and sell 'em a hundred days more," and quotes you as having said to the general agents assembled at Banff that any agent who doesn't sell and any man who doesn't buy life insurance even if he only remotely needs it between now and the first of the year is a fool.

That indicated to me there was a certain amount of sales activity going on in the company, and I wondered whether you had anything in particular you wanted to say about that. I don't know whether you have seen "Payton's Pilgrim's Progress" or not.

Mr. SMITH. I haven't seen that. I do not recall the exact quotation. That is not new, I presume.

Mr. GESELL. It bears no date. It was new to us. I beg your pardon, it bears the date of September 22, 1938.

Mr. SMITH. I think I made a comment not exactly in those words some time before the new policies came out in 1939.

Mr. GESELL. Is it your practice to put on a sales campaign just before rates change?

Mr. SMITH. No; it is not. I think I might mention other facts, if you wish to have them, about the company, which do have a distinct bearing on our sale of ordinary insurance during the last 10 years. In mentioning a full reserve, I do not mean to imply in any way that a surrender charge is not justified. It just happens that the New England Mutual was the first company away back in 1908 to give the full reserve as a surrender value, and its terminations have always been low since that time, and of course those surrender values buy a larger amount of paid-up insurance and a larger amount of extended insurance and, therefore, the policyholder has regarded this as a valuable part of the policy and has so held it. I think one other reason—and there are many of them—is that our men are very carefully selected. Our general agents are very carefully selected and are men of some substance. They in turn have selected a very fine body of men, agents, a large number of whom are college men, and they have given us rather uniform production during the 10-year period.

Mr. GESELL. Where have you got all these agents? In 1926 you had 610, and in 1934 you had 1,320. Where do you get them, from other companies, or recruit new men?

Mr. SMITH. A large part are recruited new. We have some from other companies.

Mr. GESELL. How do you set these men up, give them special allowances?

Mr. SMITH. We give them a very careful training course, and general agents sometimes give a special allowance, depending on circumstances. The company makes no arrangement for allowances for agents.

Mr. GESELL. I notice here a report on agency action that was forwarded to us by your company in which—or rather minutes of the agency meeting—it is stated with respect to the Nashville office—

"On July 15, 1938, Mr. Edward A. Boalt, CLU, became general manager at Nashville, succeeding David G. Brandon, deceased June 2, 1938. Mr. Boalt has been given a regular office expense allowance of $6,000 a year, $500 a month, and a special organization allowance for his first 3 years as follows: First year, $3,000; second year, $2,700; third year, $2,400." What type of allowance is that?

Mr. SMITH. That is what we call an organization allowance. It is the general practice among companies, the necessary practice, to give an additional amount during the first 3 years of building; that is, when you are establishing your agency when new expenses come and when you have to have some additional help to instruct men.

Mr. GESELL. Is that amount used entirely for organizational expenses or does it include perhaps the payment of renewal commissions to a man who severed renewal commissions that he had coming to him from another company?

Mr. SMITH. That is used entirely for organizational expenses.

Mr. PIKE. Does that mean, Mr. Smith—I am afraid I am a little out of order—that you have gone into several new territories during the last 10 years? You speak of Nashville as an organization thing. You have gone into new States or new areas?

Mr. SMITH. That is one factor which comes into our picture. We have established 10 or 12 new agencies or reorganized old agencies by placing new men there, and the contribution of those new agencies has been substantial. It has helped out our production quite materially.

Mr. PIKE. And in going into a new area, the expenses until you are well established would be rather more than normal, would they, presumably?

Mr. SMITH. They would. The first 3 to 5 years they are more than normal and they come down in a decreasing scale.

Mr. PIKE. And you want to get your new agencies producing when you go into a new territory.

Mr. SMITH. We place more weight upon starting an agency on a firm basis than we do upon the business the first 2 or 3 years.

Mr. GESELL. I have no further questions of this witness.

The CHAIRMAN. Do the members of the committee desire to ask any questions?

Mr. HENDERSON. I think, Mr. Chairman, Mr. Smith was doing a little selling of his company and we interrupted him. There were some other good reasons why he made this grand gain. I don't know whether he had any more he wants to get in before he is attacked by the committee. Do you have some more?

Mr. SMITH. I appreciate your remarks, Mr. Henderson. I was afraid it would be looked upon as if I were trying to sell my company, which is not the case in any way.

Mr. HENDERSON. I don't say that would be a bad thing at all. I have been here about 170 days, and I have felt some very substantial selling campaigns were done. I think it is a healthy thing.

Mr. SMITH. I would like to say that the New England Mutual—and this again is a thing which may sound like propaganda but it isn't.

The CHAIRMAN. We know what propaganda is. [Laughter.]

Mr. SMITH. The New England Mutual, as you perhaps know, was the first chartered mutual life insurance company in this country and secured its charter in 1835 from Massachusetts. Our men have an enthusiastic belief in the ideals of our type of insurance, which is a practical asset to them in their business, because that same belief in the integrity of the company and in the trusteeship of over a century is conveyed to policyholders, who in turn believe in the company, and over 50 percent of our business last year was obtained from old policyholders of the company.

Mr. HENDERSON. Is that the new policies that were written?

Mr. Smith. That was the new business last year—over 50 percent was obtained from old policyholders of the company.

We have had, it is true, perhaps, a substantial part, a larger part than would be our share, in the last 10 years, and that percentage has increased since 1929. At that time we had 1.6 percent of the business of the companies reporting to the Association of Life Insurance Presidents, and last year we had 2.4 percent. It has been increasing throughout those years.

But it does come back to certain aspects. We always make a kind of gospel with every one of our agents to have regard for one of the first statements made by the original founder before life-insurance companies were known in this country and we impressed upon them that due to the vision that the founder of this company had in 1835 when we were in a depression corresponding more nearly to the present depression than any other the country has ever experienced, that he had the vision to see what life insurance could do for this country in bringing out and placing in practical demonstration the thrift and self-reliance and independence of this American Republic. I believe, and I am very glad to say here, that the spirit of independence of the American people is perhaps best indicated and demonstrated through their purchase of life insurance, so they will not be dependent upon the State or country. I also know from the figures which you have at your disposal that if the life-insurance companies, great and small, had not paid out to policyholders these vast millions during the past 10 years, that calls would have been made upon the Government to an amount which can hardly be estimated at the present time, and it comes back largely to the statement of our founder back in 1844:

> The object is equality among the members and a participation of the advantages of the company, whatever they may be, in the proportion of the amounts contributed, and it is no part of the plan that some shall be benefited at the expense of others.

The Chairman. That was a very sound declaration of policy.

Mr. Smith. That is the original explanation of mutuality at that time, and we have placed upon our agents a responsibility of carrying on our business under the lines of mutuality and fair treatment and trusteeship which we hope this company represents.

The Chairman. And may I add that the purpose of the study which has been carried on by this committee, not only in the life-insurance field but in every other field, has been to see what improvements could be made in effecting general benefits for all of the people of the United States in the operation of the economic system in the traditional manner of independent, free enterprise.

Mr. Smith. I appreciate that.

The Chairman. The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:30 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

(The hearing resumed at 2:10 p. m., upon the expiration of the recess.)

The Chairman. The committee will please come to order.

Mr. Gesell. The witness this afternoon is Mr. Van Schaick, of New York Life.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. VAN SCHAICK. I do.

TESTIMONY OF GEORGE S. VAN SCHAICK, VICE PRESIDENT, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.

Mr. GESELL. Will you state your full name and your position in the New York Life Insurance Co.?

Mr. VAN SCHAICK. My name is George S. Van Schaick. I am vice president of the New York Life Insurance Co., in charge of the real estate and mortgage loan departments.

Mr. GESELL. How long have you occupied that position?

Mr. VAN SCHAICK. I came with the New York Life—was elected a vice president in May of 1936, and after serving on the real estate and mortgage loan committee until the end of that year, I should say December of that year, I was given this assignment, December 1936.

Mr. GESELL. You were at one time commissioner of insurance for the State of New York, were you not?

Mr. VAN SCHAICK. Yes.

Mr. GESELL. During what period of the time?

Mr. VAN SCHAICK. I was appointed, I was sworn in as commissioner on March 4, 1931, and resigned on May 10, 1935. The position there in New York, while it is the commissionership of insurance, usually the official is referred to as the superintendent of insurance.

Mr. GESELL You are by profession an attorney, are you not?

Mr. VAN SCHAICK. I am a lawyer; yes.

Mr. GESELL. Coming to the mortgage and real estate account of the New York Life Insurance Co. and referring to table 102, I note that the mortgages of the New York Life constitute 16.47 of the total admitted assets, and that the real-estate accounts for 5.12 percent of the admitted assets, making the combined account somewhat in excess of 21 percent.[1]

Mr. VAN SCHAICK. That is right as of the end of the year 1938. Would you like the figures as of the end of '39?

Mr. GESELL. I would.

Mr. VAN SCHAICK. December 31, 1939, percentage of real estate to assets was 4.46, percentage of mortgages to assets 16.67, making a total of 21.13 percent total assets.

Mr. GESELL. In other words, mortgages had gone up slightly and real estate had gone down somewhat more?

Mr. VAN SCHAICK. Yes.

Mr. GESELL. Are those all city mortgages and city real estate?

Mr. VAN SCHAICK. No; the tables will indicate we have a small mortgage loan portfolio.

Mr. GESELL. Farm mortgage?

Mr. VAN SCHAICK. Small farm mortgage portfolio.

Mr. GESELL. Are you loaning on farms at the present time?

Mr. VAN SCHAICK. Yes. I might qualify that by saying not to any great extent but we are making farm loans.

Mr. GESELL. Has your mortgage account been increasing in recent years?

---

[1] See Hearings, Part 10-A, p. 102.

Mr. VAN SCHAICK. Yes.

Mr. GESELL. Approximately how much money has been invested in the account from year to year?

Mr. VAN SCHAICK. I think I have the figures here. Well, in 1939 we have a combined amount of business, residential and farms, of $43,560,000, giving the round numbers.

Mr. PIKE. Those were the purchases for the year, sir?

Mr. VAN SCHAICK. These were the mortgages made in that year. In '38 it was a little larger than that, the combined result, $54,161,000; in '37, $40,250,000; in '36, $24,534,000; '34, $7,765,000; '33, $3,849,000; '32, $7,726,000; '31, $43,086,000; '30, $61,228,000.

Do you wish me to go further?

Mr. GESELL. That gives an idea. You were loaning quite heavily in the early years of this 10-year period and dropped down very low and since then have been gradually coming up?

Mr. VAN SCHAICK. That is right.

Mr. GESELL. Are you able to loan at the present time as much money as you want on city mortgages and farm mortgages?

Mr. VAN SCHAICK. No.

Mr. GESELL. Do you have an amount which you attempt to get out each year, some amount set aside?

Mr. VAN SCHAICK. No; I never heard of anything of that sort in our company. We know that there are plenty of funds for investment. We realize that as many good loans as we can produce will probably be acceptable and there has been no necessity of coming to any quota under present conditions, at least since I have been with the company.

Mr. GESELL. Looking at it from a broad point of view, how much more do you think it would be consistent with the policy of the company for you to invest than you are now able in these accounts?

Mr. VAN SCHAICK. I wouldn't venture a figure other than the limit of the New York statute which I think is entirely appropriate. As I recall it, I think it is 40 percent of the admitted assets.

Mr. GESELL. So that would mean appreciably more than that amount.

Mr. VAN SCHAICK. Oh, yes.

Mr. GESELL. What kind of arrangement do you have for placing your loans and getting you your loans? Do you use a correspondents system or branch-office system?

Mr. VAN SCHAICK. We function through correspondents throughout the country.

Mr. GESELL. Are they under contract with you?

Mr. VAN SCHAICK. Yes.

Mr. GESELL. Do they appraise the property before the loan is made, or do you appraise it independently?

Mr. VAN SCHAICK. The answer to that question is probably both, because we do appraise it independently, and I think the correspondents make their own appraisal before submitting the offer. Then our set-up is such that we have an appraiser situated in different parts of the country, rather the 12 regions covered by a man known as a mortgage-loan manager, who is himself an appraiser, and before the offering comes to the home office, it has been the considered judgment of the correspondent it is something that meets our standards, it has been passed upon as far as appraisal goes, and other matters, by the mortgage-loan manager, and then comes in for the inspection of the home office.

Senator KING. The correspondent is your own representative?

Mr. VAN SCHAICK. No—well, he is our representative in a broad sense, but the correspondent is not a direct employee of the company.

Senator KING. I understand you to say you have some person out there.

Mr. VAN SCHAICK. We do; we have a mortgage loan manager who is the direct employee of the company and is really the home office out in the field in these respects.

Mr. GESELL. What do you account as the reason that you are not able to get as much money out as you wish? I take it it doesn't lie in your system of securing loans.

Mr. VAN SCHAICK. Well, there might be a number of reasons, and perhaps it is somewhat my own feeling of what the policy ought to be which I think is in accord with the general policy of our company.

Mr. GESELL. You mean your feeling as to the type of loan you will take?

Mr. VAN SCHAICK. Yes. We have seen our mortgage loan portfolio increase since the very depths of the depression. It has been the policy of the company to be very particular in regard to the type of mortgages it would take. We have been pretty particular.

Mr. GESELL. In other words, you are saying that there is a limited supply of first-class high-grade mortgages which would meet the requirements of your company?

Mr. VAN SCHAICK. Yes; and in addition to that we are not willing to meet certain competition which is existing at the present time.

Mr. GESELL. What do you mean by that?

Mr. VAN SCHAICK. Well, if you go back to the days when the trouble came in this field and in other fields, much of it came from over-appraisals, too sanguine, too much optimism as to what was going to happen. I think I said back in '33 and '34 that one of the things which must never happen again is this competition for loans due to too optimistic appraisal. I think we are keeping away from that, possibly too much, but that is our policy.

Mr. GESELL. You mean then that when you refer to competition, the fact that other lenders, not necessarily insurance companies, but other lenders are willing to make more liberal loans on the properties than you are?

Mr. VAN SCHAICK. It seems so to us, at times.

Mr. GESELL. Now, you have been one of the heaviest purchasers among the 26 companies of F. H. A.'s, have you not?

Mr. VAN SCHAICK. Yes.

Mr. GESELL. That appears, I believe, on table 195.[1] You held as of 1938, according to this table, 34,000,000 of F. H. A.'s.

Mr. PIKE. Fifty-one.

Mr. GESELL. I am sorry, 51,000,000, which is greater than that of any other company. Have you increased your ownership of F. H. A.'s since '38?

Mr. VAN SCHAICK. Yes.

The CHAIRMAN. These are all F. H. A. insured mortgages?

Mr. GESELL. That is correct, insured under title II.

---

[1] See Hearings, Part 10–A, p. 195.

The CHAIRMAN. I mean as shown by table 195.

Mr. GESELL. Yes.

What were the reasons which prompted you to go into that investment, may I ask, Mr. Van Schaick?

Mr. VAN SCHAICK. It seemed to us at the time they were offered and when the insurance law was amended very promptly to permit the companies to make this investment, that it offered probably the safest outlet for money in the real-estate field, real-estate mortgages, that was available. I think the amendments went through while I was still at the department. I think the department sponsored them. We felt from the beginning that here was an excellent outlet for money from the standpoint of security.

Senator KING. And you took into account, of course, the advantages that would result to the borrowing fraternity, that is, people who wanted to borrow money on their homes, and so on.

Mr. VAN SCHAICK. Oh, yes; I think we all were quite keen for the social implications of it, as well as the opening that it gave to investments.

Mr. KADES. Is the rate of interest on those mortgages the same or lower than on mortgages that are not insured by F. H. A.?

Mr. VAN SCHAICK. I haven't the figure here but I would say they would run a little under our regular portfolio.

Mr. GESELL. What type of property other than those which would be formerly covered under F. H. A. has your company been loaning on? In other words, have you taken business properties like New England Mutual has, or do you loan on apartment houses or loft buildings or theaters, or what type of property do you loan on?

Mr. VAN SCHAICK. We will loan on apartments, particularly new apartments, and that has been a very, very fine type of loan in the field of business loans. We will loan on business properties such as stores, and the like, that will not be of such type as to be classed as specialty business properties. Was your question confined to business properties?

Mr. GESELL. What other types do you loan on?

Mr. VAN SCHAICK. We are loaning on residences rather extensively.

Mr. GESELL. What is the average size of your loan?

Mr. VAN SCHAICK. I think it is about $2,500.

Mr. GESELL. That is on residences?

Mr. VAN SCHAICK. Yes. Mr. Thorne corrects me, it is about $5,000.

Mr. GESELL. Now, have you been contracting or expanding the territory in which you loan?

Mr. VAN SCHAICK. No; we haven't been expanding it.

Mr. GESELL. Have you been contracting it?

Mr. VAN SCHAICK. No; not since I came with the company, at any rate.

Mr. GESELL. These tables would indicate there is a pretty big degree of diversification, some 42 States in which your company loans at the present time.[1]

Mr. VAN SCHAICK. Yes; but we are not loaning in that number at present. Some of those would be rather isolated cases which would put a loan in a particular State.

---

[1] See Hearings, Part 10–A, pp. 202–206

Mr. GESELL. About how many States, roughly, would you say your company is loaning in?

Mr. VAN SCHAICK. We have 12 mortgage loan managers. You had a table there, Mr. Thorne, that would show me something on that.

Mr. Thorne thinks that about 38 States would be a conservative answer. There would be 117 correspondents and they sometimes operate outside of their own States.

Mr. GESELL. And they operate often in more than one State?

Mr. VAN SCHAICK. That is right. The correspondent in southern California would operate in Arizona, and so on.

Mr. GESELL. And you haven't found from your experience over the past years any necessity of really contracting the area in which you have been loaning on city property?

Mr. VAN SCHAICK. Well, I would answer that question this way, that we have made a very careful study of where our bad experiences were, and have tried to profit by that, but in any general territory I can't say that we have curtailed except as we did in the farm field.

Mr. GESELL. Now, coming to this question of handling of foreclosed real estate, may I ask a rather broad question, and ask you to explain the New York Life Insurance Co.'s approach to its foreclosed real estate problem, how it handles it, how it values its real estate, what its attitude is toward the problem of sale? I am seeking to get information similar to that which we were pursuing with Mr. Smith here this morning.

Mr. VAN SCHAICK. I might say in answer to your question that we have approached this question as the handling of an asset which is an involuntary asset, one which we couldn't have invested in in the first place. We have had to take it to protect an investment which has gone bad, and we have realized that it was a liquidating problem and salvaging proposition.

Mr. GESELL. You have not thought that since you were thrust into the real estate field that you were in any way charged with the responsibility of managing these properties over a long period of time for the income that you could obtain from them?

Mr. VAN SCHAICK. Only over such period of time, and for the income that we could obtain from them as long as we are compelled to hold them; but we have recognized that we must move out of them under the policy of the State, with all convenient speed, without unnecessary sacrifice, and we know and realize that some properties will have to be held longer than others, but on the whole, everything is just temporarily held.

Senator KING. Did the State law contemplate or provide for a reasonably prompt liquidation of properties which you were compelled to take over under foreclosure?

Mr. VAN SCHAICK. Yes; the provision of the statute was that foreclosed property, as well as real estate held for company purposes, which are no longer needed for company purposes, should not be held for more than 5 years unless you would get a certificate from the superintendent of insurance to the effect that the interests of the company would be sacrificed by forced sale. The provision of the law is a little peculiar in its wording. The certificate of the superintendent is as I have indicated, but the purport of the law is that it is a temporary matter and you must move out, and if you don't, the practice is to go to the superintendent and show what you have done and how you have tried to dispose of it, and ask him for indulgence of further time before your property would be an unauthorized asset.

Senator KING. If you failed to adopt reasonable means to liquidate the property you would be subject to criticism by the insurance commissioner?

Mr. VAN SCHAICK. Yes; very decidedly.

Mr. GESELL. This problem of getting rid of the properties is tied up pretty closely with the problem of valuation, is it not?

Mr. VAN SCHAICK. Yes.

Mr. GESELL. Your properties, I notice from our tables, are carried at a lower valuation than those of anyone else.[1] With that in mind, can you give us some idea of what your valuation policy has been and how that relates to the whole question of disposal of these properties in an orderly and rapid fashion?

Mr. VAN SCHAICK. To approach the question, I might say that at the beginning the policy with regard to foreclosed real estate is a developing policy. It isn't anything that is established one day, but it develops as a depression or depression conditions continue longer than one anticipates, and it is a constantly developing policy in light of change and changing conditions.

We approached this with the idea, first, that the most important thing with an involuntary asset, not authorized as an initial investment, was the matter of valuation, the thought being that we wanted to make sure as far as we could in uncertain conditions that we didn't hold out an asset that we didn't have by overvaluation. And then after we got the matter of a proper valuation on the books of the company for statement purposes, to then realize that it is our duty to conserve that asset, to build it up by building income or building desirability, and put it in such shape that it might be readily sold if a market develops, but in the meantime, as long as one has to hold it perhaps longer than he would ordinarily do, or want to do, if the income is built, why so much the better for the person who holds the real estate. That, I think, is the basis of our approach to the subject.

Mr. GESELL. It is a matter first, then, of writing down the properties and being willing to take losses?

Mr. VAN SCHAICK. Well, that looms very large in the picture.

Mr. GESELL. And, second, it is a matter of then developing a machinery which will result in really selling the property?

Mr. VAN SCHAICK. That is right.

Mr. GESELL. Now, on the question of write-downs, how big have the write-downs been in the case of New York Life?

Mr. VAN SCHAICK. I have the figures here which show that in 1931 there was a write-down of $2,740,000.

The CHAIRMAN. What year was that?

Mr. VAN SCHAICK. This is in 1931. I will give just the round numbers if that is agreeable.

In '32 a write-down of $2,967,000, and in '33 a write-down of $2,300,000; in 1934 there was nothing except the depreciation which was being taken on the home-office building, what we call the print-

[1] See Hearings, Part 10–A, p. 232.

ing building, and then there is one other parcel which comes in where depreciation was taken later known as the Elm Valley Farm, a convalescent place for employees.

On December 31, 1935, there was a blanket write-down in addition to this of $5,000,000, and on December 31, 1936, there was a blanket write-down in addition to that of $10,000,000. The real estate was written down, but written down as a whole, but there was no special allocation of those figures.

Mr. Gesell. By "blanket write-down" you mean it was written down on an over-all basis, not as an individual property?

Mr. Van Schaick. That is right.

Mr. Pike. You said "in addition to." Would that make $15,000,000 that year?

Mr. Van Schaick. No; the $5,000,000 came in at the end of '35, and the $10,000,000 at the end of '36.

Mr. Gesell. It was through those write-downs, was it not, that you were able to bring your property to the low valuation shown on these tables?

Mr. Van Schaick. No; because there was more to that program and I should continue with it, because at the end of '37, nothing was added to the blanket write-down, the $15,000,000; but as part of our sales program, realizing that it was necessary to put prices on residential property, we had priced all of our residential property, and it was obvious that the book value should at least be written down on individual properties to the price which we were holding them for the public so there was an additional write-down there of $1,961,000 to meet the established sale prices in that year, and that took care of one large case where we had foreclosed and put a price pretty low. But it amounted to that figure.

The Chairman. What was the total of these write-downs from 1931 on?

Mr. Van Schaick. Shall I not continue for 1938, and then get the total, Senator?

The Chairman. Certainly.

Mr. Van Schaick. The question arose in '38 in this matter of a developing policy, as to the desirability of continuing a blanket write-down, and it was talked at our conferences and with members of the finance committee and with the officers of the company through the year about moving to a different basis of getting this properly allocated. The great reason against it was one which was mentioned in testimony here, as I recall it, either today or yesterday, that it might have an adverse effect upon the sale of property to be pretty realistic about what figure you might put on, and yet the more we thought it over, the more it seemed that it was necessary. There were a good many embarrassments that came up from the fact that when you wanted to discuss the actual book value of the property you were doing it on one basis and yet you didn't know how much of the blanket write-down that you might allocate to it.

And so we decided, as the year 1938 came to a close, that we would make an allocation and we approached it in two different ways. We first had attempted to obtain through our own forces a figure of what seemed to be the current value on each one of our properties. It was a tremendous piece of work, but at the same time it seemed as though we could work out a program that would have the same general effect, and perhaps put us on a little sounder ground. We realized that in some cases, in a good many cases, there had been in the putting on of a book value initially foreclosure costs—back in the old days there had been some cases of adding accrued interest, very little of that as the years went on. The foreclosure costs and taxes came into the picture, so that there were a number of instances in our portfolio where the book value exceeded the face of the mortgage at the time of foreclosure.

And so at the end of '38 we decided as the first step in this program that we would mark down to the face of the mortgage at the time of foreclosure, and that took a figure of $7,744,000 in round numbers.

Then another thing that had been bothering us very much on this matter was the long continuance of depressed conditions, we will say, and as we went to sell and found some pretty weak spots in our portfolio in the matter of prices, we realized that this question of obsolescence had been coming on here with tremendous force, and it was a question in our mind of having some policy that would recognize this obsolescence feature over a period of years.

Without going into the detail as to how the matter was worked out, the suggestion came from our vice president and actuary, William MacFarlane, who had had negotiations with the Government on the matter of proper basis of depreciation of some of our properties for tax purposes—they weren't all alike, there would be different rates which would fit in one class and another rate in another. Nevertheless, we felt that a depreciation of the improvement end of the property over a period of years would be the thing to do.

So, we decided to mark off 3 percent a year of the value of the building or the improvement on this property from the time of acquisition. We got that allocated cost of the building by taking the nearest appraisal which we had before acquisition where the values were separated, the land and the building, and then we took our cost and applied that same percentage to that, and so we marked off 3 percent for each of those years from the time of acquisition down to December 31, 1938, which took a figure of approximately 10,000,000—or to be more specific in round numbers the figure of 10,871,000. Then we had to go down to established sales prices. We had been continuing and been revising those prices. That took 284,000, practically 285,000.

Then we had another item which came into the picture at that time. We had been receiving from the State insurance department of New York appraisals upon various of our properties throughout the country. I might say that in '34 there was set up for the first time in the insurance department of New York an appraisal bureau manned by very competent real-estate men chosen from civil service, and a bureau which has very fine facilities for making disinterested appraisals. We had received and had been very much interested in comparing the appraisals which we received from the insurance department on all our properties. They made appraisals, and then where they didn't have what they called complete appraisals, they would give us their estimates of what various properties were worth. We felt that it would be fine to review and see just how, with our reduced figure, we would come out in reference to the appraisal of the supervising authority. At that time we took only properties of a hundred thousand and more in value, and we found that in some cases the State appraisal was at a higher figure than our own figures. We paid no attention to that, but where we found the State appraisal was below our figure, we thought that we would take an additional step that year and we wrote down to State insurance appraisals on all properties of a hundred thousand and more where they were above our figure. We wrote down a figure of $5,626,000 for this purpose and in getting the total of what came at the end of '38 as a result of that, there was a matter of $31,082, which was an up, because wherever we have a contract of sale which is for more than our book value, that is the only up which we take, but when we get down to a contract of sale, we take that into consideration. It gave a figure for 1938 of $25,286,593, which includes the depreciation on all the company-owned properties. That isn't entirely on foreclosed real estate.

Does that give you what you wish, Mr. Gesell?

Senator KING. Twenty-five million in 1 year, you mean?

Mr. VAN SCHAICK. No; 15 million had been set up as a blanket over 2 years, but it was the allocation in 1 year of the 15 million.

Mr. GESELL. What is the total of all these right there?

Mr. VAN SCHAICK. The total of the write-downs from '31 when I gave it to you, including the ups to which I referred in the manner of contracts, is $50,374,664.12. That is at the end of December 31, 1939, because we have added more this year than I have enumerated. In 1939 we not only wrote to sales prices which had been established, but we also took the rest of the State insurance appraisals, we went on down below the hundred-thousand lot and have met the State insurance department appraisals, and then in addition to that, we took the depreciation on the home office and some special cases that were—I meant to say it included, Mr. Bottome thought I said it excluded the home office; no; it includes the depreciation on the home office, but it did include—well, I had something in mind there; my thoughts got away from me for a moment.

Senator KING. The 50 millions you have just given, that includes the reduction, depreciation, mark-down on property of less than a hundred thousand?

Mr. VAN SCHAICK. I beg your pardon.

Senator KING. Did the 50 million to which you have referred include mark-down on properties valued at less than 100,000, you say?

Mr. VAN SCHAICK. Yes; it did.

Senator KING. The entire real estate?

Mr. VAN SCHAICK. That is right; that 50 million gives the program from '31 on.

Senator KING. On all of your real-estate holdings?

Mr. VAN SCHAICK. On all of our real-estate holdings.

The CHAIRMAN. May I interrupt here to ask Mr. Howe about table 220, which I take it is intended to represent the total amount of urban real estate owned by the 26 companies? [1]

Mr. HOWE. That is right, as of December 31, 1938.

---

[1] See Hearings, Part 10-A, p. 220.

The CHAIRMAN. Now, table 232 gives us a total book value as of December 31, 1938, for the New York Life Insurance Co., of $97,-489,891,[1] whereas the total on table 220 is $108,105,000. What is the explanation of that apparent discrepancy?

Mr. HOWE. The explanation, Senator, is that the figures given on page 232 apply only to real estate which, on December 31, 1938, had been held for one full year or more.

Mr. GESELL. I understand it is necessary to include only properties held that long. The reason is the fact you are comparing the income to the value. Unless you have a year's income from which you can base your figures, you don't have that.

The CHAIRMAN. I see.

Senator KING. The real-estate operations were largely controlled by the laws of the State, I assume from your statement? That is to say, the character of security which you are permitted to take, and the loans which you are permitted to make, are in line with the State Department?

Mr. VAN SCHAICK. Oh, yes.

I wanted to make a correction. Counsel calls my attention to a misstatement which I made in answer to the question about capitalization, where we had written down on the face of the mortgage. There had been included in those figures foreclosure costs in many cases and delinquent taxes, but never accrued interest. If I gave the impression to the contrary, I want to correct it.

Mr. GESELL. What is your attitude toward this capitalization of accrued interest? Do you think that is a good practice?

Mr. VAN SCHAICK. No.

Mr. GESELL. Why not?

Mr. VAN SCHAICK. We don't consider it a good practice, although we think that there are certain circumstances where a funding of interest may be perfectly in order.

Are you asking as to real estate or mortgages?

Mr. GESELL. I was asking as to real estate. I'm sorry I didn't make that clear.

Mr. VAN SCHAICK. The answer is "No" to the question.

Mr. GESELL. Why isn't it good practice to capitalize it?

Mr. VAN SCHAICK. It doesn't go into the value of the property in the slightest degree, something never received.

Mr. HENDERSON. I wasn't quite clear on your answer to Senator King. I think he asked about acquisition, whether all the acquisition was in terms of the State law, and I think your answer was "Yes." But the matter of what write-down you should take, there was no specific State law on that—that was an exercise of judgment, and the company business policy, was it not?

Mr. VAN SCHAICK. Yes; I understood Senator King's question to refer to the taking of these mortgages in the first place as to whether they were made in accordance with law.

Senator KING. That is what I intended.

Mr. VAN SCHAICK. And my answer to your question, Commissioner Henderson, is also in the affirmative, that there is no provision of law which outlines the particular write-down practice that you should take.

---

[1] Ibid., p. 232.

Mr. GESELL. Now, your practice in writing down these properties appears to have been premised on the consideration that if on the sale of the property you made more than your book value, you would have lost nothing by being realistic in terms of write-down. Is that not correct?

Mr. VAN SCHAICK. Yes; and that was the experience in '39.

Mr. GESELL. And you prefer writing down the properties and seeing on the ultimate sale whether or not you made a profit rather than holding the property at a high price against the expectation that you will be able to sell at that price.

Mr. VAN SCHAICK. Yes; but always with the thought in mind that we want, in fixing the price, to be in accord with present conditions as much as we can—we don't want to overdo it; but on the other hand, if we are going to err, we would rather err on the low side than the high side.

Mr. GESELL. How do you go about pricing these things for sale, these properties for sale? Do you have a published list of prices which anyone can go to?

Mr. VAN SCHAICK. In the residential field we have, as I said before, put a price on all of our holdings and those prices have been reached by consultation; we consult the correspondent, get his ideas; we have the mortgage-loan manager's ideas, and then we have our own field man's ideas; those come in, they are studied by a committee at the home office, everything is taken into consideration, the history, what we know about that general location, and all, and we try to reach what seems to be a proper figure.

Mr. GESELL. How do you advertise that price?

Mr. VAN SCHAICK. Those prices are given to our mortgage managers, who in turn give them to the brokers, and there has been an increase in our advertising program.

Mr. GESELL. You mean that these prices on residential properties are a matter of public record for anyone interested in purchasing them?

Mr. VAN SCHAICK. I wouldn't call it a public record, but anyone can see them who wants to see them at the brokers.

Mr. GESELL. You do the same thing with your larger properties like apartment houses, theaters, hotels, and office buildings?

Mr. VAN SCHAICK. No; although I might explain that we do this: Everything is for sale, but the way we have approached the income properties has been to call in our mortgage-loan managers, point out that we wanted to sell them with particular emphasis on our class-C properties—I will explain in a little while, perhaps you will reach it, as to our classification of properties—and while we haven't an established sales price, we do, in many cases where we are particularly interested to move it, give a price—the superintendent of real estate will give a price to the mortgage-loan manager that he will recommend. Nobody is bound by it, but at least it is something to talk about in these large situations, or in income-property situations.

Mr. GESELL. You mean, then, that there is some advantage in being positive and definite about the price if you are anxious to move a piece of property?

Mr. VAN SCHAICK. I am not a real-estate salesman at all, but I have always understood if you are going to expect results, you have to have some degree of positiveness about what you are holding the property at.

The CHAIRMAN. What has been the attitude of the superintendent of insurance with respect to this problem of valuation and sale?

Mr. VAN SCHAICK. Well, the reports of the superintendent of insurance over the past several years have stressed the problems in real estate and in foreclosed real estate particularly. They have been rather general in the suggestions which have been made, but while that is a message which is conveyed to the legislature, nevertheless it is always taken as a message to the companies; we all get a copy and we all read it with interest, and the thought, I think it is fair to say the thought has been expressed that greater attention ought to be paid to this problem of realistically handling the problem.

The CHAIRMAN. There seems to be considerable diversity of judgment on the part of the companies with respect to the valuation which should be placed upon real estate thus held, and the degree to which it should be marked down. What I was inquiring about was whether or not there was any attitude upon that particular question by the State departments of insurance.

Mr. VAN SCHAICK. Well, all I could say in answer to that, Senator, is that our program has been commended, and commended rather highly.

The CHAIRMAN. But the department does not impose any rule upon the companies in fixing their values.

Mr. VAN SCHAICK. No; I don't think so. There may be in this last report just released yesterday a suggestion that the companies ought to move out of their poorer properties.

The CHAIRMAN. In developing this policy which you have described to us in such detail of continuous write down, you were not under any compulsion from the State Department of Insurance in doing that, were you?

Mr. VAN SCHAICK. No.

Mr. PIKE. I didn't get, if you did mention, Mr. Van Schaick, what your sales were in '39. The thought is coming to me up to the end of '39 with the write-down and the realistic policy that you haven't succeeded in moving much real estate.

Mr. VAN SCHAICK. Let me approach it this way, Mr. Pike, if I may: We classify our properties as a part of our program in A, B, and C properties and classifications, and our emphasis has been put on moving the C properties because of a realization that if we don't look out, in any program of this sort we would move out of our good properties and be left with the bad, so the emphasis has been put on the C properties. In 1939 there were 820 properties sold. Of this, in the income group, there were 18 A's, 66 B's, and 57 C's. So as to get your percentage of C's, you will see that that was 57 out of 360 at the beginning of the year, or 16 percent of the C's.

On residences, we sold 14 A's, 279 B's, and 255 C's.

That was 255 out of 806 C's in that classification, or 32 percent of our C residences held at the beginning of '38.

Now, we sold in 1939 properties having a book value of 8.55 of book value of properties owned December 31, 1938. The book value of properties sold was $9,875,000, in round numbers, and the sales price was $11,167,000. Also, there were 116 properties for which contracts for sale or leases with option to purchase were entered into prior to January 1, 1939, and were completed and closed out during 1939 with a sales price of $669,000.

Mr. PIKE. So that your sales program really got under way in '39 more than it shows in this particular compilation?

Mr. VAN SCHAICK. Yes, we had a feeling that it wasn't as good as we would like to have it but it was consistent with the policy of "keeping the stream moving," which is the expression we have been using in the department.

Mr. PIKE. Then you do feel also that the real estate which you have left represents perhaps the higher grade of your holdings in that you have given particular effort to moving off the poor stock?

Mr. VAN SCHAICK. That depends on how well we succeed in moving the poorer classes, but you will see from that that even with emphasis on C's, a certain number and even more, of other classifications will move.

Mr. PIKE. Of course, they want your better ones, naturally?

Mr. VAN SCHAICK. Yes.

The CHAIRMAN. But table 221 would indicate that you succeeded in moving a total of $6,470,000 worth of urban real estate.[1]

Mr. VAN SCHAICK. Through 1938. This was '39. This wasn't added. This was the next year's operations.

Mr. GESELL. Table 223 expresses that in terms of percentages, Senator, and may be more helpful to you.[2]

The CHAIRMAN. And the big movement took place in 1939?

Mr. VAN SCHAICK. Well, it is larger, but we thought we did pretty well in '38, too, but we hope to have it raised.

Mr. KADES. Mr. Van Schaick, since your write-down policy is not based upon any legal requirement, would it be fair to say that one of the moving considerations in that policy was the attempt to avoid distorting the value of the real estate insofar as policyholders and prospective policyholders were concerned?

Mr. VAN SCHAICK. I think that is a fair statement, and I might say in connection with it that perhaps my own attitude of a former insurance commissioner led somewhat to my very great feeling along that line. I had had something to do with valuations that were out of kilter in bygone years, and knowing something of it, it is something that perhaps I put more emphasis on myself personally than some others. I don't say that it is any better policy than someone else's, there are various ways of looking at it. It is only that in our case that is where the emphasis happens to be.

Mr. HENDERSON. Mr. Van Schaick, I am very much interested in what you said about this question of statements, and as a commissioner of insurance, a superintendent of insurance, you must have thought many, many times of how information ought to be gotten to a policyholder which would clearly portray what the assets were behind the contract. I wonder whether you would, for the committee, give us the value of any of your thinking along that line. Take it this way: I start with the proposition, very frankly, that the ordinary statement of an insurance company that goes to the policyholders is not completely revealing, to say the least. Is there any

---

[1] See Hearings, Part 10-A, p. 221.
[2] Ibid., p. 223.

possibility of getting a better form of statement? Has any work been done on giving a running idea to the policyholder of these changes that are taking place, and things that are of great significance to him?

Mr. VAN SCHAICK. I think about the only thing I can say, Commissioner Henderson, is that I have here what the New York Life does. It was indicated to me that I might be asked that question, and I can show you what is done. There has come to my attention this year a statement—and I think I see it on the table here—of the Massachusetts Mutual, where an attempt is made to perhaps popularize the presentation of facts, because so many people, just from seeing figures, do not get them.

I would only answer your question in a very general way. You ask it of me as a former commissioner. I would say, "Yes, I would be glad to see something done along the line of simplification of information for the public."

Mr. HENDERSON. It is particularly true in the period of changing values, isn't it? I expect, over a period of time, when there is no real question as to the assets behind policies, that the ordinary statement that has been going out from most insurance companies is—well, it is a financial accounting of some kind. It is not a managerial accounting, certainly, and I wonder whether there has been any work done on it? Do the State commissioners do any work on the matter at all?

Mr. VAN SCHAICK. I haven't heard, Commissioner, whether that subject has been taken up by the commissioners or not. I really must just give you my own general thought on the matter and say that I think that this is something that can be done, and perhaps should be done along those lines, but I am not familiar with anything that has been done.

Mr. HENDERSON. I don't suppose that the commissioner of a large State gets many complaints from policyholders, however, as to the adequacy of the report?

Mr. VAN SCHAICK. No, not many. There is a complaint bureau in the New York department, but it has to do very largely with adjustments, not in the life insurance field but in other fields. But occasionally there will be something, but it is pretty occasional.

Mr. HENDERSON. Something perhaps not so formidable as the Convention Form, which, of course, isn't accessible to the policyholder—something between that and the bare statement of balance sheet items is probably desirable. I expect it would run more in the nature of reading matter, would it not, for an annual report to be of real value?

Mr. VAN SCHAICK. I think, if I may confine my remark to my own departments, that policyholders might be very much interested in what is being done in real estate and mortgages, a simple statement of what the policy is, because——

Mr. GESELL (interposing). I take it you mean what the results of policy are?

Mr. VAN SCHAICK. Yes; what the results of the policy are.

Mr. HENDERSON. Let me ask you this: I suppose in that, the management is between a desire to be frank and a desire not to scare the policyholder. That is, admittedly if in any one year they went to great lengths to tell what the situation was in any metropolitan area, what the difficulties of sale have been and the like, the policyholder would take it as an alarming matter, would he not?

Mr. VAN SCHAICK. Yes; and you have to guard against that, because you may recall that in the history of the country here, we had a run on life insurance at one time, and while it didn't affect the stability of companies, there is a danger which comes from ever circulating anything that alarms people. It is a financial institution as a bank is a financial institution.

Mr. HENDERSON. We have the same thing, of course, as to the prospectus in the S. E. C., in the matter of truth in securities, and of course we are finding that a frank statement is the best thing. We don't require in those statements that an alarmist point of view be taken, or that superlatives be used on anything encouraging and favorable to the issue, and I suppose something in the nature of a complete statement and a frank discussion to the policyholders is what the tendency ought to be.

Mr. VAN SCHAICK. I think I am not in disagreement with what you express, Commissioner.

Senator KING. As commissioner in the State of New York—and if this is a little too personal I will not ask you to reply—did you find that many of the insurance companies failed to comply with the law and to make such reports as met the requirements of the statute?

Mr. VAN SCHAICK. Oh, no; the reports had to be made and they had to comply with the law or the insurance commissioner took charge.

Senator KING. Did you have occasion to reprimand—that is probably too strong a term—criticize any insurance companies for failing to comply, perhaps inadvertently, with the provisions of the statute and require them to submit additional reports?

Mr. VAN SCHAICK. That would be a pretty difficult question to answer, Senator. There are a multitude of matters coming over the desk of a commissioner every day; there are matters which come up of error or perhaps carelessness or something of that sort where communication is made to a company. It would be hard to differentiate as between the ordinary business communication and perhaps a suggestion in some communication that this is not in order and should be corrected. I just would say in answer to that that with the multitude of transactions necessarily there were such instances as you indicate, but nothing of a sort that would need to concern, because, after all, we felt that there was a pretty wholesome respect for law.

Senator KING. Generally speaking, it was your view that the companies submitting reports complied with, or attempted to comply with the statute, and that the insurance business, by and large, was conducted by the insurance companies in a manner that met with the general approval of the insurance commissioner?

Mr. VAN SCHAICK. That is right.

Mr. HENDERSON. I don't want my question to be thought of as flowing out of the Senator's remark. It is something I wanted to ask you anyway. In view of the analysis which Mr. Howe made of the convention form and insurance accounting, it seems to me from the discussions in recent days concerning the different modes of valuation and of write-downs and the like permitted to each company, that there is a wide latitude and a wide discrepancy in practice as between the companies which the present convention form doesn't meet, isn't that true?

Mr. VAN SCHAICK. Well, I am not an accountant, Commissioner Henderson, and I hesitate to make a comment outside of my own field, but I would say this, that I would be the first to recognize that there are weaknesses in the present set-up, weaknesses which ought to be corrected, and perhaps can be corrected, and one of the weaknesses has to do with the matter of uniformity and modern accounting.

It was something we were interested in when I was back at the department. I was quite keen to have what is known as the convention committee on blanks bring in experts to see if there is anything in modern thought and modern accounting that would improve that general situation.

Mr. HENDERSON. Take the situation you have outlined today, $50,000,000 of reduction in value. I gather it was within the companies' latitude to make that, say, $25,000,000, perhaps some lower figure. That is, you had a definite policy of recognizing that certain things had transpired and making a judgment as to whether there was going to be a recuperation. You could have made a difference there of about $25,000,000, at least. Now, that is a sizeable item. Even if New York State, for example, in its own accounting on surpluses and the like, had required that, it is possible that some of the other States would not have required it, or even might have required a stiffer one, isn't that true?

Mr. VAN SCHAICK. Yes.

Mr. HENDERSON. And so if you had all the convention reports of all the insurance companies, regardless of where domiciled, you really couldn't get an accurate comparison which would reflect the motivating business policy.

Mr. VAN SCHAICK. I am not entirely sure that I follow you completely, but I would say that in general it is true it is sometimes difficult to interpret from the reports made just what the policy is, although this write-down of our real estate is clear in the statement which we have made to every insurance department in the United States, with the exception of Texas where we don't do business.

Mr. HENDERSON. There is no doubt that the write-down is clear, but I say that reflected a business judgment which you carried into your balance sheets.

Mr. VAN SCHAICK. Yes.

Mr. HENDERSON. Now, if you had made a business judgment in which you said, "We will take only half and gamble on the recovery of assets and the like for the other half," it would not have been reflected in the convention form.

Mr. VAN SCHAICK. No; except by a lower figure.

Mr. HENDERSON. There would have been a higher figure in the convention form. What I am saying is that so far as the comparison based upon the convention reports of different companies with different policies is concerned, you don't get a complete comparison and a complete reflection of what the business judgment has been.

Mr. VAN SCHAICK. I think that is true.

Mr. GESELL. And it is also difficult to tell, is it not, whether, for instance in the case of New York Life, your write-down was taken because your real estate was in much worse shape than the other companies, or whether your write-down was taken by reason of the conservatism of your management?

Mr. VAN SCHAICK. I think your figures in these tables of Mr. Howe's would indicate that it wasn't because we were in worse shape by any means.

Mr. GESELL. I wasn't trying to suggest you were. I was only trying to say it is pretty difficult for someone without the benefit of such figures as we have here before us today to tell whether it was because your real estate was in bad shape or because you were adopting a conservative-management policy.

Mr. VAN SCHAICK. Yes; I think that is probably so.

Mr. HENDERSON. I have a question, Mr. Chairman. You spoke a little while ago of how different companies came through the depression, and particularly the New York companies, if I recall, did come through very well and you were there during a large part of that period. Mr. Van Schaick, I would be interested, and perhaps the rest of the committee would also, in some idea of the moratorium legislation, and the things which led to the convention values, and the reasons that suggested themselves to the commissioners in establishing surrender values and modifications on policy loans. I don't like to suggest that you discuss that as a vice president of the New York Life, but could we draw on your experience at all for that?

Mr. VAN SCHAICK. I would be very glad to if I won't tire you. It is a pretty big order, Commissioner.

Mr. HENDERSON. Cut it down so it doesn't tire you.

Mr. VAN SCHAICK. Of course, the two subjects which you suggest, while they were related, came at entirely different times and presented two different phases of the depression. The matter of convention values which confronted insurance commissioners in 1931 came to a head in October of that year, as I recall it, due to a particularly low day on the exchange, when I, as a new superintendent, had the chief examiners come in and say, "What will we do with these companies?"—not life companies, it was the casualty companies and the fire companies that were particularly affected because of the large portfolios of common stocks which were held at that time. It was a question which was put up almost in a moment as to whether at that critical time there was to be a wholesale taking over of essentially sound companies because of, you might almost term it, gyrations of a stock exchange, and after canvassing the matter very carefully, it happened that the New York Commissioner—then, as now, the chairman of the committee on valuations of what was then the National Convention of Insurance Commissioners, now called the National Association of Insurance Commissioners—called in the commissioners who were near at hand, Massachusetts and Connecticut and New Jersey, Pennsylvania, Illinois, and we worked it out. I used as the basis of it the very best thought I could get hold of, some of which went back to the World War days when they had similar problems.

Mr. HENDERSON. Had there been any thought given by the national convention to the probability of just such an acute crisis?

Mr. VAN SCHAICK. There had only been one meeting that I had attended, it was a midsummer meeting, I think it was in June of '31, when that subject didn't come up, and that is the only one I can tell you about because that was my first meeting, and this broke in October.

What we worked out was the thought that the stock exchange was—after all, there was nothing sacred about a stock-exchange quotation. It is the best we have under ordinary circumstances to reflect the buying and the selling end of a transaction, but realizing that the bottom had dropped out of the market, that didn't reflect it any more, and it seemed a very proper thing—it might shock people at first suggestion, but, nevertheless, on thinking it through one could see that it wasn't so out of line to take not the stock-exchange quotations of a particular day, but the range of the market over a period not too remote and get a more normal period to use as, not the current market, but the fair market on those securities.

And so we worked out a formula through the use of financial experts that were called in and knew more about it than we commissioners did, and we took a range of the market, as we said, not too remote, which I think wasn't too remote, which we substituted.

First it was presented to the executive committee of the committee of valuation of the convention by telegram; they acquiesced in it; I put it into effect in New York immediately because I had to do something, and by early December of that year we presented it to the convention and it was passed with only three dissenting votes.

Now, that is the formula which Professor Bonbright in his very valuable treatise on valuation of properties refers to as one which might better have been a recognition by the commissioners that they were doing an arbitrary thing, but what Professor Bonbright missed, I think—and I intend to tell him so when I get the opportunity—was that the commissioners couldn't do an arbitrary thing at that time. They had to find some basis of valuation. It was not an arbitrary figure; it was a standard of valuation, and I think that there is some testimony in these proceedings—Mr. Howe referred to it, I think Mr. Gesell as counsel referred to it—in which there was some implication thrown out that this was an arbitrary matter. It was not. It was a standard of valuation that was adopted in place of the stock-exchange quotations which were out of kilter at the time.

Pardon my getting emphatic about it, but I haven't thought of this in some time, but they were rather strenuous days.

Mr. Henderson. You were there?

Mr. Van Schaick. I was there; yes.

Senator King. The stock exchange was perhaps more arbitrary and capricious than that formula you worked out.

Mr. Van Schaick. The stock exchange itself didn't have much to do with it. It was trying to put into effect the thing we read about in law books, that fair value is ascertained by the willing seller under no compulsion to sell and the willing buyer under no compulsion to buy, but those didn't exist on the stock exchange in those days, and the old idea went right out the window.

Mr. Henderson. May I ask you about two questions on that? In the insurance contract, the policy contract, there is no requirement as there is in the investment trust certificate that you shall maintain a certain ratio of values gotten from an exchange, and so forth, to the policy. I am quite sure of that. Now, as to the insurance law, is there a requirement that valuation shall be taken from an exchange?

Mr. VAN SCHAICK. No; the superintendent of New York had the responsibility of valuing according to market value, and it was unfortunate that there wasn't a real power of discretion given the superintendent. He had to take the risk of this thing's working. I think the new code has obviated that. I think that is taken care of.

Mr. HENDERSON. It is lodged with the superintendent now?

Mr. VAN SCHAICK. He is given the discretion to do it now, and that we didn't have at that time. We had to find a basis on which to operate, which the courts would sustain as reaching market value.

Senator KING. If you had accepted the action of the stock exchange that particular day, and ratified that action, it might have induced lower values and a spiral decline that would have been catastrophic.

Mr. VAN SCHAICK. There would have been a dumping of securities to reach a liquid position under those circumstances that would have made a debacle even worse than we had.

Mr. GESELL. How about moratorium legislation?

Mr. VAN SCHAICK. Moratorium legislation was entirely different, because the life companies in New York weren't affected by this convention value to any great extent. They were in many respects with regard to preferred stocks, and in minor matters, but when it came to the moratorium, there was the situation which was brought about by the banking burden of the country being thrown on the life insurance companies almost overnight. Here we had the circumstances which led up to it. You will recall that as we left '32 behind and got into January, I think it was in February that the Michigan situation arose, the Michigan moratorium came along, and then you had your situation in Maryland and Indiana and several other States, leading right up to Inauguration Day, and then when New York came on with its moratorium on March 4, and the President's proclamation followed on the Monday following inauguration, when all the banks were closed and we had the bank holiday, where were people going to go for their funds? Here was the banking burden of the country thrown on the life insurance companies, and as liquid as they were, and in as fine condition as they were, no company that invests money can be enough liquid to take care of a situation like that, and consequently I remember one instance of a man coming from the West by airplane to get there and get his money out of one of the large companies. It had the characteristics of a run.

What did we do? As I came back from Washington, I talked with the Governor over the phone; we got together on Sunday morning and decided that we needed emergency legislation. We continued that on Monday. We had the legislative leaders of both parties there. We drafted this legislation known as chapter 40 of the Laws of 1933, afterward known as that; we had some of the insurance executives in at the Governor's home; we had advisers of various kinds; we got the legislative leaders there from Albany. That night we had to send the bill up by plane; it went through the legislature that night; they stayed in session all night; it came down by plane; was signed the next day; and it was only then we had the authority to go ahead and declare a moratorium.

It was pretty sweeping legislation but it was carefully drawn.

Mr. HENDERSON. What did it give the right to do?

Mr. VAN SCHAICK. It gave the right to do pretty nearly everything. If you would be interested, I have it here, it is very short. I put it in.

Mr. GESELL. Have you a copy of the legislation there?

Mr. VAN SCHAICK. I have a copy of what I said about it in a report which I made on the administration of delinquent title and mortgage companies. There is a paragraph here as to what chapter 40 was. It is two paragraphs on page 5 of this document which I have.

Mr. GESELL. Perhaps you might read that for the record, if you don't mind.

Mr. VAN SCHAICK. There is just one paragraph that will give it to you. [Reading:]

Chapter 40 of the Laws of 1933 was adopted as an emergency matter giving the Superintendent of Insurance power to prescribe rules and regulations for the conduct of the business of all insurance and further, giving him authority to vary or suspend the provisions of the insurance law in the general public interest. The statute has been extended by amendment to be effective until March 1, 1936.

That doesn't give as much of that as I thought it did. [Reading further:]

On the day and the hour that that statute became effective, full responsibility for the exercise of these emergency powers was formally placed on the Superintendent of Insurance by letter from the Governor under date of March 7, 1933, as follows:

"With reference to the emergency powers given you as Superintendent of Insurance of the State of New York, I place the responsibility for the exercise thereof on you as Superintendent and shall expect you to make such use thereof as in your judgment will promote the general welfare."

Mr. HENDERSON. In general, what could you suspend?

Mr. VAN SCHAICK. Here were policy provisions which provided for the loans and surrender values on life insurance policies.

Mr. GESELL. In other words, those were in a sense the provisions of the policy which placed the insurance companies in the banking business?

Mr. VAN SCHAICK. That is right.

Mr. GESELL. They were the ones that were standing the heaviest stress in this time of banking emergency?

Mr. VAN SCHAICK. Yes; that is right; and the order of the superintendent of insurance was to forbid the making of loans or paying these surrender values except—now, we were very much concerned about the hardship which was going to result just immediately with so many people dependent upon these things, and so there was an exception made for small cases where people needed $100—up to $100.

Mr. GESELL. Those were the so-called dire needs?

Mr. VAN SCHAICK. Yes; those were the dire-need cases, but in the industrial end they were liberalized because even the $100 limit in New York wasn't put on the industrial cases.

I would say there wouldn't be an industrial policy that would involve a hundred dollars, but the aggregate in a family would sometimes be more than that.

Then we took a number of other exceptions, I think it was referred to in some of the testimony here, where reference was made to the fact that there was an exception for the payment of premiums on an insurance policy. Well, if the implication was thrown out to that question, as I think it might have been read in that testimony, that that was some special favor shown the insurance companies, that wasn't the situation at all. We didn't want, as a result of this thing, people to lose their insurance by the result of it, and those who were dependent upon keeping their insurance in force, we were very anxious that the insurance should be—the integrity of it should be maintained as far as the going policy was concerned.

Then there are other exceptions, but I think it is not necessary to go into them.

Mr. Gesell. In other words, under that exception, the policyholders could surrender one policy or more, or borrow on their policy in order to keep their premiums paid up?

Mr. Van Schaick. That is right.

Mr. Gesell. And to prevent the lapse of insurance.

Mr. Henderson. There is no doubt in your mind, is there, Mr. Van Schaick, of the necessity for some formal legislation authorizing commissions in times of emergency to have that power?

Mr. Van Schaick. I quite agree with you. If Government can't function and can't handle an emergency, then we have just got to throw up our hands. The fact that we could and did handle this particular emergency, regardless of what department did it, and who did it, has always appealed to me as a very fine illustration of how Government could and should function in an emergency.

That moratorium which was put on on the 7th of March was modified from time to time in New York and went off entirely in September, and there wasn't a ripple when it went off—such as when a closed bank opens sometimes there might be a new run; nothing of that sort at all.

Mr. Henderson. Did the action taken by the leading State, New York, tend to uniform action on the part of other States?

Mr. Van Schaick. Well, I might say this, that New York worked very closely in touch with the other States in that matter. The executive committee of the Commissioners met; I think the convention met on this particular subject, and after we found that various States had different forms of moratoria, we made an attempt to bring about uniformity, and at that convention, I think it was in July of that year, 1933, we met and had what we termed—there was a little compromise in some respects, but pretty generally—the model plan. It helped bring about more uniformity. What we did in New York, we didn't quite go along; we came back and liberalized ours to be in accord with that, but where we were more liberal than the first one, than the convention was, we stood on the one we had promulgated with the amendments.

Mr. Henderson. Mr. Van Schaick, I have been asking a number of insurance men a question on size. This is the first time we have had an insurance executive who was also on the regulatory side at one time. Do you have any observations as to whether or not the job of supervising is increased by the magnitude and size of the companies?

Mr. Van Schaick. Oh, I would categorically answer that question—perhaps I should explain it this way, if I understand your question. The greater the insurance institution—I am speaking of the insurance institution as a whole—is increased the more the supervisory responsibility is increased.

Mr. Henderson. I can see in this period of moratorium, because of the relation of its assets and investments to the whole question of markets and current values, that it is an important item. But in the ordinary days, is there any increase in the problems according to the individual size of the company, other than just the sheer increase in the burden of work? That is, if one company is 10 times the size of another, does it merely take 10 examiners, or are there other problems that flow out of the size?

Mr. Van Schaick. I don't think of any just now, Commissioner Henderson. I do have a comment on that general subject that I would be willing to make, which I have sketched out here, which is very brief.

I was asked that question, and I said that the greatest drawback to large size as I have seen it rests in the difficulty of governmental supervision. I do not mean that large companies take a less amount of supervision than small ones, which is not the case, but rather the staggering size of the task of an examination and the length of time it takes to complete such examination after it is started.

An example in another field might be pointed out in reference to the large title and mortgage companies. When trouble came and present current information as to financial condition was needed from day to day, the staleness of periodic statutory examinations was a great drawback. It is true that some of that was due to an inadequacy of staff in regard to numbers, but the larger the companies in that field the more difficult it was to have current information as to their condition.

I never found any lack of cooperation in supervision because of size, nor any tendency to overawe State departmental employees. Such employees are not of the character to be overawed, anyway.

By and large the large companies were unusually ready and willing to give any help that the Department asked.

As to limit to ultimate growth—this was a question which was discussed informally—and where that point should be, I cannot say, as I have given no real study to the problem. As to the difficulty of and length of time necessary for examinations, that calls for increased facilities in the respective insurance departments.

In the moratorium, I might say that in some respects, size was helpful.

Mr. Henderson. The fewer the people you had to deal with, the more quickly it was possible to deal with them?

Mr. Van Schaick. Made it more quickly, but in the East here with our larger companies, we didn't have as great a problem by reason of that bank holiday as in some other sections of the country.

That would be as far as I would went to comment on that, but it is true that size, then, was very helpful. There is a withstanding of adverse conditions, and I think also that the matter of size is helpful on this very problem that we have been discussing before we got diverted, on handling a real estate and trouble mortgage problem.

The Vice Chairman. The witness made a very interesting statement which I would appreciate his amplifying, that is, the size and bigness of these eastern companies increased their ability to withstand the shock of that condition. I believe that is the statement.

Mr. Van Schaick. I made that statment, and I perhaps, if I had stopped to think, would have hesitated, because it put me in the position as one connected with a large company of saying something that perhaps might be inappropriate.

The Vice Chairman. I don't think any member of the committee would have any suspicion that that would probably be true. As one member of the committee, I am interested in that, how it comes about that a big company which has possibly, if I understand it, proportionate liabilities to little companies, could withstand the shock of an emergency more easily than a relatively small company could withstand a comparatively small shock.

Mr. Van Schaick. I can't tell you, and I never have studied it, Congressman Sumners. All I can tell you is our observation at the time, and I don't want to be in the position of differentiating between the companies that were under my jurisdiction at the time. They all came through in good shape.

The Vice Chairman. If you would rather not go into it, I won't press it.

Mr. Van Schaick. I don't want to be in the position of dodging any question, but I would hate to get into a discussion of the relative merits of large companies and small companies. I know many small companies of wonderful standing.

The Vice Chairman. What I was trying to get at was how it comes about the element of size enables an insurance company to withstand better than a small company. I am not asking my question very well. But how does it come about with reference to a general condition, Nation-wide, that the big company withstands the shock better than the little company. If you would rather not go further into it, all right.

Mr. Van Schaick. I would say this, that I think there ordinarily is a cushion for the shock. It is hard to explain it, because relatively you would say that the cushion ought to be ample for the smaller shock that comes to the smaller company.

The Vice Chairman. That is what struck me.

Mr. Van Schaick. I think it works the other way. I think you have got to have enough of a cushion to save the bump, and then a relative size of the cushion comes in afterwards.

The Vice Chairman. If a small fellow fell on a little cushion, he wouldn't necessarily mash it down any further than a big fellow on a big cushion, would he? I won't press it any further.

Mr. Van Schaick. I am sorry not to be very satisfactory in my answer to you, but I really don't want to go into that.

Mr. Gesell. Would it help if you defined what you mean by a big company and a little company?

The Vice Chairman. I know what that is, unless you want to help counsel.

Mr. Gesell. That's all that is necessary. I will ask you about it later.

Senator King. Isn't it a fact that during the depression when it hit us in 1932 and '33, the little banks in the country met the on-rush with less ability than the big companies? The little banks, as I recall, thousands of them failed; they didn't have the cushion, they didn't have the resources, they didn't have the securities which the larger companies had.

Mr. VAN SCHAICK. I think that is a fair statement.

Mr. GESELL. I have no further questions of this witness.

The CHAIRMAN. That seems to me to be a very important question. It may indeed be the most important of all the questions that are coming before this committee. There always has been a great deal of discussion with respect to the relative social value of size as such. Are we to gather from your statement that you have the impression that size is of itself socially advantageous, and when I say socially advantageous I mean from the point of view of all who are concerned, because obviously it is better for policyholders and for those who are involved in financial dealings of any kind with an insurance company to have a company which can withstand shock than a company which is less likely to withstand shock. Now, do you wish us to get the impression from what you said that it is your opinion that size in itself is an advantage?

Mr. VAN SCHAICK. About the only comment that I would want to make, Senator, is that size has many advantages, but beyond that, I would prefer not to go into the discussion of the relative advantages one way or the other. I am familiar with the general discussion on the matter of size, and it is a pretty long and pretty large subject. About all I can say is, size has, to my observations, many advantages, and I referred to it incidentally in the moratorium matter because it was quite apparent then.

The CHAIRMAN. You know we are constantly, those of us who are in the legislative branch, running into various phases and aspects of this question. For example, there is now pending in the conference committee of the House and the Senate what is known as the transportation bill. As it passed one of the Houses, the Senate, it would authorize the Interstate Commerce Commission to take traffic away from large railroads in order to give that traffic to small railroads. In other words, this bill now in Congress grants to a commission of the Federal Government the power to take business away from big through routes and give that business to small and weak short routes. Now, there is obviously an exercise of government power of tremendous significance. The demand that this authority shall be given to the Interstate Commerce Commission to take away the business of the big companies and give it to the little companies comes to Congress from the executives of the little companies. I haven't a doubt in the world that most of those executives who are making that demand upon Congress believe that they don't want Government interference with business, and yet they are asking for just exactly that when they ask for legislation of this kind.

Therefore, I say to you, it is a matter of far-reaching importance, but I gather from the qualifications that you have now made to your testimony you do not desire this committee to say or to draw the conclusion that out of your experience as a life-insurance executive, and as superintendent of insurance for the State of New York, that it is your opinion that size is definitely more beneficial to all the factors involved. You merely say that it has factors of advantage.

Mr. VAN SCHAICK. Yes; and I think involved in the question gets to be what you mean by size and where are you leading and all that. I think there are so many factors in the matter that I would prefer to leave what I said as I said it. Perhaps as I read it I will wish that I had availed myself of your opportunity.

Senator KING. I am compelled to go to another committee and before leaving I want to express appreciation of the testimony given by Mr. Van Schaick.

Mr. GESELL. Do you feel there are disadvantages to size?

Mr. VAN SCHAICK. Yes; there are disadvantages to everything in this world, as far as I can see.

The CHAIRMAN. No other witnesses this afternoon?

Mr. GESELL. No other witnesses this afternoon.

Congressman HARRINGTON. Mr. Van Schaick, wouldn't you say the possible advantage was the management factor in determining the ability of a company, either large or small, to withstand what we have gone through rather than size?

Mr. VAN SCHAICK. Well, I can answer your question, Congressman, by going back again to the old days, if I may, and perhaps it would be more appropriate for me to do so by saying what I said on more than one occasion that the greatest asset that any company could have was good management and it didn't appear in the balance sheet, but nevertheless was the most important thing involved in the whole set-up of a great financial institution.

That is just a general comment which I have made time and again, and I stand by it.

The VICE CHAIRMAN. Let me ask this question: The big companies—I assume that one of the things which you would enumerate, if you did enumerate at all, would be that a big company probably is in a better position to employ the better managerial ability, better trained managerial ability than small companies?

Mr. VAN SCHAICK. Well, it is difficult to answer that "yes" or "no," Congressman, because I know so many wonderful people in small companies doing a perfectly wonderful piece of work. On the other hand, in my own two departments I have a feeling that I can reach out and get the very best people available and it gives me a great deal of satisfaction, but that does not reflect in any way upon the tremendously fine caliber of employees of companies much smaller than the one I happen to represent.

The VICE CHAIRMAN. Would you be able to enumerate these many advantages which are associated with big companies?

Mr. VAN SCHAICK. I don't know as I would want to attempt that.

The VICE CHAIRMAN. I was wondering, without pressing it too much, if you would be able to help us on that. This is serious. Senator O'Mahoney, as everybody else here, knows we are constantly confronted with that very same proposition.

Mr. VAN SCHAICK. Now, Congressman, just let me make this statement and I hate to be so unsatisfactory as a witness. I was asked the question if I could make any comment on size. Here I am, a vice president in charge of the real-estate and mortgage loans of one of the large companies. It would be totally inappropriate for me to go into the relative matters of this argument for size or that argument against size, but in order not to turn down the request entirely, I said I would make a comment upon what did seem to be appropriate and I pointed out in the memorandum which I read, the meager comment that I felt would be appropriate and that I could make, but some time when you and I are at dinner, we will discuss this question of size but I don't think——

The VICE CHAIRMAN (interposing). What I was trying to do was to give you a chance to brag on your company with the hope that I might get an answer.

Mr. VAN SCHAICK. I have the invitation but I don't want to do it.

The CHAIRMAN. We are very much indebted to you, Mr. Van Schaick.

Mr. VAN SCHAICK. Thank you, and I appreciate very much the courtesy and it has been a grand time.

The CHAIRMAN. Before recessing, the Chair wishes to call attention to the fact that late in January, on January 22, to be exact, as a result of inquiries which were coming to the committee, to the executive secretary and to the Chairman, from members of Congress, with respect to this insurance study, the Chairman wrote a letter to Congressman Ed. Taylor in which this paragraph appeared [reading]:

> Several months ago this committee issued a public invitation to industry to make presentation to the committee of its own views in its own way. This invitation was accepted by the oil industry and by the steel industry. I think an examination of the record in the former case will support the statement that a more complete and authoritative study of the oil industry has never been made. I trust that the same may be true of the steel industry the hearings upon which are still in progress.
>
> This invitation has been open to the insurance industry. It is still open and at the next executive meeting of the committee it will be my purpose to propose that a special invitation be extended to the insurance industry to present to this committee its own story in its own way. In order that you may know the manner in which such hearings are conducted, I am attaching a copy of the procedure which the committee has laid down. * * *

On February 6, the committee held an executive meeting, at which I carried out the suggestion which was contained in my letter to Congressman Taylor. And on the next day, as chairman of the committee, I issued a statement detailing what had happened at the meeting. From this statement I read the following paragraph [reading]:

> Another matter which the Committee considered was the criticism which has been made to members of Congress and others about the insurance hearings. This criticism has been unfair and untrue.

That, of course, was an expression of opinion on the part of the chairman.

I may make the qualifying statement here that I felt, and still feel, that most of this criticism has been based upon the complete misapprehension of the purpose of the committee and of the method which it has employed. But be that as it may, continuing the quotation [reading further]:

> "As I have said, all insurance witnesses have had a full opportunity to make any statement they desired and to be accompanied by counsel while testifying. But, so there will be no possible complaint, the Committee has authorized me to direct the attention of the insurance industry to the fact that they may make an application to be heard in rebuttal of the testimony so far introduced before the Committee. I now wish to assure the companies that their application will be accepted within the limitations of our procedure, as followed in the milk hearings, the oil hearings and the latter part of the steel hearings, where the United States Steel Corporation presented its own research."

On April 10, 1939, when the committee adopted this procedure with respect to industry, I issued a statement from which I desire to make several quotations [reading]:

"To indicate the manner in which this program has been developed, it may be stated that Mr. Axtell T. Byles, President of the American Petroleum Institute, the largest trade association in the oil industry, has consented to seek the cooperation of various leaders in the industry. These persons will be given the opportunity to present prepared statements to the Committee and then will be subpoenaed to appear in person at the projected hearings. The Committee will call other witnesses in order to make certain that an adequate presentation is made of all available information with respect to the manner in which the oil industry is conducted. * * *

"The Committee's offer is made without limitation as to the content of the testimony or reports, except that the material presented includes data requested by the Committee and that opinions, including any criticism that may be made of existing governmental or intra-industry policies, be supported by actual evidence. * * *

'It is the hope of the Committee that the presentation of the oil hearings—"

I will omit that.

Written statements will be filed with the Committee at a specified date in advance of hearings, so that the members of the Committee and its staff may thoroughly review the material which is to be presented. The witnesses will then be informed well before the hearings as to the general nature of the questions to be asked by or on behalf of the Committee.

The order of appearance of witnesses will, of course, be directed by the Committee, and every effort will be made to arrange the hearings in such a manner as to afford the most effective and fair presentation of conflicting views.

It should be understood that the Committee has not as yet planned similar presentations by any other industry or business. It will, however—

and I read this in order to make clear that this invitation has been open—

entertain applications for similar hearings. It was felt that the opportunity should be offered, leaving entirely to business and industry the decision whether this procedure would be helpful.

I call the attention of the committee and those who are assembled here to the fact that this invitation is still outstanding and that the insurance industry may take advantage of it if it so desires. Naturally, there is a limit upon our time. The committee has hoped that its public hearings would be concluded by the termination of this session of Congress and that its report would thereafter be prepared. The time between the adjournment of this Congress and the end of this year will scarcely be more than adequate to review all of the material which has been brought in, so I make this additional suggestion, that if the insurance industry desires to take advantage of this opportunity, the application should be presented to the committee, let us say, within the next 10 days or 2 weeks.

Mr. Gesell, do you have any comment?

Mr. GESELL. Not at all.

The CHAIRMAN. The committee will stand in recess until tomorrow morning at 10:30.

(Whereupon, at 4:05 p. m., a recess was taken until Wednesday, February 21, 1940, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, FEBRUARY 21, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to adjournment on Tuesday, February 20, 1940, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman), and King; Messrs. Henderson, Pike Lubin, Kades, and Brackett.

Present also: Jesse Jones, Administrator, Federal Loan Agency; James V. Hayes, Department of Justice; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; and Helmer Johnson, attorney, Securities and Exchange Commission.

The Chairman. The committee will please come to order. The first witness?

Mr. Gesell. The witness today is Mr. F. W. Ecker.

The Chairman. Will you be sworn, please?

Mr. Ecker. I have been sworn.

Mr. Gesell. That was in connection with housing?

Mr. Ecker. That is right.

TESTIMONY OF F. W. ECKER, VICE PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.

Mr. Gesell. For the purposes of the record, will you state your name and your position with the Metropolitan, Mr. Ecker, please?

Mr. Ecker. My name is F. W. Ecker. I am vice president of Metropolitan Life Insurance Co., and have general supervision of the investments of the company, under the direction of our chairman and president.

Mr. Gesell. How long have you been the vice president in charge of investments?

Mr. Ecker. Since 1936.

Mr. Gesell. Prior to that time, what was your position in the company?

Mr. Ecker. Prior to that time I was treasurer, and prior to that time assistant treasurer.

Mr. Gesell. Now, you have in your charge, I understand, both the city mortgages and real estate and the bond portfolio of the company.

Mr. Ecker. Under my general supervision; yes.

124491—41—pt. 28——29

Mr. GESELL. Well, now, I wanted first to consider with you for a short time the city mortgages and city real estate of the company. Perhaps you might turn to the table and get some idea of the account. Table 104 indicates that the urban mortgages and real estate of the company represent approximately 23.9 percent of the total admitted assets as of December 31, 1938.[1]

Mr. ECKER. That is farm and urban.

Mr. GESELL. That is urban entirely, page 104.

Mr. ECKER. Table 104 in the book that I have is mortgages, foreclosed liens, and real estate both farm and urban.

Mr. GESELL. The total for both farm and urban is 28 percent.

Mr. ECKER. That is right.

Mr. GESELL. The statement represents both farm and urban. The urban represents a little over 23 percent.

Mr. ECKER. I would say that was correct. I haven't made a calculation.

Mr. GESELL. The point I was attempting to make from this table was that the city mortgage and real estate represents much more of the company's portfolio than does the farm investment concerning which we were having some testimony last week.

Mr. ECKER. Yes. Our farm investment is only about 3 percent of the assets.

Mr. GESELL. Is your city mortgage account expanding at the present time?

Mr. ECKER. Right at the present time I would say it is about static. Of course, there was quite a period of time where it was declining. It is about even now.

Mr. GESELL. Table 194[2] would indicate that you had urban mortgages of $1,169,000,000 in 1929, and that at the end of '38, you have $902,000,000. During the period from '36 to '38, your account appears to have remained pretty well static.

Mr. ECKER. Yes.

Mr. GESELL. Why is that, Mr. Ecker? I assume that you still want to loan on urban properties?

Mr. ECKER. Oh, yes; there is a table here[1] that indicates the amount that we have loaned. Of course, that is due to the economic conditions with which we are all familiar. There have been, of course, numerous foreclosures.

This table does not include our contract sales which in a way are a type of mortgage. If you add our real estate and our mortgages and contract sales, you will find that the decline in the total picture is not very great.

Mr. GESELL. How much money are you investing in city mortgages—new money—in recent years, approximately how much a year?

Mr. ECKER. The figures are right here. Table 196, I think, covers it.[3] You see we put out in '38 about $55,000,000, $60,000,000, sixty-odd million dollars in '37, $31,000,000 in '36.

Mr. GESELL. How much would you like to get out?

Mr. ECKER. Oh, we would like to improve that amount. We would like to put more out.

---

[1] See Hearings, Part 10–A, p. 104.
[2] See Hearings, Part 10–A, p. 194.
[3] Ibid., p. 196.

Mr. GESELL. In terms of the total portfolio, what percentage do you feel should rest in city mortgages and real estate?

Mr. ECKER. Under normal conditions, we have put approximately 50 percent of our available funds in mortgages and approximately 50 percent in bonds and stocks. At the present time the New York law, I believe, limits us to a total holding of 40 percent, as I recall it.

Senator KING. Of real estate?

Mr. ECKER. No; mortgages.

Mr. GESELL. And the mortgages and real estate now, as we saw, are about 28 percent.

Mr. ECKER. That is right.

(Senator King assumed the chair.)

Mr. HENDERSON. Mr. Ecker, does that 40 percent include also what you took; reduced to possession?

Mr. ECKER. No; that is the mortgages.

Mr. GESELL. In other words, if conditions permitted, you would have a substantial fund which you wished to place in city property?

Mr. ECKER. Oh, yes; if there were a demand, but there has not been a demand in recent years. As you know, and as Mr. Henderson knows, industry has not been expanding and demanding new capital for expansion purposes, and it has been much the same in the mortgage field.

Mr. GESELL. I notice, for example, that you are one of the companies which has not any investment in F. H. A. mortgages.

Mr. ECKER. That is correct.

Mr. GESELL. That is a question I have raised with other witnesses. I would like to have your reason why you haven't gone into that field.

Mr. ECKER. We have, of course, considered this subject from time to time. Our general policy is this, that we will consider those mortgages, and we have considered them from time to time. Generally speaking, on the low-cost-housing type of mortgage we have preferred to make our contribution in that field by making a direct investment, owning the entire property and doing that rather than to make a 90-percent loan with somebody else doing the constructing, and so forth. We felt it was a safer and sounder type of investment for our company to make.

Mr. GESELL. And you have, for that reason, turned to housing developments?

Mr. ECKER. Yes; and of course we have been in that field for a good many years. We were one of the earliest companies to make loans to the state housing commissions for low-cost housing, and as you also recall, I testified too, when I was down here before, we built in 1922 the largest low-cost-housing development that had been built up to that time.[1]

We did that as a demonstration that private capital could go into that field.

Mr. HENDERSON. Mr. Ecker, when you go into those low-cost housing projects, I mean some of your more recent ones, there is not only new money, that is, it is not a refunding operation at all——

Mr. ECKER (interposing). That is right.

[1] See Hearings, Part 11, p. 5129 et seq.

Mr. HENDERSON. But you get a tremendous amount of secondary and tertiary spending out of that; don't you?

Mr. ECKER. Yes; undoubtedly.

Mr. HENDERSON. That is, if you are going to get into economic terms, there is a multiplier to it?

Mr. ECKER. Undoubtedly. We felt we were doing a very sound thing all around. In the first place making a sound investment for our company; in the second place we were helping the unemployment situation which was bad; and in the third place we were offering people of modest means the most attractive homes to live in that I believe have ever been offered.

Mr. HENDERSON. And one of the additional spendings required is all the utilities and roads—I mean in some of the projects—streets, paving, extension of gas lines, extension of electric-light lines; that is, there is a lot of spending that isn't apparent, particularly in your more recent developments?

Mr. ECKER. Well, in all developments of building, it is one of our primary industries and it is one of our most important industries, and the development goes right back through the manufacturer, in the first place the retailer and the manufacturer, and back to the mine, so to speak.

Mr. HENDERSON. Have you ever made any calculations as to what the multiplier is on the money put up?

Mr. ECKER. I have not. The W. P. A. made some calculations on that, but I haven't. One of the governmental departments did that.

Mr. HENDERSON. I think the W. P. A. did.

Mr. ECKER. Didn't they say 5 to 1?

Mr. HENDERSON. It runs pretty high. It is higher than the multiplier generally assumed on Government spending because of the peculiar nature of the project. When you get a big project, you have in reality to build a new city in some of the cases.

Mr. ECKER. Yes, sir.

Acting Chairman KING. Like a stone thrown into a silent mill pond; the ripples extend clear to the periphery.

Mr. ECKER. You can't tell how far they go.

Mr. HENDERSON. I think particularly in this case, Senator, a lot of the investments are really reinvestments; isn't that true?

Mr. ECKER. As far as bonds and stocks are concerned, almost entirely.

Mr. HENDERSON. There is no ripple produced except whatever there is in the exchange process that goes on about 10 o'clock some morning and after that the visible evidence of it is practically gone.

Mr. GESELL. I think the committee might be interested in table 258, which shows for the 26 companies investments in housing projects.[1] That table indicates that the Metropolitan and the Prudential are the only two companies which have gone into that field, and the Metropolitan is in to a greater extent than the Prudential, taking into account what the value of the housing project will be when their construction is completed. That is an investment of $10,000,000, is it not?

Mr. ECKER. Of course this was up to the end of 1938. You can see that we put into our Long Island City housing, as it is called, my recollection is about 7½ million, which is gradually being amor-

---

[1] See Hearings, Part 10-A, p. 258.

tized. In 1938, we just at that time were getting started in this other situation, our investment there, of course, will be considerably higher than this before we get through. My recollection is it is around 25 million in that situation alone today.

Acting Chairman KING. For my information, do you buy a tract of land and then build the houses and then sell to persons who desire them?

Mr. ECKER. We buy the tract of land, yes; and then in this instance we have constructed apartments which will be rented to some 42,000 people, probably.

Acting Chairman KING. How does the tenant finally obtain title, if he does?

Mr. ECKER. Oh, no; we expect to hold this. We have invested in this as a permanent investment. It was under a special act of the legislature which gave us the right in this type of undertaking.

Acting Chairman KING. Benefits then derived by the occupants are low rents and permanency if he desires to remain there.

Mr. ECKER. Yes, sir; and, we believe, a good landlord.

Mr. HENDERSON. Did you say 42,000?

Mr. ECKER. Yes, sir.

Mr. HENDERSON. It suggests to me a little survey I made once in North Carolina of 30 or 40 cities, somewhere right in that range of population. So you get an idea of what is done in one of these developments.

Mr. GESELL. What are your plans for the future with respect to these housing developments, Mr. Ecker?

Mr. ECKER. Mr. Gesell, of course, that will depend on our experience, and I don't mean by experience that we have got to wait a long time. We want to get this to the point where we are sure, from a practical demonstration, that it is the success that we believe it will be; and, if that is so, I anticipate that we will expand further in that field.

Mr. GESELL. It is indicated by table 260 that you have had a very substantial return on the housing projects; over 6 percent in 1938.[1] So if that holds true I assume that you will expand?

Mr. ECKER. I presume so.

(Senator O'Mahoney resumed the Chair.)

Mr. GESELL. And in expanding will you go beyond the State of New York?

Mr. ECKER. I would anticipate so; yes.

Senator KING. Have you figured the obsolescence in computing your profits?

Mr. ECKER. In this figure of 6 percent, no, sir; this is a gross figure before taking into account amortization of the investment.

Mr. GESELL. I take it from your hesitancy concerning your future plans that you consider this still in the experimental stage.

Mr. ECKER. I wouldn't say so, and yet on things of this sort you can't be absolutely sure until you see just what does happen. There are, of course, in all new undertakings many a slip between cup and lip.

Mr. GESELL. I understand your position to be that you have decided on this big housing project development in preference to

[1] See Hearings, Part 10-A, p. 260.

F. H. A. mortgages, feeling that there is greater good accomplished in the housing development?

Mr. ECKER. That is one of the reasons.

Mr. GESELL. I take it implicit in that statement is your feeling that a company such as yours has the responsibility of putting out some of the mortgage money, so-called, into a field which will be of benefit, housing-wise, to the people who are policyholders?

Mr. ECKER. Oh, yes; both policyholders and the country which are, of course, to a sizeable extent the same. Our first consideration is safety of principal, and after that we do certainly take into consideration the social aspect involved. We went into the general field of housing in 1920. At that time you will recall there was quite a shortage of housing, and particularly for the people of moderate means. At that time we undertook a program of setting up throughout the country a group of mortgage-loan correspondents, built up some 77, and we now operate through those mortgage-loan correspondents in some 1,200 communities, making loans on homes and smaller apartments. From 1920 on we have put out in that field about a billion and a quarter millions.

The CHAIRMAN. What is the type of these correspondents?

Mr. ECKER. Well, they are real-estate firms, trust companies, individuals, in some instances; people who have had experience in urban loans.

The CHAIRMAN. In how many instances are they individuals, and in how many instances are they corporations?

Mr. ECKER. When I say "individuals," I am speaking of real- estate firms. I don't believe I can answer that question.

The CHAIRMAN. You have some trust companies, you say?

Mr. ECKER. Yes, sir.

The CHAIRMAN. Banks?

Mr. ECKER. Yes.

The CHAIRMAN. Would you say that they constitute a substantial proportion, or a small proportion, or a large proportion?

Mr. ECKER. I think as the development started at first they were a fairly substantial proportion; I am not sure that that is so today. Our idea at first was to go out through the country and find organizations that had had experience in making sound mortgage loans of a trust character.

The CHAIRMAN. You were seeking to find organizations?

Mr. ECKER. That is right; yes—people with experience.

The CHAIRMAN. But my thought was to determine whether you were working through individuals or through organizations?

Mr. ECKER. Both, Senator, is all I can answer.

The CHAIRMAN. I wonder if it would be inconvenient for you to have the facts examined at your office.

Mr. ECKER. No; I have them right here. We can give you the facts and will be very happy to.

Of course, there are individuals which operate under firm names. I would imagine that most of them are either firms or corporations, but in some instances there are just a few people in the corporation, is what I mean. Here is the entire list of the seventy-seven, I believe.

Mr. GESELL. You are interested in a break-down really of that list, are you not?

The CHAIRMAN. That is right.

Mr. ECKER. Would you like to see the list?

The CHAIRMAN. Thank you.

Mr. KADES. Are any of the correspondents on a salary basis, Mr. Ecker?

Mr. ECKER. No, sir.

Mr. KADES. Do you consider that a desirable way of making mortgage loans, to have correspondents on a salary basis?

Mr. ECKER. Well, our attitude on that is this: You understand—or perhaps I haven't made it clear—in addition to our correspondents we have field offices, some 11 field offices outside of the home office which are in key cities throughout the country, and those men are on salary basis, and their job is to check on the work of the correspondents, you see.

Mr. GESELL. The correspondent, I understand, is the fellow who makes the loan, and you rely pretty much for the servicing of the loan on your branch managers?

Mr. ECKER. No, sir; the correspondent makes the loan and does the servicing.

Mr. GESELL. What does your manager do?

Mr. ECKER. He does appraisal work, and where we have to foreclose, he goes over the situation with the correspondent and makes his recommendations along with the correspondent as to what rehabilitation work must be done. He follows up trouble cases. There are innumerable details that a branch manager has to take care of.

Mr. GESELL. How many loans—and I am now back in the general mortgage account—what percentage of your loans are for construction purposes and what percentage of them are on going buildings, have you any idea with respect to that?

Mr. ECKER. Yes; I have those figures. There are a good many figures involved here and I don't believe we have that break-down in mind, but undoubtedly I can get it for you.

Mr. GESELL. I was interested more in a rough estimate than I was in any precise figure.

Mr. ECKER. Of course, it is true also that our figures might not indicate the number that are construction loans, because ordinarily out throughout the country the loan, or at least the arrangement for the building loan, is made by the correspondent and we take up the loan on completion. So it is because the correspondent is assured of our money that he can go ahead and make the building loan.

Mr. GESELL. And he advances money for construction purposes?

Mr. ECKER. Yes; that is true; he or someone else in the community.

The CHAIRMAN. An examination of the list which Mr. Ecker has handed me shows that they are all corporations.

Mr. ECKER. They may be corporations, but I think you will find—I certainly don't want to mislead you on that, but it is my definite impression that among these firms that are corporations there are individuals; I mean they are real-estate firms.

The CHAIRMAN. I have no doubt of that, Mr. Ecker. I think that is quite apparent. In many cases a real estate agent incorporates himself. There is no question about that.

Mr. ECKER. Yes.

The CHAIRMAN. But the great preponderance of your correspondents, from that list, appear to be mortgage companies, banks and trust companies.

Mr. ECKER. That is correct; yes.

The CHAIRMAN. In other words, it is another phase of the institutional handling of this financial business.

Mr. ECKER. That is true, Senator. We went out to pick organizations that had had experience in this field, and that is where we found them.

The CHAIRMAN. The reason I asked the question is because the longer this study has progressed, the more convinced I have become, personally—and I am speaking now only for myself—that the central question in our modern economic problem is merely the adjustment of an individual to the organizations which carry on our economic life, and that is a question which it strikes me can be solved, I rather think, comparatively easily, but we have failed to recognize the powerful fact in our economic life that the corporation as a corporation, an organization, in other words, occupies the dominant position, and we are constantly trying to fit people into these organizations.

Pardon the interruption.

Mr. HAYES. Mr. Ecker, do you know how many States there are which have adopted legislation similar to that in New York which would permit you to enter into housing projects comparable to those you have entered into in New York?

Mr. ECKER. No; I would have to ask counsel on that. I am not familiar with that.

Mr. HAYES. It is my impression that very few States have done so.

Mr. ECKER. I think so, up to date, but this may very well be a development.

Mr. KADES. Mr. Ecker, I understood Mr. Rogers to say the other day that Metropolitan had shifted from the correspondent system of making loans secured by farm mortgages to branch offices.[1] That shift evidently hasn't taken place in connection with your urban mortgages. Would you be able to elaborate on the reason for shifting in one instance and not the other?

Mr. ECKER. I think I can. The operations of the two departments are somewhat different in this way. I think Mr. Rogers testified to the fact that the real reason why they shifted there was because of the importance of real estate holdings, and the necessity of farm management, and since they have to build such a sizeable organization to do that, that making mortgage loans as well could be handled through those same offices.

You will recall, however, that he did testify to the fact that the mortgages were brought to them by the local organizations in a way similar to our correspondents.

In like manner, in our urban mortgage field we have built up our field offices which do more or less the rehabilitation work, and so forth, which is done by our branch office system in the farm mortgage field. Does that answer your question?

Mr. KADES. Yes.

---

[1] See testimony of Mr. Glen R. Rogers.

Mr. GESELL. Now, continuing, let's run through these tables for a moment, Mr. Ecker. Table 201 indicates that you have a rather heavy concentration of urban mortgages in the city of New York, some 48 percent of your mortgages being in that city, or $427,000,000.[1] I wondered if you had some comment you wished to make with respect to that?

Mr. ECKER. It is in line with our general policy of investing our funds where our funds come from.

Mr. GESELL. And your investment there would be the result of the fact, then, that that difference, that 48 percent of your policyholders come from that area.

Mr. ECKER. No; this is only a portion of our investments.

Mr. GESELL. I realize that.

Mr. ECKER. The best way of indicating what the policyholders' interest is in a certain State, for example, is to look at the reserve on business in force in that State. In New York State, our reserve on business in force is over $1,000,000,000.

Mr. GESELL. That doesn't answer my question at all.

Mr. ECKER. I am sorry.

Mr. GESELL. I was trying to find out why you had so much urban mortgage money in the city of New York. I quite understand the necessity of keeping your reserves and your premium in balance, but you have more money in New York real estate, as far as your urban mortgage account is concerned, than you do in any of these other big centers.

The CHAIRMAN. What page are you looking at?

Mr. GESELL. Page 201.[2]

You understand I am not criticizing. I am asking why.

Mr. ECKER. There are several reasons for that. In the first place, I think you will find with almost all corporations, that they ordinarily have a very sizable percentage of their loans in the immediate area. It may run from 40 to 50 percent, some place in there. Now, the reason is obvious, that if it is a good area to lend in and there is a demand for money there, because it is the most readily supervised; your best people, that is your people at the top of the organization are more familiar with values close by than elsewhere. Also, I would like to point out——

Mr. GESELL (interposing). Now, may I elaborate on that point? You keep the other in mind. I don't want to cut you short on it.

Now, in effect, that means, does it not, that more city money, mortgage money, has gone into New York areas because of the fact that the larger companies all have their home offices in that area?

Mr. ECKER. No—well, I can't speak for the other companies, but as far as we are concerned, we are very much interested in out of New York City territories, and if you will notice on one of these other tables you will see that we have loans in—I think it is 44 of the 48 States.[3]

Mr. GESELL. Very well diversified. However, 74 percent of your loans is in these particular metropolitan areas shown on table 201, and 47.7 percent, or almost half, is in the city of New York.[4] So

[1] See Hearings, Part 10–A, p. 201.
[2] Hearings, Part 10–A.
[3] Ibid., pp. 202–206.
[4] Ibid., p. 201.

without regard to whether you have put money in other States, we do have a concentration in New York, do we not? I am just trying to find out why, that is all.

Mr. ECKER. I wouldn't say that that is New York City. I just don't know without looking into the details further. You will recall that the question in the questionnaire to which this is an answer, was worded "the metropolitan areas."

Mr. GESELL. New York metropolitan areas.

Mr. ECKER. Yes. And the same was true of these other cities. I don't know what has been done in the other situations, but in our answer to that question, we took the metropolitan area of 50 miles around New York City. That includes all the loans within that area.

Senator KING. That includes, of course, Brooklyn, I suppose.

Mr. ECKER. Oh, yes; and Newark. It includes loans in New Jersey, you see, within 50 miles, and Westchester, and Long Island, and all that area.

Mr. GESELL. Is it partly the result, the fact that that is where your company is, and there is a certain degree of facility in handling these loans close to the home office?

Mr. ECKER. Possibly in part, but also these other factors that I have spoken of.

The CHAIRMAN. You were about to add one of those factors when Mr. Gesell pursued this particular line, and you made note of it at the time, you remember.

Mr. ECKER. One of the factors at that time I had in mind was to clear up just what we meant by the New York metropolitan area.

Mr. GESELL. What other factors are there? I haven't caught them.

Mr. ECKER. I did state, of course, as to the fact that a billion dollars of our reserve, in excess of that, is in that area.

Mr. HENDERSON. We certainly ought not overlook the fact that there are a lot of people who wanted to build buildings in New York, and I suppose that is a factor.

Mr. ECKER. These investments all the way through follow the demand. The demand has been in New York City; it has been elsewhere in our instance, too.

Senator KING. The population of the metropolitan district of New York would approximate 8 or 9 million, would it not?

Mr. ECKER. Yes.

Senator KING. That would be a great deal more than in a large number of States combined?

Mr. ECKER. Yes.

The CHAIRMAN. There has been a significant change in the character of urban development and suburban development in the last 10 years, has there not, with the coming into general use of the automobile?

Mr. ECKER. Yes.

The CHAIRMAN. People have tended to move out of the central districts into the surrounding country. Is that not so?

Mr. ECKER. Yes.

The CHAIRMAN. Has that not had an effect upon this problem of investment in metropolitan property?

Mr. ECKER. Of course, in this instance all of that is included in the New York area here.

The CHAIRMAN. Of course, it is necessarily in here since the questionnaire was dealing with metropolitan areas which recognize no city boundaries.

Mr. ECKER. That is right.

The CHAIRMAN. Has your experience led you to any judgment with respect to the effect of this gradual spreading out upon real estate values?

Mr. ECKER. It is a trend in certain situations, particularly, which we are watching very closely; yes, Senator, it is important.

The CHAIRMAN. Does this very large percentage of investment in metropolitan real estate which this table shows reflect a judgment upon the part of the Metropolitan Life that the metropolitan areas are likely to continue to grow and that investments in this type of property are, let us say, the better kind of investment?

Mr. ECKER. Now, Senator, in making all loans, at the time the loan is made, one of the very important points that we give consideration to, is the trend in that particular location at that time.

Senaor KING. May I ask a question? Has your company taken into account the fact—I assume that it is a fact—that there is a tendency now toward decentralization of industry? Too many of our industries have been packed, if I may use that expression, into a small area and they have had excessive taxes, and some municipalities, and I should not indicate them, but I have them in mind, together with other problems, social in character, have induced, have they not, sort of a reexamination of the propriety of the question, the expediency and the social advantages of decentralization, moving out into the country and moving from New York City to Philadelphia, Chicago, some of these big cities, some of the industries out into the country?

Mr. ECKER. Yes; very decidedly; that is one of the factors that has been given considerable consideration. This business of investment is not a static thing; it is changing constantly in every field of investment. We have to change along with the times.

The CHAIRMAN. But there must be some specific reason, some I might almost say overpowering reason which has impelled Metropolitan to concentrate so largely in the city of New York. Now, is it your faith in that city, or what is it?

Mr. ECKER. I think you would find that as far as concentration goes——

The CHAIRMAN (interposing). When I say the city of New York, I mean the metropolitan area.

Mr. ECKER. Yes. We had a greater concentration formerly than we have now.

Mr. GESELL. Now, is one of the reasons that has prompted the concentration in New York and the other metropolitan areas in any way the average size of the loans which you have made? I have in mind the figures shown on table 207, which indicate that over 53 percent of your loans are over a half million dollars.[1]

Mr. ECKER. It is true that there are big buildings in New York, and,

[1] See Hearings. Part 10–A, p. 207.

consequently, big loans on them in comparison with a number of other sections of the country.

Mr. GESELL. I was getting at it a little the other way. It is the policy of your company to make big loans, then I take it those loans must of necessity go more to the city of New York. I wondered whether that was the way it worked?

Mr. ECKER. No; we are anxious to make good loans wherever they are.

Mr. GESELL. You have an amazing number of loans over a half million dollars in size.

Mr. ECKER. I question that as far as "amazing number." We have an amazing number of loans of small amount. We have, my recollection is, 58,000 loans under $25,000; about 50,000 under $10,000. There is where the amazing number comes.

Mr. GESELL. I wouldn't agree with you, Mr. Ecker, on that. Over half your loans are over half a million dollars in size.

Mr. ECKER. In amount.

Mr. GESELL. And that means that over half your money that you are lending on city mortgages is going into mortgages of over this half-million-dollar amount, does it not?

Mr. ECKER. It is correct according to the table here that approximately 50 percent in amount of our mortgage-loan portfolio is in loans of five hundred thousand or more.[1]

Mr. PIKE. That total number of loans wouldn't add up to over 500 loans, as near as I can make it.

Mr. ECKER. You are probably right. I have some figures on that.

The CHAIRMAN. Do you have any idea of the number of loans that would appear in each of these categories, Mr. Howe?

Mr. ECKER. I have, so far as our company is concerned.

The CHAIRMAN. I think that would be very informative.

Mr. ECKER. As to the loans of $500,000 and more, we have approximately 300 to 350 loans. The bulk is 56,000 loans of under $10,000 each; 1,800 between $10,000 and $25,000, giving a total of 58,622 of under $25,000.

The CHAIRMAN. 56,000 under $10,000.

Mr. ECKER. If you want the exact figures here, 56,822 loans under $10,000 and 1,800 in the $10,000 to $25,000 class, makes a total of 58,622.

The CHAIRMAN. As I understand you now, we have 56,822 under $10,000, and 1,800 between $10,000 and $25,000.

Mr. ECKER. That is right.

The CHAIRMAN. Making a total of 58,622 under $25,000.

Mr. ECKER. That is correct.

The CHAIRMAN. What is the total number of loans?

Mr. ECKER. 61,027.

The CHAIRMAN. So the difference represents all of the loans above $25,000.

Mr. ECKER. That is correct.

Mr. FREDERICK H. ECKER. Might I contribute an observation that would be in line with your inquiry, and explain this situation?

The CHAIRMAN. We would be very glad to have you.

---

[1] Ibid.

Mr. FREDERICK H. ECKER. Over a period of years there has always been a supply of local money to take care of the small loans throughout the country, and as we sought diversification and distribution, the opportunity was more in the larger loans in locations outside of New York than for small loans; and our opportunity was to make the larger loan because local funds did not take care of the large loans, they took care of the small loans, and, as a matter of fact, in experience we had a better rate of interest, we had a larger margin of safety on those loans than on the smaller loans. The competition in locations away from New York would result in small loans being readily obtainable only at a higher percentage of property values than we felt was safe. In the larger loans we hadn't that competition and that builds up to some extent this record of a large number of loans in other cities that are in excess of $10,000.

The CHAIRMAN. Let me ask our adding machine, Mr. Howe, to make a little computation for us. On the basis of the figures which Mr. Ecker has just given us, it would appear that 58,622 loans have been made in an amount represented by the addition of the first four columns on page 207, and 2,405 loans have been made in an amount represented by the addition of the last eight columns exclusive of the total on that page.[1] Do I make myself clear, Mr. Howe?

Mr. HOWE. Yes.

The CHAIRMAN. I would just like to have the total of the first four columns, that is to say, the total amount of all loans in the $25,000-and-less class, and then the total of all loans in the class of $25,000 and up as shown on this table.[2]

Mr. GESELL. While that is being done, might I ask Mr. Ecker, senior, a question along the lines following here. Table 207 suggests to me, Mr. Ecker, that your tendency to go into the larger loans must not have been entirely the result of the demand, and prompted somewhat by policy, in view of the fact that a company somewhat comparable to yours, the Prudential, has so much larger amounts of its money placed in the loans below $25,000, as you can see from that table.[3] I assume to some extent it is a matter of management policy and not entirely the result of demand.

Mr. FREDERICK H. ECKER. It was a matter of demand and opportunity with us as to what our experience was.

Mr. GESELL. You then did not have any opportunity to go into these lower loans?

Mr. FREDERICK H. ECKER. We had more opportunity to go into the larger loans, because the demand was such that we were able to place our money in the larger loans more advantageously at that time than in the small loans; but we have always loaned small amounts to a large extent, as the number would indicate.

Mr. GESELL. Not to as large an extent as the Prudential, so I am wondering whether you did not have the opportunity to loan, or you did not loan because it was a matter of policy?

Mr. FREDERICK H. ECKER. It was a matter of supply and demand; it wasn't policy.

---

[1] Hearings, Part 10–A, p. 207.
[2] Mr. Howe subsequently submitted the figures. See, infra, p. 15184.
[3] See Hearings, Part 10–A, p. 207.

Mr. GESELL. I wonder why the supply goes to one company and not to another.

Mr. FREDERICK H. ECKER. I can only give you our experience. We had a better rate of interest, more satisfactory security, percentagewise, in the larger loans.

Mr. GESELL. So you felt it was a matter of management policy?

Mr. FREDERICK H. ECKER. Both. The smaller loans were not available. We found they were not available to the extent the larger loans were, and I am speaking of conditions that obtained prior to 1929.

Senator KING. Some insurance companies and some lending companies are diverted perhaps in the beginning of their career into certain fields of activity and other corporations go into other fields, so that one would have sort of a monopoly in one field and another a monopoly in the field of very large loans.

Mr. FREDERICK H. ECKER. Senator, you are exactly right; they build up facilities in different fields. At one time one insurance company had practically all its loans in municipal and State obligations. They had an organization that was qualified to take care of those investments. These companies are so large that they have a big organization to take care of practically every field, specialists in the railroad and the municipals and governments, in public utilities, and so on, covering the whole field.

The CHAIRMAN. The Chair will make note of the fact with pleasure that Mr. Jones has joined our company. We will be very glad to have him participate in the questioning if it so pleases him.

Mr. HENDERSON. Mr. Ecker, getting at this question Mr. Gesell asked, Did you have a type of set-up which would bring the demand for small loans into your organization or the demand for larger loans into your organization different from some of the others—Prudential, for example?

Mr. FREDERICK H. ECKER. The question is one of expanding those facilities, and it may well be that another company may have expanded facilities along one line more than we have.

Mr. HENDERSON. What I am getting at, you wouldn't want this committee to believe that Prudential is any smarter than you are, if you ever set out to get small loans?

Mr. FREDERICK H. ECKER. It is quite possible they are; but, of course, we use our best judgment.

Mr. HENDERSON. You could have used your judgment and built an organization which would have gone after the small loans?

Mr. FREDERICK H. ECKER. It has been testified to, that we have. Mr. Henderson.

Mr. HENDERSON. But you could have gotten a larger percentage of those if you had wanted to?

Mr. FREDERICK H. ECKER. I doubt it. If we could have given all our attention to those, it is quite possible. We sought to take the best of the supply that was offered to us.

Mr. GESELL. Was one factor prompting your decision the fact that you had so much money to get out that you could get it out better if you put it out in larger chunks?

Mr. FREDERICK H. ECKER. Prior to 1929 I should say "No." There was demand for more money than there was a supply of money.

The CHAIRMAN. I understood you to say that prior to 1929 there was available, in your opinion, sufficient money to supply the total demand for small loans.

Mr. FREDERICK H. ECKER. There was so much that there was keen competition locally for those investments and there was practically in nearly all locations an ample supply of local funds for those requirements.

The CHAIRMAN. Of course, there were constant representations to those of us who were in Congress and in other public offices that the interest rates on small loans were far in excess of what they might otherwise be. You remember all the discussion about commissions which were charged for loans and the high rate of second mortgages; the condition which existed in the city of Washington, for example, prior to 1929, almost amounted to a scandal so far as the rate of commission on top of the interest that was charged for comparatively small loans. Has that come to your attention, or am I incorrectly advised?

Mr. FREDERICK H. ECKER. I think you are not incorrectly advised. At the time I speak of, we were getting better rates on the large ones than the net rates that came to us on small loans through correspondents. As we developed our organization over the country, to which reference has been made, it was one of the things to which we gave particular attention, that our correspondents could not charge an unreasonable commission. Maybe that is the reason we got less of these loans; I don't know.

The CHAIRMAN. What was the difference in the interest charge upon small loans and large loans, if any?

Mr. FREDERICK H. ECKER. Net to us we had in those days better rates on the larger loans. We had another condition, Senator, which perhaps militated against our small loans. Twenty-five years or more ago we started requiring amortization payments, installment payments on small loans. I think perhaps I was a pioneer in doing that. It has shown to be a very advantageous thing. We have had thousands of small home owners that have kept their property through this depression because throughout the years they have been making installments. Now, we required that.

The CHAIRMAN. In other words, you are telling us that the Metropolitan initiated the plan of requiring amortized payments to retire the principal on the loan?

Mr. FREDERICK H. ECKER. I believe among the loaning institutions we initiated it.

The CHAIRMAN. What was the policy that you brought into practice with respect to commissions? I understood you to say a moment ago that you placed a limit upon the amount of commission that your agents might charge?

Mr. FREDERICK H. ECKER. I had in mind the observation you have just made and, so far as our representatives were concerned, we were unwilling to permit them in using our money to charge unreasonable commissions. We have gotten down to a basis now of about a half of 1 percent.

The CHAIRMAN. What was your basis in 1929?

Mr. FREDERICK H. ECKER. Probably the same. The local practice may have been 1 percent, and frequently a similar demand when the loan was renewed. That was a part of our amortization plan. Instead of the borrower having to renew his loan every 3 or 5 years, and pay a commission for doing it, we encouraged the longer-term loan with installments, and then he was comfortable and knew he would not have to renew his loan maybe at an unfavorable time 3 years from the time he made it.

The CHAIRMAN. What was the longer term loan?

Mr. FREDERICK H. ECKER. Up to 15 years.

The CHAIRMAN. And what was the short term?

Mr. FREDERICK H. ECKER. The short term was 3 or 5 years, and on all loans over 5 years we required amortization.

The CHAIRMAN. And what proportion of these small loans fell into the 5-year and upward class?

Mr. FREDERICK H. ECKER. You mean now you are speaking of the correspondent loans?

The CHAIRMAN. No; the loans of which you are speaking.

Mr. FREDERICK H. ECKER. The small loans?

The CHAIRMAN. Yes.

Mr. FREDERICK H. ECKER. Those were made through correspondents throughout the country. I can't give you a break-down as to the amount, but practically all that we made we required the installment plan on.

The CHAIRMAN. What I was trying to get at was what proportion of these small loans now are handled in the long-term or the amortized plan?

Mr. FREDERICK H. ECKER. Practically all, Senator, of our loans have the amortization provision.

The CHAIRMAN. Of course, when you instituted this practice, most of your loans were in the 3- to 5-year class?

Mr. FREDERICK H. ECKER. They were; and that probably militated against our immediately getting out a large number, a large amount of money on small loans, because we made that a condition to taking the loans.

The CHAIRMAN. Do I understand you to express the principle that the adoption of the amortization plan may have contributed to holding down the number of small loans you could make?

Mr. FREDERICK H. ECKER. It might have in the beginning; I think it has become such general practice now that I doubt if it has any influence.

The CHAIRMAN. It would seem to me that that would be a most desirable plan from the point of view of the borrower.

Mr. FREDERICK H. ECKER. But the agents that you speak of throughout the country that were getting commissions were probably better off with the opportunity to renew a loan at the end of 3 years and again get his commission.

The CHAIRMAN. And the short-term loan of 3 to 5 years was much more likely not to be paid off, was it not, than the long-term loan with the amortization fee?

Mr. FREDERICK H. ECKER. I suppose that is so; but there was another factor, I think, entering that situation, that individuals who were making loans for small amounts did not want installment payments. Trustees may find it inconvenient to have a small percentage of their funds coming in each year, and for their purpose, they chose the 3- or 5-year loan.

Now, with our volume of business, it was sort of grist coming into the mill, additional income for investment, and we were thinking of the result in security rather than any inconvenience in having additional funds to invest.

The CHAIRMAN. In other words, what you are outlining to us is that it is easier for an institution or for the Government to amortize a loan than it is for an individual?

Mr. FREDERICK H. ECKER. You mean as a loaner?

The CHAIRMAN. As a loaner.

Mr. FREDERICK H. ECKER. It is with the Metropolitan; yes, sir; easier than for an individual. I mean to illustrate exactly, that if a trustee for an estate has 4 or 5 percent of the loan coming in every year, he can't invest those small amounts, and he is in a better position to have definite dates when they fall due.

The CHAIRMAN. Yes; I think that is quite clear.

Mr. GESELL. May we get back to the witness on the stand, if the committee please?

Now, with respect to these small loans and large loans, Mr. Ecker, which have had the best performance in terms of an over-all result?

Mr. ECKER. I think that has been testified to; that with us to date the performance would seem to indicate that the larger loans have been even more satisfactory than the small ones, all things taken into consideration.

Mr. GESELL. There are fewer delinquencies there, are there?

Mr. ECKER. I wouldn't say as to that. I am speaking of a study that was made over quite an extended period of time. You see on this delinquency question, those are situations where the answer is not yet told. For example, in recent years we have had approximately 100 millions of mortgages that were carried as delinquent which were subsequently brought up into good standing.

Mr. GESELL. May I, on the delinquency question, review one or two questions with you so we will come to an understanding as to the figures.

Table 211 would indicate that your company has a rather high percentage of delinquencies in its mortgage account, over 15 percent of the mortgages being delinquent more than 1 year; over 21 percent being delinquent 3 months or more; and as many as 6.6 percent being delinquent from 2 to 3 years.[1]

Now, Mr. Rogers, when he was on the stand, was at great pains to point out to us that in the case of the farm delinquencies, those delinquencies were being made up as indicated by the fact that the interest collected was at a higher percentage than the interest being charged on the new loans. In the case of the urban account, going to those corresponding figures, I notice that you have been collecting less than the interest that is being charged, which indicates delinquencies are not being made up very fast.

Mr. ECKER. I don't know whether it indicates that or not.

Mr. GESELL. I was only adopting Mr. Rogers' own argument to put to you.

Mr. ECKER. I know for a fact that our delinquency situations are getting cleaned up.

---

[1] See Hearings, Part 10-A, p. 211.

Mr. GESELL. It must be that there are new delinquencies occurring then, coincident with those that are being cleaned up; is that not true?

Mr. ECKER. No; that is not necessarily true. There are numerous things that might account for it. Just which tables are you referring to?

Mr. GESELL. First of all, I want to call your attention to the contract rate table which is table 197.[1]

Mr. ECKER. Yes.

Mr. GESELL. And then to the table on page 216, of interest collected.[2]

You see, for instance, in '38 your figure for all mortgages, the interest rate, is 4.86, and the interest collected is 4.64. Similarly throughout the years indicated there, you have been collecting a rate of interest less than that carried on all your mortgages.

Mr. ECKER. Well now, Mr. Gesell, I would like to take a few minutes and delve into this whole subject a bit, and could I preface that because it is so applicable—and I preface it with a statement that according to the newspaper account—

> The S. E. C. cautioned, in making the data public, that an examination of the tables as a whole is important to an adequate understanding of the relative position of any given company——

Mr. GESELL (interposing). Yes; we feel that very strongly, Mr. Ecker; in fact, that is why we are having you down here to help explain the figures.

Mr. ECKER (continuing reading):

> undue emphasis should not be given to any set of figures which are indicative of only a portion of the facts.

Mr. HENDERSON. Are you suggesting that we are giving an undue emphasis?

Mr. ECKER. Certainly not, Mr. Henderson. All I am pointing out is that it is very difficult to take any one of these figures and compare the results of the various companies or get an indication of the results of that particular company from that table.

For instance, here is the sort of thing that I am referring to. You take here on table 216 that you have just referred to; now you will notice there that that says gross interest collected. Now, in our situation, because of our method of operation, as far as correspondent loans are concerned, that is net interest. That is the interest we get in after the correspondent has taken off his commission of half of 1 percent.

Now, if we, on the other hand, kept our books on the basis where the entire gross interest came to us and then we paid an expense to him, or at least we paid him his commission as an expense, that would show up a very different figure.

Mr. GESELL. What companies keep the books the other way, will you name them?

Mr. ECKER. I am sorry, I don't know.

Mr. GESELL. Do you know whether there are any other companies that keep their books that way?

---

[1] See Hearings, Part 10–A, p. 197.
[2] Ibid., p. 216.

Mr. ECKER. I am told there are.

Mr. GESELL. What are they?

Mr. F. W. ECKER. Mr. Gesell, I am not in a position to testify as to the practices of other companies. You will notice another thing. There are some companies in which their general practice, apparently, is to sell their properties with a large purchase money mortgage. You will notice from the table on contract sales that we have oustanding 50 percent of the contract sales of all of these companies, indicating that in general our practice is to use the contract sale method to a greater extent than these other companies.[1]

Now, the contract sales are not included in this figure. It is my understanding they are not. Neither is the income from contract sales included in real estate.

Mr. FREDERICK H. ECKER. In neither place.

Mr. F. W. ECKER. In neither place.

Mr. HENDERSON. I would like to get back to the delinquency angle.

The CHAIRMAN. Is that correct; the witness' statement, Mr. Howe, with respect to these tables, correct that the contract rate of interest is not included in the table at page 216, on contract sales, rather?[2]

Mr. HOWE. Senator O'Mahoney, the interest on contract sales is not included in this table, that is right. It is interest on mortgages only.

The CHAIRMAN. So if it were, if those two interest items were combined, it would show a different result, would it not?

Mr. HOWE. Yes; depending on whether the interest on contract sales is higher or lower than the interest on mortgages.[3]

The CHAIRMAN. Surely.

Mr. HENDERSON. Let me ask this, Mr. Howe: Is that percentage applied also against the properties, urban mortgages, and contract sales? In other words, is the figure which we see here, which is 4.64, applied against a total value of mortgages and contract sales?

Mr. HOWE. No; it is applied only against mortgages.

Mr. HENDERSON. In other words, this is the income from the urban mortgages?

Mr. HOWE. That is correct.

Mr. GESELL. As the title indicates.

The CHAIRMAN. Yes.

Mr. GESELL. I would like to get back to the discussion I raised with Mr. Ecker when he completes his general discussion.

Mr. ECKER. To go back to that point, just to get a picture of our operation, I would like to digress just for a minute to say that there are various methods of handling real-estate mortgages. We could have foreclosed promptly. We did not feel that that was in the interest of the borrower, and our experience has been that it did not affect detrimentally our interests.

Now, generally speaking, what we do is this: When a property becomes delinquent, we do not foreclose promptly. We endeavor to work out the difficulties with the owner, and after a reasonable period of time, it becomes evident that (1) that property is going to come back into good standing, or (2) that that property

[1] See Hearings, Part 10-A, p. 218.
[2] Ibid., p. 216.
[3] Ibid.

is going so far the other way that there is only one thing for us to do and that is to foreclose, or (3) is to make a readjustment of the situation with the borrower, and we have done that.

Mr. GESELL. Then your explanation——

Mr. ECKER (interposing). Now, I am only about one-third through, if I can finish.

Mr. GESELL. I am anxious to get back to the question I asked.

Mr. ECKER. I want to stick to your question, Mr. Gesell, absolutely. What is your question again, as to delinquencies, isn't it?

Mr. GESELL. Yes.

Mr. ECKER. Why do our delinquencies show up larger than some of these other companies?

Mr. GESELL. That is correct. Did I understand the foreclosure policy is the first point you want to make with regard to that?

Mr. ECKER. That is item 1, I should say, yes. Now, item 2—again I can't answer as to other companies, but there are possibilities of including in delinquency figures mortgages in one company which would not be included in another. I will give you an example of what I mean. In certain States, when a property owner was in default of taxes and tax arrears had accumulated for several years, State laws were passed whereby that property owner could spread those past taxes over a period of years for the future.

Now, if he was up to date on those payments, he really was up to date on his taxes, and it would be perfectly proper not to consider that loan as a delinquent loan.

However, in our company until all past-due taxes had been made up that is carried as a delinquent loan.

Mr. GESELL. I must interrupt to ask how that affects the figures shown on 211? [1]

Mr. ECKER. All right, 211 again is misleading for this purpose.

Mr. GESELL. Just a moment.

Mr. ECKER. Two hundred eleven has a comparative figure.

Mr. GESELL. Just a moment, Mr. Ecker, let's keep to a line of questions. I am not trying to cut short your explanations, and I know you have sat here long enough to know people can go on explaining things here until nightfall, but I do want to get a specific question in here. How does this question of taxes as it affects delinquencies alter the figures shown on 211, as far as your company is concerned?

Mr. ECKER. I am glad you brought that out, Mr. Gesell, because our practice is to have the borrower apply the earnings of the property to the payment of taxes first, even though that increases the delinquency in interest. That may be the practice with all companies.

Mr. GESELL. You will note over on 212, as I am sure you are familiar, that we have a special table with respect to delinquencies as to both taxes and interest.[2]

Mr. ECKER. Exactly.

Mr. GESELL. And there again your company shows the same relative position as it shows on 211.

Mr. ECKER. I wouldn't say in the same relative position.

---

[1] See Hearings, Part 10-A, p. 211.
[2] Ibid., p. 212.

Mr. GESELL. I think the figures indicate that it has the third greatest amount of delinquencies on either table, does it not?

Mr. ECKER. I am sorry, I think if you will make an analysis of that picture, that comparatively speaking, you will see that the delinquencies show up better, or at least that there is an improvement in our relative position when you change from the table on 211 to 212.

Mr. GESELL. Will you show me where that is?

Mr. HENDERSON. May I ask a question there? As I see it, on page 211, as to mortgages with interest delinquent 3 months or more, Metropolitan is almost twice the average. On mortgages with interest delinquent 1 year or more, Metropolitan is again almost twice the average.

Turning to page 212, in this case, Metropolitan is a little less than twice the average. Isn't that correct?

Mr. ECKER. As a mathematical computation, I don't doubt that is correct. I am trying to explain the reasons.

Mr. HENDERSON. Is there anything wrong with the mathematical computations?

Mr. ECKER. No, sir; I am not questioning them. As far as our company is concerned we checked them and have no objection to them.

Mr. HENDERSON. That is one thing I understand, a calculation like that.

Mr. ECKER. I agree that that is the showing on these tables.

Mr. HENDERSON. All right.

Mr. ECKER. The thing I am pointing to is that I think one can derive a very misleading conception of the operations of the Metropolitan Life Insurance Co.'s mortgage portfolio by just referring to such a table as that.

Mr. HENDERSON. If you want to say this, that it would be a disadvantage for a prospective policyholder to buy a policy on any one of these tables, I would certainly agree with that.

Mr. ECKER. There is one table that won't justify that.

Mr. HENDERSON. Even on that.

Mr. ECKER. All right. Well now, Mr. Henderson, to get back, I just want to bring out that what is indicated here is policy: One, we could have foreclosed promptly, we would have no delinquencies. Two, we could have reset the mortgage very quickly.

Mr. HENDERSON. You could have ballooned the delinquency.

Mr. ECKER. Yes. For example, if it was a 5-percent mortgage, if it was paying 4 percent on account of 5, we could have said: "That is all right, we will cut down the mortgage, we will reset this interest at a 4-percent rate."

There are times when we have done that, but it is, generally speaking, after a period of time when it has been demonstrated that the property is really not in a position to pay the 5 percent.

Mr. GESELL. On that——

Mr. ECKER (interposing). May I just finish this, please? For example, let me give you some more indications here. If you will turn to table 212, to show you what is really involved here is a lag of time.[1] Refer to table 212, and you will find in the first column there that

[1] See Hearings, Part 10–A, p. 212.

mortgages with unreimbursed tax advances are $19,970,000. Within 12 months of that period, fifteen and a half million of that amount was repaid to us by the borrowers. Now, let's go on to the next one.

Mr. HENDERSON. Of course, in order to get a valid comparison like that, we would have to have the same information for the other 25 companies.

Mr. ECKER. Sure.

Mr. GESELL. I might point out to the committee that table 213, entitled "Work-out cases" is an attempt to show with respect to these defaulted mortgages those that are working out and those that are not, and there again the Metropolitan seems to have a rather large amount of cases which are not working out.[1]

Mr. ECKER. Exactly. That is in line with our policy.

Let me point out one other question, and then I will stop, Mr. Henderson.

Look at this column 4, 184 million face amount.[2] For instance, I know—I doubt whether the S. E. C. knows because they haven't had the opportunity of studying these things in detail—but I know that included in that situation there are 80 millions of mortgages that paid us in excess of 4 percent in 1938 in cash. I know, further, that the entire account averaged 3½ percent, or in excess of 3½ percent.

All I am pointing to is that they are delinquent, we are working along with the borrowers, but don't draw from that fact a conclusion that our mortgages have not been just as well made, or that they are not just as well handled. They may be being handled in a different way.

The CHAIRMAN. It occurs to the chairman to remark that possibly by reason of the size of your investment as was brought out by Mr. Van Schaick yesterday, you may be in position to carry delinquencies better than smaller companies might. Is there any possibility of that?

Mr. ECKER. I think that is true, and also, of course, it has been testified here, and the figures show, that in some situations delinquent interest has been capitalized. That isn't done with us; it is carried as delinquent interest.

The CHAIRMAN. In other words, you have here the illustration of the big fellow and the big cushion and the little fellow and the little cushion that was drawn by Congressman Sumners yesterday.

Mr. ECKER. I wasn't here yesterday, I am sorry.

Mr. GESELL. Let's turn to 213 while we are discussing how these cases are working out.[3] What do you wish to say with respect to that? That shows over 54,000,000 of your mortgages in default in which the income is not sufficient to pay all charges except principal, which is a rather large amount.

Mr. ECKER. Well, no, obviously again it doesn't mean anything unless you know what the situation is. If a mortgage was a 5-percent mortgage and it was paying 4½ percent on account of 5 percent, it still would be in that column.

Mr. GESELL. You say you don't capitalize——

---

[1] Ibid., p. 213.
[2] Ibid., p. 212.
[3] Ibid., p. 213.

Mr. ECKER (interposing). I would just like to repeat that as I testified early in this discussion, within recent years there have been 100,000,000 of these mortgages that have been in default and have subsequently come out of it. We believe that this type of handling of mortgages pays—pays both for the borrower and pays for us.

It might also be of interest to the committee here that over a period of 20 years we have averaged on a cash basis, taking into consideration all losses and all profits and all write-downs on mortgages and real estate together, and all expenses of handling that, 4.23 percent. Now, we are satisfied with that, we think that is a pretty good showing for trustee investment.

Senator KING. Do you regard those delinquencies to which counsel has called your attention as in any way impairing your financial structure or as being uncollectible? Are they marked off as uncollectible?

Mr. ECKER. No, sir, those mortgages are much in the same category as the Baa or Ba bonds that Mr. Howe was speaking of the other day. Those are the mortgages that are in a temporary period when you don't know just which way they are going. They may go into default, in which case they are handled on a different basis, or they may come into absolutely good standing again.

I would like to point out that in our accounts, any mortgage which has any interest which is delinquent for as much as 6 months, or more than 6 months, all of the interest in that account is taken out when we are figuring our assets. In other words, it is not just the interest that is overdue 6 months or more, but if a mortgage has interest that is overdue 6 months, any portion of it is overdue 6 months, then the entire amount of interest is deducted as an asset. That is just an indication of the conservatism with which we handle accounts.

The CHAIRMAN. How much more do you have, Mr. Gesell? It is after 12 o'clock.

Mr. GESELL. I had hoped to take up with Mr. Ecker both the real estate account and the bond account. I think in view of the progress we are making, perhaps we had better take up only the real estate account today and come back to the bond account at a later date.

On that basis, we can recess now quite conveniently.

The CHAIRMAN. The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:10 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:20 p. m. on the expiration of the recess.

The CHAIRMAN. Did Mr. Howe make the tabulation that I asked for?[1] Would you be good enough to put it in the record?

We were referring to the table on page 207.[2]

Mr. HOWE. That's right. I understood your question, Senator, to refer not to the principal amount of loans, but to the number of individual loans which the Metropolitan had on its books on Decem-

---

[1] See p. 15184.
[2] See Hearings, Part 10–A, p. 207.

ber 31, 1938. That total 61,027 loans, of which 58,622 were of a size of $25,000 or less, 2,405 were of a size of $25,000 or more.

The CHAIRMAN. That was the testimony of Mr. Ecker.

Mr. HOWE. That's right, and the percentages which I understood you to ask for——

The CHAIRMAN (interposing). No, I was asking for the totals first, because that was this table 207. Table 207 divides the total of 902,-000,000 into 12 different classifications, less than 2,000, between 2,000 to 5,000, five to ten, ten to twenty-five, and so on. So I was asking you to compute the total of all loans under $25,000. Just add those four figures together.

Mr. HOWE. I misunderstood you, Senator. I can do that quickly. I also have the percentage in each group.

The CHAIRMAN. Well, that would be interesting but my point was to show what was the total amount loaned to the 58,622 borrowers who had $25,000 or less each and what was the total amount of the 2,405 borrowers who had loans of more than $25,000 each.

Mr. HOWE. I am sorry, I misunderstood you. I will get that for you.

TESTIMONY OF F. W. ECKER, VICE PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. Now, before the recess, Mr. Ecker, we were discussing interest delinquency. I had one or two more questions on that before we moved on.

Mr. ECKER. What table are you on now?

Mr. GESELL. Well, we were on a series of tables commencing with the table on 210 and running over to 213, I believe.[1] Let me ask you this, did you scale down interest on your city properties after the times got troublesome?

Mr. ECKER. In some instances. As I testified this morning, our ordinary procedure would be not to scale down immediately but to give a certain period of time to see in each individual case whether the property would recover and be able to pay its full interest, whether it would be necessary to foreclose or whether a readjustment of the interest, resetting the mortgage, was desirable.

Mr. GESELL. I take it your practice was then to let the delinquencies accumulate for a longer period of time, as you testified, than some other companies and not to scale down as early?

Mr. ECKER. I think that may be so from the indications in the tables.

Mr. GESELL. You mentioned the capitalization of delinquent interest and I gathered that you wish to make quite a point of the fact that you had not capitalized delinquent interest?

Mr. ECKER. No; I was just mentioning that fact as an indication of the differences between companies and the way we keep our books.

Mr. GESELL. What is your attitude toward the capitalization of delinquent interest?

Mr. ECKER. Since we don't do it, it is safe to assume we prefer not to do it.

[1] See Hearings, Part 10–A, pp. 210–213.

Mr. GESELL. Yes. I was seeking the reasons.

Mr. ECKER. Well, I don't know that I can give you the reasons. We just think it is better bookkeeping for us not to.

Mr. GESELL. Is it purely a matter of bookkeeping or does it go deeper into the matter of policy than that?

Mr. ECKER. I suppose it is a matter of policy in our company.

Mr. GESELL. Well, why don't you do it?

Mr. ECKER. Just as I have said, it is all part of our policy. That is a portion of our policy not to do it. Another portion of our policy is in rehabilitation to charge it out as an expense and not write up the value of our properties. We don't write them up at all.

Mr. GESELL. That is the point I was getting at. You regard the capitalization of interest in effect a write-up of the property, do you not?

Mr. ECKER. It is a write-up of the property. Whether it is justified or not I am not testifying.

Mr. GESELL. It would be in every interest of conservatism, I take it, not to do so.

Mr. ECKER. Generally speaking, I suppose so.

May I add there, as we have seen, some companies apparently do write it up and then later write it down again. Now, that is just a different policy.

Mr. GESELL. Your feeling is that the better practice is not to write up the delinquent interest and if you do get it back on the eventual sale of the property, then is the time to take it into your books, not before?

Mr. HENDERSON. Then is when it really represents income.

Mr. ECKER. Yes.

Mr. HAYES. And is it because of a desire to exclude from possible inclusion in the income account items not actually received?

Mr. ECKER. That is true.

Mr. GESELL. Is that part of your principal reason, or where does it come into the picture?

Mr. ECKER. I would say that is all part of the picture very decidedly.

Mr. GESELL. Now, you talked about resetting mortgages in connection with our construction of scales down here. How much resetting has there been? I know that is a difficult question. Have you reset many mortgages?

Mr. ECKER. Quite a few.

Mr. GESELL. Could you hazard a guess as to what percentage of the portfolio it represents?

Mr. ECKER. I am afraid I couldn't. I could get that for you.

Mr. GESELL. Let me get at it this way perhaps. When you reset the mortgage and the mortgage is delinquent as to interest at the time it is reset, do you take that delinquent interest into account in resetting the mortgage?

Mr. ECKER. Well, take it into account in what way?

Mr. GESELL. Would your tendency be to issue the new mortgage for the face amount of the previous mortgage plus delinquent interest?

Mr. ECKER. No, sir, we do not do that.

Mr. GESELL. I was directing my questions in that direction to see whether perhaps in that way delinquent interest came into your book. I take it you do not handle your mortgages that way?

Mr. ECKERT. No.

Mr. GESELL. You reset for the same face amount of the mortgage as it was before, at a lower interest rate?

Mr. ECKER. Sometimes at a lower interest rate.

Mr. GESELL. For a longer term?

Mr. ECKER. The ordinary resetting is a reduction of interest, and it is possible, I say, in some instances, at an increase in the amortization rate.

Mr. GESELL. But no addition to the principal to take care of delinquent interest?

Mr. ECKER. Oh, no.

Mr. HAYES. Does delinquent interest appear anywhere in your books other than your mortgage records? Does it enter into your accounting system?

Mr. ECKER. Of course, we keep an account of it as far as our statement to the insurance department, which is our official statement, is concerned. It is shown in that, and a deduction is made of that as an asset, as I explained this morning—maybe I didn't make it quite clear. We deduct as an asset all the interest involved on any mortgage which has more than 6 months' interest overdue.

Mr. HAYES. You mean deduct that from the asset value?

Mr. ECKER. Yes. You see, having gotten into the asset value the amount of the interest that is accrued, then we take it out below.

Mr. HAYES. As I understand your practice, then, you do record it on your books, but for statement purposes and insurance department purposes, it is shown as a deduction from the asset value.

Mr. ECKER. That is correct, it is an asset not admitted, so-called.

Mr. GESELL. Now, with respect to your real-estate account, city real estate, has the amount of the city real estate your company owns diminished in recent years? I think that information is on 217.[1] That table indicates it has held rather constant in the last 3 years, has it not?

Mr. ECKER. Yes; somewhat.

Mr. GESELL. And the foreclosures on the other hand have precipitously decreased, have they not, in recent years?

Mr. ECKER. Yes; foreclosures are not as heavy as they were, decidedly not.

Mr. GESELL. Are you experiencing any difficulties in moving your properties; selling them?

Mr. ECKER. I think that that is pretty clearly indicated in the sales, that we are constantly selling property.

Mr. GESELL. You are referring, I take it, to table 223.[2]

Mr. ECKER. You will notice one situation there, namely that the bulk of our sales have been made since 1935.

Mr. GESELL. Yes.

Mr. ECKER. We sold very little at the depth of the depression.

Mr. GESELL. Yes.

Mr. ECKER. We felt it was unsound from the standpoint of the real-estate market as a whole to dump real estate under the existing

[1] See Hearings, Part 10-A, p. 217.
[2] Ibid., p. 223.

conditions, and the price which real estate would bring at that time didn't seem to us to be a reasonable price for the values of the property.

Mr. HENDERSON. Right on that point, Mr. Ecker, you do have as a continuing policy on the disposal of real estate a question as to its effect on the total real-estate market of which you are a part?

Mr. ECKER. Oh, yes; we feel that the action of the insurance companies generally—and it has been pretty true of the large institutional holdings of real estate generally, that it has been a very favorable influence on the real-estate market. If they had all dumped real estate at the depth of the depression, or it had been pushed on the market at once, it would have just demoralized the real-estate market and had extremely unfavorable repercussions and results on the individual owners of mortgages and real estate.

Mr. HENDERSON. Would have had an effect on the holdings that didn't dump?

Mr. ECKER. Oh, yes; it would have affected us the same as others. It was not in anybody's interest.

Mr. HENDERSON. That is, taken together the holdings of insurance companies, savings banks, and other institutions say, in New York, are a part of the total holdings sufficient to make a dent, whichever way they go.

Mr. ECKER. Our desire is to have an orderly liquidation of this real estate.

Mr. HENDERSON. If you did all at one time adopt a policy of not selling, it would enhance real-estate values, would it not?

Mr. ECKER. We can't very well do that in insurance companies because of the law and the supervision the insurance department makes of our operations.

Mr. HENDERSON. That means that after you have gotten up to a place where you have a considerable amount of your property held after a period of 5 years or more, you have, you might say, the finger of suspicion pointing at you all the time?

Mr. ECKER. Yes. There is a continuing urge there to dispose of the real estate, that is the law.

Mr. GESELL. Well, now, will you give us some idea of what your sales procedure is from a mechanical point of view, what you do to sell the property?

Mr. ECKER. Yes.

Mr. GESELL. First of all, from the testimony that has gone before I think you appreciate we are interested in how you price properties, how you advertise them for sale, what the price is on the properties in relation to book value, what appraisals you make of the properties between the time they are foreclosed and the time they are disposed of, matters of that sort.

Mr. ECKER. I will try to cover it, and if I miss anything, you ask me about it.

Mr. GESELL. I will.

Mr. ECKER. In the first place, when a piece of property is foreclosed—let's take first our operations throughout the country that are handled through our correspondents—when the piece of property is foreclosed, it is necessary to foreclose, then the correspondent, of course, makes another inspection of the property and our field representative makes an inspection of the property. As I testified to before, you remember we have these various field offices. They decide on what, in their judgment, is a proper rehabilitation program to be undertaken, without going into details on that. Their report comes into the home office, where it is again reviewed. In the home office, our correspondent loan section is divided among four territories and it is reviewed by the supervisor in charge of that territory and his assistants. After that review is made, the recommendation is made to the financial officers and subsequently the authority from our real-estate committee is given to go ahead and rehabilitate the property.

Then, or at least during this period, another item that is looked into is a proper value to put on that property. Now, that is, I would say, two values are put on it. It is quite customary in real estate to put an asking price and also let your sales representative know your taking price. Now, generally speaking, this taking price is a price that takes into consideration market conditions at the time, but also has very much in mind what the real intrinsic value of that property is. It is obvious from this table here that we are looking at, namely table 223, as to what happens under those circumstances.[1] We felt this property was worth more than the current market in the depth of the depression, as you can see.

Mr. GESELL. And you had very few sales?

Mr. ECKER. Very few sales. As we come out of that picture, there is a continuous liquidation of this property and that has been going on ever since.

Mr. GESELL. Well, now, the property is appraised at the time it is taken over, I take it?

Mr. ECKER. Yes.

Mr. GESELL. Now, let's say you have got a property 3 or 4 years and haven't been able to get your asking price. Is there a reappraisal?

Mr. ECKER. Oh, yes. These properties are reappraised every year. They are gone over by an appraiser.

Mr. GESELL. By your own appraiser?

Mr. ECKER. Yes; by our own people, and in the case of a correspondent, by the correspondent.

Mr. GESELL. You reappraise those properties each year?

Mr. ECKER. Yes, sir.

Mr. GESELL. To determine whether or not conditions have changed to make your asking price out of line?

Mr. ECKER. Oh, yes. If a property has not moved over a reasonable period of time, the asking price is lowered. I might point out in this connection during this period here we have sold, as you can see, 96 millions of real estate and that has been sold at a profit of 7 or 8 percent.[2]

Mr. GESELL. Now, do you advertise these prices or just your asking price or only your listed price?

Mr. ECKER. Well, ordinarily right in line with the usual custom in the real-estate field, the price is not put into an advertisement. But our properties for sale, the individual properties, are advertised by our correspondents, and in the larger cities on direct loans the

[1] See Hearings, Part 10–A, p. 223.
[2] Ibid.

real-estate firm that is in charge of handling that piece of property does at times advertise. If you would like to see one of the advertisements, I have one here, if you would be interested in seeing it.

Mr. GESELL. They advertise a description of the property, I presume, and the price?

Mr. ECKER. I don't think the price, generally.

Mr. GESELL. Just a description of the property?

Mr. ECKER. Sometimes the price, possibly the asking price, but not generally.

Mr. GESELL. Well, now, on some of these properties you had them, like everyone else, for some period of time, did you not?

Mr. ECKER. Yes.

Mr. GESELL. Over a 5-year period. For instance, your hotels, I noticed on table 230 that you have hotels having a book value around $10,000,000.[1] How do you operate those hotels in the interim when you are awaiting sale?

Mr. ECKER. Well, ordinarly—you see, this hotel business is a very specialized business—we will either rent the hotel to another company or will employ a hotel firm, the American Hotels chain, for example, or the Knott chain, or someone of that character, to operate our hotels. It all depends on the particular hotel. Again it is a case basis. All these things are on a case basis.

Mr. GESELL. You don't participate in the direct management of the hotels yourself?

Mr. ECKER. We supervise in this way, that we have gone out to pick out the manager that we feel is best qualified in each particular field.

Let me just explain that a little bit further. As far as our direct loans, those are the larger loans, are concerned, when one of those is foreclosed—and the same thing is true of hotels—we attempt to pick out the real-estate firm in that city which is best qualified to deal with that particular type of real estate. In New York, for example, a real-estate firm which is excellent for the west side would not be suitable for a property on the east side, or one which specializes in loft buildings would not be our choice for a Fifth Avenue apartment, for example. The same thing is true of hotels. We go out to pick the people that we feel can operate them best, but on our own staff we do have trained hotel men. All through the real-estate field and real-estate mortgage field the same as through our bonds and stocks, we have men in each division who are trained in their particular field. In fact, I think some of our men are giving courses on the subject in colleges.

Mr. GESELL. I assume that in most of those types of properties, such as apartments and business properties of one kind or another, those are usually handled by the lessee, are they not, not going through the hands of any kind of a managing organization?

Mr. ECKER. I don't know just what you mean.

Mr. GESELL. Let's say you have a big apartment house, you again contract that out to some manager to run for you?

Mr. ECKER. Oh, no. Generally that is owned by us and we receive all of the net income, of course, but we use a real-estate firm as managing agent.

---

[1] See Hearings, Part 10–A, p. 230.

Mr. HENDERSON. You use somebody like Brown, Wheelock, and they can perform for you about the same kind of a service as they would for a cooperative apartment?

Mr. ECKER. Yes, probably, except that in a cooperative apartment, practically speaking, they handle the situation with very little technical supervision. In our instance, that is not so. We have our own maintenance men on our own staff, for example; we have experts in elevator, engineering, architecture, heating and ventilating engineers, and people of that sort.

Mr. HENDERSON. You have people who go around to all your properties?

Mr. ECKER. Yes, sir.

Mr. HENDERSON. With Brown, Wheelock, they will hire the staff, the elevator operators, and engineers. You don't do that.

Mr. ECKER. Rehabilitation is what I am really referring to, or if the figure shows up that the property is not being operated as economically as it should—you see, we have a tremendous advantage in having other similar properties that we are making comparisons with, and if one isn't showing up, we go and find out what is wrong with it.

Mr. GESELL. Let's take the case of the Gotham Hotel as one for discussion. According to your convention form statement, you acquired the Gotham back in 1932 at an acquisition cost of $2,377,000. It was carried at the end of '38 at a book value of $2,000,000, and has lost money in '37 and '38 in increasing amount. You have a list price on that property of $3,500,000.

Mr. ECKER. Do you know that property, know the location?

Mr. GESELL. I never stayed there.

Mr. ECKER. You ought to stay. It is a good hotel.

Mr. GESELL. I wonder if it is a good hotel. It seems to be losing money.

Mr. HENDERSON. Mr. Ecker, when your agents come in from the field, do they go to the Gotham?

Mr. ECKER. It is too expensive for them.

Mr. HAYES. I notice it is in the plural, "Gotham Hotel Properties." Is that just the Gotham?

Mr. ECKER. Yes. Of course, you recognize that in all of these situations there is the expense of rehabilitation, except in rare instances. Rehabilitation costs, except in rare instances, is taken out of the income. I do not put myself up as an expert on real-estate properties. We have men who are much better qualified in our organization than I am on that.

Furthermore, I am happy to give you any information on any particular properties I know about, but I am not prepared to testify on the details of any particular property.

Mr. GESELL. Well——

Mr. ECKER (interposing). Just a minute. Now, in this particular situation, quite a substantial improvement was made. We made quite a substantial expenditure in putting stores in on the ground floor and changing the dining room, and so forth. The Gotham is now under lease, it is my understanding. It is now under lease and that lease is for the hotel itself. We get the income from the stores.

Mr. GESELL. I was referring to the Gotham just trying to get at this line of questioning. Some of these properties have unquestionably been losing money. I think we can agree on that, can we not?

Mr. ECKER. Our hotel situation as a whole, those properties on which we have mortgages as well as those which we have foreclosed in real estate—taking the hotel picture as a whole, it is showing a nice return, however.

Mr. GESELL. That is probably not true of the foreclosed property, is it?

Mr. ECKER. Probably not.

Mr. GESELL. Our figures would indicate on an over-all basis you are losing on those foreclosures.

Mr. ECKER. You see, a hotel is very much like certain heavy goods industries. A hotel has a very sizable amount of fixed operating expenses. Now, by fixed expenses, I mean the number of employees they have to have to give the type of service that that hotel is supposed to give. As a consequence, when the vacancy ratio increases and it drops below a certain ratio, you are in the red. As soon as it goes up above that ratio, you run into the black very fast on a percentage basis. We have been going through a difficult period with our hotels, there is no question about that.

Mr. HENDERSON. Mr. Ecker, I am interested in this. We have taken up what you do with your hotels and what you do with your apartments, but on table 230 it shows that you have riding academies, theaters, department stores, you have a stock exchange building—I don't presume you run a stock exchange? [1]

Mr. ECKER. No.

Mr. HENDERSON. Although you have a large enough volume of business, I think, to pretty much carry some of the smaller ones.

Mr. ECKER. We don't buy any stocks except preferred, you understand that, of course.

Mr. HENDERSON. Even so, that would go very well. A couple of exchanges have passed out of existence, starved to death, they claim, by New York. I think your business would have kept them alive.

Now, let's start right down here. On the apartments, you lay them off with a management concern and have your own specialists watching what happens?

Mr. ECKER. That is right.

Mr. HENDERSON. Your apartment hotels?

Mr. ECKER. It is much the same; yes.

Mr. HENDERSON. And then apartments with business?

Mr. ECKER. Much the same.

Mr. HENDERSON. Business buildings?

Mr. ECKER. Yes.

Mr. HENDERSON. We will skip clubhouses.

Mr. ECKER. You don't need to skip it. I will be glad to go into the clubhouse.

Mr. HENDERSON. It is such a small——

Mr. ECKER (interposing). Yes; it is a very small proportion of the assets, but that is really on ground values. I should have stated with the Gotham Hotel, that ground is worth considerably in excess of what that hotel is on our books at. You are familiar with the location of the Gotham Hotel on Fifth Avenue?

---

[1] See Hearings, Part 10–A, p. 230.

Mr. HENDERSON. I happened to stay there before I worked with the Government.

Mr. ECKER. Go now and you will find it is a better hotel now than it was.

Nevertheless, of course, there isn't a demand for that property right today, but there is no question that that property has real value. The demand is going to come back in this country. We are not always going to be in a period such as we have been going through.

Mr. HENDERSON. From all the statements you have made today, I think I can subscribe to that 100 percent.

You certainly don't manage a clubhouse, or do you?

Mr. ECKER. As a matter of fact, that is taken over by some Government agency, so it is tax-exempt at the present time, and the land value, I believe, supports that $158,000. The riding academy is the same thing.

Mr. HENDERSON. What I am trying to get at—I don't want to get off the point—was whether you exercise direct management, whether you run any of these. How do you get the supervision to insure that your interests are protected?

On the department stores, how do you handle those?

Mr. ECKER. We receive their reports periodically. We have in the securities end men who have a good deal of experience in making department-store loans.

Mr. HENDERSON. Do you watch the business of the department stores? Do you have anyone like the specialists who are in the organizations of department stores who watch out for your interest?

Mr. ECKER. As I say, in our securities end of our organization we have people who are very familiar with department-store operation. Of course, we use such firms, also, on the outside, I mean accounting firms, that are familiar with such matters.

Mr. HENDERSON. We have been through hotels. How about the riding academy?

Mr. ECKER. The riding academy is a piece of property on Sixty-sixth and Sixty-seventh Streets, on the West Side of New York, 200 by 200—it runs through the block there. At the time the loan was made, no value was given to the improvement at all. That was a land value loan, and what I have said about the Gotham is equally applicable here. That is a very desirable piece of ground.

Mr. HENDERSON. Do you take any part in the management of the riding academy?

Mr. ECKER. No.

Mr. HENDERSON. That is what I am getting at here.

Mr. ECKER. We get an income from that which covers taxes at least.

Mr. HENDERSON. And then on the summer hotels, do you exercise any managerial functions in the policies as to guests and the like?

Mr. ECKER. No; of course not.

Mr. HENDERSON. You say "of course not." You do manage farms.

Mr. ECKER. Yes; that is quite true.

Mr. HENDERSON. I am trying to get at this. Here is a cross-section of business activity of which you become involuntary owner and you have certain responsibilities. In some cases in the farms you find it is best to walk right in and take the managerial responsibility. I am just trying to get at in this whole list of things how you perform that service, that function.

Mr. ECKER. Well, generally speaking, in the urban mortgage and real estate field, we do not operate along the same forms. We use the local organizations, the local real estate firms. But we do give very close supervision.

The CHAIRMAN. Do you have an urban real property management division as you have a farm property management division?

Mr. ECKER. Yes, we do; and the urban real property division is again split up into various subdivisions, as I started to explain.

The CHAIRMAN. What Commissioner Henderson is trying to develop is to what extent this urban management division actually controls and directs the operation of the urban property. The operation of the farms is pretty closely developed by your crop rotation program, as described by Mr. Rogers. Now, how about this other?

Mr. ECKER. It is not on the same basis. As I said, we have used the local firms to do the actual operating, and keep the day-to-day check on it, so to speak, but we have a supervisory force. In this division there are some 550 people, that is exclusive of accounting and exclusive of the legal aspect of the work. We have this force which is split up in various ways. As I have said, there are 11 field offices. In those field offices are men who are specialists in maintenance and also a part of their job is to go around and talk with the brokers and pep up interest in sales departments, and so forth.

The CHAIRMAN. Those are employees of your company?

Mr. ECKER. Of the Metropolitan, that is right; they are on our pay roll.

The CHAIRMAN. And they are supervisory employees?

Mr. ECKER. That is right.

The CHAIRMAN. Now, the actual tenants who are in the properties, what is their relation to Metropolitan?

Mr. ECKER. Well, in a great many instances they probably don't know that the Metropolitan is there. Brown, Wheelock, as you mentioned, is the man that they know in the picture, you see.

Mr. HENDERSON. Suppose the Theater Guild wants to put on a play. You have a vacant theater. Do they go to somebody in your organization?

Mr. ECKER. Let me go into this for just a minute. In the first place, you have been mentioning the few specialties that we have here in the aggregate—as you yourself pointed out it doesn't represent more than a fraction of 1 percent of the total of our assets, but I am glad you mentioned them because it gives me an opportunity of speaking of two things. The summer hotels, for example—we did not make the loan on those properties at all.

There was an organization up in New York State known as the Golden Seal, and the insurance department of the State of New York asked us to take over the assets and reinsure the policyholders of the Golden Seal. You are familiar with that, are you?

Mr. HENDERSON. Yes.

Mr. ECKER. After some discussion, we undertook to do that. On those particular properties, for example, there are 11 properties, 11 of these summer hotels. They originally were carried as mortgages of the Golden Seal for $243,000. We put them on our books at $146,000. Since that time, out of the 11 we have sold 6, so that we have 5 left, and at the end of '39 that item is down further. We made a couple of sales, I think, last year, so that item is down now to $35,000 or $40,000.

You also spoke of the theater here. The theater came to us—well, there are two theaters, but practically all of it is in one theater, one out in Pittsburgh, and the loan was made by the Pittsburgh Life. You recall about the Pittsburgh Life. We were again asked to take over the assets of the Pittsburgh Life and work out that situation.

Mr. GESELL. Who asked you to do that?

Mr. ECKER. The insurance department of the State of New York. I should add that in both of those instances the policyholders lost nothing.

The CHAIRMAN. But with respect to the management of the theater?

Mr. ECKER. It is on a lease.

The CHAIRMAN. So the lessee has the judgment with respect to how to manage the theater. Is that right?

Mr. ECKER. No; what we have done there is to lease it. It is a movie theater under lease. I don't know what we will do with it, whether we can get more for it by some——

The CHAIRMAN (interposing). The point of the question is: Does the Metropolitan manage, or does the lessee manage?

Mr. ECKER. No; the lessee.

The CHAIRMAN. It is the lessee who manages the theater, the lessee who manages the hotel?

Mr. ECKER. Yes.

The CHAIRMAN. The lessee who manages the apartment houses?

Mr. ECKER. Yes, sir.

The CHAIRMAN. What terms does such a lessee ordinarily have, what term of authority?

Mr. ECKER. Well, it all depends on the type of property. Now, in the case of an apartment, it is generally a percentage of the rent, of the leases that they have made.

The CHAIRMAN. No; I mean, how many years?

Mr. ECKER. Oh, how many years. I see. Well, on these income-producing properties we will make whatever term lease we feel is beneficial to the value of that building. If we can make an advantageous lease and thereby establish a good value for the property, we will make a long-term lease. If we are in a market——

The CHAIRMAN (interposing). What do you call a long-term lease? I ask that question because you still have the law requiring disposition in 5 years.

Mr. ECKER. Yes; but you see, I am thinking of income-producing properties, where they are leased to tenants in those properties. Let me make this point: Take an apartment, for example. I am not talking about leasing that apartment to someone else as a whole. I am talking about the management concern, as Brown, Wheelock, or various others, of their making leases on apartments in that apartment building. Those leases are what I am speaking of as leases.

The CHAIRMAN. You don't make those leases?

Mr. ECKER. We own the property and continue to own the property until we have sold it.

The CHAIRMAN. You don't make those leases? Those leases are made by the management concerned?

Mr. ECKER. That is right, but they are made after we approve them.

The CHAIRMAN. I see. Now, how long does a management concern have a contractual right to run such a building?

Mr. ECKER. During good behavior, I should say.

The CHAIRMAN. Then it is just a lease at will?

Mr. ECKER. No; it is not a lease at all. That isn't a lease at all. We employ them to manage a certain building for us on an agency-fee basis.

The CHAIRMAN. The agent then is an employee of the Metropolitan?

Mr. ECKER. If you are not asking me a legal question, I guess the answer is "yes."

The CHAIRMAN. I don't know. I don't want to try to ask a legal question. One of your company shakes his head in response to my question. Won't you answer it, sir?

Mr. ECKER. He is not sure.

The CHAIRMAN. Oh, that is all right. He can shake his head. I don't mind.

Mr. ECKER. He is not sure of the question now.

Mr. GESELL. Let me perhaps ask a few questions that may help.

The CHAIRMAN. May I just say this first, Mr. Gesell. You see, this is the comparison that is shaping up in my mind. When Mr. Rogers was on the stand he described in great detail the management plan for handling farms. The tenant farmer has a 1-year lease. He receives a 5-year crop-rotation program, and he must, in managing the farm, in growing his crops, follow the general advice of your supervisor?

Mr. ECKER. That is right.

The CHAIRMAN. To what extent does that same plan apply with respect to the handling of urban property?

Now, that is all we are trying to get at.

Mr. ECKER. I would say it is fairly comparable on small homes, where, during our ownership, they are leased on short-term lease, pending sale. But the income-producing properties which we own, the leases made for various portions of the space therein, are not on short-term—they may be on short-term or they may be on long.

The CHAIRMAN. I can understand, because they go with the building.

Mr. ECKER. Yes.

Mr. GESELL. What sort of reports do you get on hotels? Do you have the right, for example, to determine what class of patronage the hotel will take?

Mr. ECKER. Yes; I would say in picking, or at least in approving to whom we will rent a hotel or lease a hotel, that would be a most serious consideration.

Mr. GESELL. In other words, you can determine whether you are going to set up this hotel to take care of high-class trade, middle-class trade, or horse-racing trade?

Mr. ECKER. We endeavor to fit it to the particular hotel involved. For example, the Gotham would not make a good business, commercial traveler's hotel, whereas some other might.

Mr. Gesell. Have you jurisdiction to say as to any particular people who may wish to rent a room or some space in the hotel, whether or not they can so rent it?

Mr. Ecker. No.

Mr. Gesell. Can you tell us a little what type of decisions you have as to who shall sell them eggs and who shall sell them butter and where they shall buy their rugs and who shall wash their windows and all those questions of management, do you determine that or does the person who has the property under lease determine that?

Mr. Ecker. We determine that they shall be handled on a competitive-bid basis, on items of that character.

Mr. Gesell. You keep some control over that, in other words, in the sense that you set up the terms under which the items shall be bid for?

Mr. Ecker. It must depend on the individual case that is involved. I can't make a general answer.

In some situations, the hotel is rented or leased to a hotel concern outright. At that time, then, the entire management is in their hands, just the same as if all we held was a mortgage on the property, so to speak.

Mr. Gesell. Yes.

Mr. Ecker. In other instances the hotel company is operating it for our account, and our supervision there, of course, is much more direct.

Mr. Gesell. Do you have pretty detailed operating reports which you receive from them?

Mr. Ecker. Yes; very.

Mr. Gesell. Room rental reports and that sort of thing?

Mr. Ecker. Sure; very detailed. As I testified, some of our men are technically trained. We have men in our comptroller's division who are our hotel men and come out of hotel organizations, and have specialized in the subject.

Mr. Henderson. Now, take the troubles that go with ownership, that is, the disputes down below. Do you have many people appealing to you and trying to get you to adjudicate a difficulty because you are the owner?

Mr. Ecker. As far as I am concerned, no, I don't think so, Mr. Henderson. I don't know if you could give me an example of what you have in mind.

Mr. Henderson. Let's say in one of these things you have a dispute on union organization, or something like that. Would the union sometimes come to you because you are the residual owner?

Mr. Ecker. I would say generally not, because that is within the jurisdiction of the operating concern.

Mr. Henderson. But you do at times, I suppose, get the bothers that go with management?

Mr. Ecker. We have bothers, yes—yes, that go with management; yes, sir.

Mr. Hayes. Mr. Ecker, the third largest item on table 230 has not, I believe, been mentioned in this discussion, that is, dwellings, aggregate 52,000,000.[1] What are dwellings, 1- or 2-family houses?

Mr. Ecker. Technically, they run up to 4-family houses.

[1] See Hearings, Part. 10–A, p. 230.

Mr. ECKER. Yes; but the bulk are one and two.

Mr. HAYES. What is your management policy in connection with dwellings?

Mr. ECKER. Those are very largely handled by our correspondents, you see. Those are made through this correspondent organization..

Mr. HAYES. Are they mostly correspondent loans?

Mr. ECKER. Yes; most of them.

Mr. HAYES. Do you have any of them around the metropolitan area of New York?

Mr. ECKER. Not a great many; a certain number.

Mr. HAYES. Would they, too, be correspondent loans?

Mr. ECKER. No; they would be handled direct from the home office.

Mr. HAYES. Is there any other territory outside of metropolitan New York where the management would reside in the home office?

Mr. ECKER. No.

The CHAIRMAN. You are speaking of these as loans. They represent property owned?

Mr. ECKER. Yes. I should have said that they are property owned, but they are handled by the correspondent.

The CHAIRMAN. Then you shed yourself of managerial responsibility with respect to these dwellings?

Mr. ECKER. Only supervisory. It is true that our correspondents sometimes have two organizations, one for handling real estate and one for making new loans. But practically speaking, it is a correspondent's job.

Mr. GESELL. Now, I wanted to consider with you——

Mr. HAYES (interposing). Before you go into that, Mr. Gesell, on these correspondents, the handling of these dwelling properties by correspondents, are those correspondents in the same position to your company that, for instance, a real-estate firm, like Pease and Elliman would be in a New York apartment?

Mr. ECKER. Not quite. The correspondents here are mortgage-loan correspondents for a certain territory, and they have the exclusive right of making dwelling loans for us in that territory.

Mr. HAYES. I mean with respect to the management.

Mr. ECKER. And with respect to the management, too, but our method of getting supervision is through these field officers and also having supervisors and the assistant supervisors that I spoke of in the home office that go out through these territories to go over the properties also. In addition, there are maintenance men that go out as well and check up on it.

Mr. HAYES. Isn't that substantially what you do in the management of an apartment house?

Mr. ECKER. Except that the correspondent is a long-term arrangement, generally speaking, and exclusive for a certain territory. As for the apartment house, the particular real-estate firm has jurisdiction only over that particular apartment house. There may be another real-estate firm managing the apartment house up the street or on the next block.

Mr. HAYES. As far as the work performed is concerned, they are substantially the same?

Mr. ECKER. Very much.

Mr. GESELL. Now, I wanted to consider with you for a short time some of the larger mortgages of the company on which interest is overdue. Let's take the first five such mortgages as shown in the questionnaire as being the largest on which interest is overdue as of December 31, 1938.

Mr. ECKER. Do you have a page on this?

Mr. GESELL. I referred to the questionnaire.

Mr. ECKER. Oh, yes.

Mr. GESELL. I have a summary of the questionnaire which might help you, if you wish to look at it.

Mr. ECKER. Yes. I have in mind what you asked about.

Mr. GESELL. Largest of those mortgages in which interest is overdue is the Empire State, is it not?

Mr. F. W. ECKER. That is right.

Mr. FREDERICK H. ECKER. May I speak about that, because I am familiar with that particular transaction?

Mr. GESELL. I have no objection at all. I would just as soon examine Mr. Ecker, Sr., with respect to the Empire State as anyone else.

Mr. FREDERICK H. ECKER. That really should not be classified as a past-due mortgage or overdue interest, because it has been dealt with in the manner that the witness referred to where there has been an adjustment of interest. That loan has not been actually in arrears for taxes or for interest, but the interest was adjusted; during the period we have had the property, we have had 2.82 percent interest during all the period. We felt that the loan was very well based when it was made, and we are satisfied as to the value and that the project was well financed, and we feel today that if we ever had to take that property, it would not result in a loss. No, that is a sample of a very large loan's effect.

Mr. GESELL. Might I suggest to the committee, please, if Mr. Ecker is to testify here, we proceed in an orderly fashion by question and answer on the subject and that he may explain in any way he wishes as we come topic to topic.

Senator KING. You asked about the Empire State.

Mr. GESELL. I have no objection to it.

Senator KING. There is no impropriety in his giving his opinion of it.

The CHAIRMAN. I think Mr. Ecker will answer the questions as you propound them without hesitation.

Mr. GESELL. You say——

The CHAIRMAN (interposing). I say I have no doubt he will answer the questions.

Mr. GESELL. Mr. Ecker, that was a mortgage for $27,500,000, was it not?

Mr. FREDERICK H. ECKER. Yes.

Mr. GESELL. When was it made?

Mr. FREDERICK H. ECKER. My recollection is it was made in the latter part of 1929. It has been discussed or negotiated before that but the acceptance of the loan was actually given then.

Mr. GESELL. Our record indicates the loan application was made in November '29, and was authorized by the real-estate committee in December of '29.

Mr. FREDERICK H. ECKER. That is correct, and that is the record; but it was discussed earlier than that.

Mr. GESELL. Now, what type of mortgage was it? What were the terms of the mortgage as to interest and principal payments?

Mr. FREDERICK H. ECKER. Is there any objection to my saying that we first agreed to make a loan of $24,000,000 on a 50-story loft building?

Mr. GESELL. Not at all.

Mr. FREDERICK H. ECKER. Subsequently—as a matter of fact, the financing of that operation was not accomplished and we subsequently agreed to loan $27,500,000 on an 85-story office building. That is the building that is there today.

The CHAIRMAN. What is the difference between a loft building and an office building?

Mr. FREDERICK H. ECKER. A loft building is one in which the floors are open and used for loft purposes, for light manufacturing; and the office building, of course, is for offices, needing a great deal more construction.

The CHAIRMAN. Was this discussion with respect to the loft building begun before, long before the old hotel was taken down? It was, was it not?

Mr. FREDERICK H. ECKER. Yes; it was before the old hotel was taken down.

Mr. GESELL. Now, what were the terms of the mortgage finally made?

Mr. FREDERICK H. ECKER. The loan we finally made of $27,500,000 was at 6 percent during construction, as I remember it, and for a short time 5½ percent, and 5 percent thereafter. The term, according to my recollection, and please remember I am speaking solely from recollection, the mortgage was made to expire in 1950. You probably have the record there.

Mr. GESELL. It was to be 5½ percent up to '40 and 5 percent after that.

Mr. FREDERICK H. ECKER. If that be the terms, I know there was an interval in which it was to be 5½ percent.

Mr. GESELL. What were the provisions with respect to amortization of the loan?

Mr. FREDERICK H. ECKER. There were provisions and the exact amount I would have to refer to the record for. You probably have it, haven't you, Mr. Gesell? It was something like 2 percent a year, as I recall it, but the actual figure I would like to refer to the record.

Mr. GESELL. Now, when was an appraisal made of the building? Do you recall the latest one you had? It was in 1929, was it not?

Mr. FREDERICK H. ECKER. When the loan was made. May I say that when an application is accepted it is always conditioned upon plans and specifications, when they are finally drawn, being made satisfactory to us. In this instance when the plans and specifications were brought to us they were approved, gone over, checked in detail by both engineers and architects. That was satisfactory. The architect gave us his opinion of what it would cost to build that building. We subsequently checked that with the builder. We were satisfied that the cost of the building would be in accordance with our appraisal.

Now, you ask what appraisal was made since. We have known the history of the property as it has gone along. There would be no object in going back and reappraising it. We have had reports, maybe monthly, maybe quarterly, from the accountants that keep the records, keep the books of the office building. So that we know what the income has been right along, what the experience has been. There would be no object in going over it and reappraising it. We know as much ourselves about it as anybody outside could know.

Mr. Gesell. I haven't asked you about reappraisal. I asked you when the property was appraised and for how much?

Mr. Frederick H. Ecker. I thought you said the last appraisal. It was appraised when we agreed to make the loan and there my recollection is that we valued the land at $17,000,000, and that we valued the building at $29,000,000, making $46,000,000 in all.

Mr. Gesell. That is the last appraisal?

Mr. Frederick H. Ecker. May I just say an important consideration there was to be satisfied that the undertaking had ample financial arrangements made. That certificate came to us from sources that we had relied upon and subsequently found to be correct, that $27,500,000 was the first mortgage, $12,500,000 to be raised by the sale of a secondary interest bond, perhaps an adjustment bond, and $10,000,000 in cash, making a provision for financing to the extent of $50,000,000 for property which we estimated would cost $46,000,000.

Mr. Gesell. That was the last appraisal that has been made on the property, was it not, the one made at that time?

Mr. Frederick H. Ecker. We kept track of it from day to day and have our opinion of the situation and the value of it. There wasn't any time when we haven't known about it.

Mr. Gesell. Was it the last appraisal, sir?

Mr. Frederick H. Ecker. Do you mean a formal written appraisal, reviewing the value of the land, reviewing the value of the building? There has been none. We made our appraisal as we were given the operation of the property.

Mr. Gesell. What value is the property carried at now on the books of the company?

Mr. Frederick H. Ecker. Of our company?

Mr. Gesell. Yes, how does it show?

Mr. Frederick H. Ecker. Do you mean as a mortgage?

Mr. Gesell. Yes.

Mr. Frederick H. Ecker. The mortgage is carried at twenty-seven million instead of twenty-seven million five hundred. That was a part of the adjustment under which we received $500,000 on account of the principal.

May I proceed with my recollection of this transaction?

The Chairman. I am sure it would be acceptable.

Mr. Frederick H. Ecker. This building was finished during the beginning of the depression, which has been more deep and longer than could possibly have been anticipated. The building has not realized what was expected of it in the way of rentals. It is excellently located, two great terminals, the Pennsylvania on the west and the New York Central on the east, at Thirty-fourth Street, which is a focal center, and if we had normal times, it is our judgment that building would have been rented and paying well as an investment.

Under the conditions that have obtained, it has not been a success. They have not been able to rent it. The income has been quite insufficient to pay the interest on the mortgage. We have only the obligation of the building company itself, and the security of the building. The property did not produce income enough to pay the interest, and that has been one of the cases referred to where there was an adjustment made.

The CHAIRMAN. You feel that tenants looking for a good office location might well turn their eyes to the Empire State Building?

Mr. FREDERICK H. ECKER. I do think so. It is a convenient location. It is a very unusual building, the highest building in the world and spectacular in its construction and its appearance, and it attracts a great deal of attention. I was going to say inasmuch as the income was not enough to pay the interest on the mortgage, we have in the first place accepted a lesser amount, 3 percent, 2 percent, 2½ percent, and we charged up, did not mark off, the difference between what we received and the accumulating interest, until a subsequent date when it was necessary for the owners to make some material changes in the building, advance some money for taxes, advance some money to make alterations for tenants involving some two or two hundred fifty thousand dollars, and we then agreed at a conference with the owners of the building that if they would give us five hundred thousand dollars, the addition to be applied to the principal, we would fix the interest rate at 2½ percent and would make that adjustment, and cancel the accumulated interest which we continued to carry on our books.

Now, as a further matter of negotiation we did not write off all that interest, but agreed we would write it off provided the future installments of interest were made in accordance with that agreement, as, for instance, there was 2½ percent to be paid on the first of March, I believe, '37—I am not sure of the date—and if that were paid at the time, we would cancel some million dollars of the accumulated interest. If the next interest were paid, something more would be canceled. So that we carried it along, did not forgive them, and did not write out of our books the entire accumulated unpaid interest, and would only do so providing the future payments of interest which we agreed should be paid were met as they fell due.

Now, if we had foreclosed—I trust this is a matter you recognize as part of the situation—at the time of the first default, we would have owned that building. We are satisfied we could not have secured any better return on it than the management of the building, which is very capable, and it would have made the difference to us that had we become the owner we would not have received some $3,800,000. In other words, we are better off by $3,800,000 by carrying on this policy of adjustment of interest, and I say during the time we have had it the actual return to us has been 2.82 percent.

Mr. HENDERSON. That is on the face value of twenty-seven million?

Mr. FREDERICK H. ECKER. Twenty-seven million five, and now it is twenty-seven million.

Mr. GESELL. Do you recognize this paper which I show you as containing the terms of the interest adjustment which was made?

Mr. FREDERICK H. ECKER. I do. I believe that states what I just explained.

Mr. GESELL. I wish to offer this document for the record.

The CHAIRMAN. It may be received.

(The document referred to was marked "Exhibit No. 2301" and is included in the appendix on p. 15524.)

Mr. GESELL. The total amount of the interest adjusted amounts to $10,000,000?

Mr. FREDERICK H. ECKER. No; four million two hundred sixty-two thousand.

Mr. GESELL. You are talking about back interest there, are you not?

Mr. FREDERICK H. ECKER. Yes; because we had received all but that.

Mr. GESELL. But then you also made an adjustment as to future interest, did you not?

Mr. FREDERICK H. ECKER. We made a future interest adjustment when we agreed to carry that loan at 2½ percent and to forgive the $4,000,000 in installments which had been accumulated and unpaid.

Mr. GESELL. Taking into account both what you forgave, which was owing, and the adjustment you made for the future, it amounted to $10,000,000, did it not?

Mr. FREDERICK H. ECKER. That I don't know. We agreed it would be 2½ percent until a date in 1943 which would appear in that document, if my recollection is right, and from then on it was to be 4 percent.

The CHAIRMAN. You mean, Mr. Gesell, write down interest total there?

Mr. GESELL. That document shows that for the period from September 1, 1937, to September 1, 1938, 1 year, the interest was reduced to 2 percent from 5 percent, making a difference of 3 percent, or $810,000, on the amount of the mortgage; that for the period from September 1938 to March '45, a period of 4½ years——

Mr. PIKE (interposing). '43.

Mr. GESELL. '43, the interest was reduced to 2½ from 5, which makes the total interest of 11 percent, or $3,037,500.

The CHAIRMAN. Was this sacrifice of interest?

Mr. FREDERICK H. ECKER. That is the calculation of interest in the future, not in the past. I spoke of the interest accumulated in the past, and I think Mr. Gesell is projecting that and saying we might have collected that in the future.

Mr. GESELL. Exactly, I am asking how much interest you gave up, both past and future, by this adjustment in the terms of the mortgage. I don't think it is a question of projection; it is a question of fact.

Mr. FREDERICK H. ECKER. We certainly gave up nothing in the future. We didn't have it.

The CHAIRMAN. This is clear. It is a matter of fact. That interest up to date, which was not received, is an actual income which was sacrificed.

Mr. FREDERICK H. ECKER. $4,262,000.

The CHAIRMAN. And that interest which is represented by the difference between the original rate and the new rate is a sacrifice of future interest.

Mr. FREDERICK H. ECKER. Our board of directors authorized the continuance of that mortgage at 2½ percent, and you can't say they were entitled thereafter to get 5. That was an adjustment that was made.

The CHAIRMAN. The total of all of these items, according to your computation, was about $10,000,000?

Mr. GESELL. It is exactly $10,000,000.

The CHAIRMAN. But it remains true that part of that is interest in the past and part of it is interest which you might have obtained if there had been no adjustment.

Mr. FREDERICK H. ECKER. If we hadn't agreed to take a lesser amount, which is, of course, entirely within the power of the board of directors to do.

The CHAIRMAN. In other words, the work-out of this particular piece of property resulted in the Metropolitan sacrificing a certain rate of interest for a certain period.

Mr. FREDERICK H. ECKER. That is quite right. To charge or say that we lose interest for the future is like saying that when we have foreclosed any piece of property that had interest to run for 20 years, that we have lost interest for 20 years. We haven't.

Mr. GESELL. But you didn't foreclose here either, did you?

Mr. FREDERICK H. ECKER. No; we made a much better adjustment. We got 2.82 percent on the mortgage while we owned it. We gained, in our best judgment, $3,800,000 which we would have actually been out of pocket during this period if we had owned the property during the time we have not disturbed the ownership.

Mr. GESELL. Who negotiated adjustment? Did you negotiate for the Metropolitan?

Mr. FREDERICK H. ECKER. For the Metropolitan, of course. I had the authority to do so.

Mr. GESELL. I am not questioning your authority to make such negotiation. I don't think that was implicit in my question. Who negotiated for the Empire State?

Mr. FREDERICK H. ECKER. Two men. One was ex-Governor Smith, of New York, who was president of the Empire State Building Co., I think is the name of the corporation, and Mr. Brown, who has an official position with the company, I don't know what it is.

Mr. GESELL. Who initiated the negotiation? Did the Metropolitan or the Empire State?

Mr. FREDERICK H. ECKER. Oh, the Empire State.

Mr. GESELL. On what basis did they come to the Metropolitan?

Mr. FREDERICK H. ECKER. We had been having statements, as I say, at intervals from the accountants, regarding the operation of the property, and they did not have income enough to pay our interest and came and said so, and on previous occasions, they hadn't money enough to pay the interest and the adjustment made was on the condition that the stockholders of that company some way provided the deficits.

Mr. GESELL. Who controlled the tenants of the building?

Mr. FREDERICK H. ECKER. I presume the corporation of which ex-Governor Smith was president.

Mr. GESELL. Who are the people really interested in the Empire State Building?

Mr. FREDERICK H. ECKER. You mean to say the stockholders?

Mr. GESELL. Yes.

Mr. FREDERICK H. ECKER. Well, I have seen a list of them since we made the loan. I did not know them, other than one John Raskob and Governor Smith. I think prior to that I did not know actually who the stockholders were. Mr. du Pont is interested, but I do not know now whether he is a recorded stockholder of the company.

Mr. GESELL. Did the stockholders of the Empire State control who the tenants of the building were to any extent?

Mr. FREDERICK H. ECKER. I don't know. The corporation must have controlled it. Whether the stockholders did, I don't know, only to the extent that the stockholders, I presume, elect the board and the board does.

Mr. GESELL. You understand what I mean? Who brought the tenants in there? Did the tenants come into the building to some extent because of the nature of the stockholding interests in the building?

Mr. FREDERICK H. ECKER. Oh, I could only surmise that. Governor Smith was prominent, of course. He was president of the corporation, and I presume he did a good job, as good a job as could have been done.

Mr. GESELL. When this matter came to you, was there any discussion that if the Metropolitan took over the building the tenants would leave the building?

Mr. FREDERICK H. ECKER. No.

Mr. GESELL. No mention of that whatever?

Mr. FREDERICK H. ECKER. None whatever.

Mr. GESELL. Were you given an opportunity to foreclose had you wished to? I know you had a legal right. Was it put up to you that way?

Mr. FREDERICK H. ECKER. It wasn't discussed. We could foreclose or we could accept that adjustment, and we felt it was to the interest of the company to accept the adjustment. There wasn't an actual proposal, "You take this or you must foreclose." It was just a statement, "You have known that the building isn't earning sufficient to pay the interest. There isn't any other source from which to raise it, except we can give you these contributions that will make up the lack of earnings in the building to pay the amounts which we are proposing to pay."

Mr. HENDERSON. That was the half billion you spoke of, was it?

Mr. FREDERICK H. ECKER. Altogether three-million-eight-hundred-thousand-odd, $3,800,000,000, over the whole period of time.

Mr. HENDERSON. Where did that come from?

Mr. FREDERICK H. ECKER. It was brought to us by the Empire State Building Corporation; who supplied the money, I don't know.

Mr. HENDERSON. You didn't ask questions?

Mr. FREDERICK H. ECKER. I do not know.

Mr. HENDERSON. You as owners of the property had 44 percent, and you had as a cushion for your loan something like $17,000,000?

Mr. FREDERICK H. ECKER. There was a cushion for our loan of $23,500,000.

Mr. HENDERSON. I mean on the building itself.

Mr. FREDERICK H. ECKER. Oh, the building and the corporation's finances and ability to carry on that building.

Mr. HENDERSON. Did you have any claim to that extra six? That is what I am getting at.

Mr. FREDERICK H. ECKER. No; only the obligation of the corporation. You see, in a building, or any enterprise of that magnitude, it could hardly be expected to be put on a paying basis immediately. A building of that size would take 2 or 3 years in normal times, maybe 4 or 5 years, before it would be satisfactory.

Mr. HENDERSON. So, the corporation had to have something in excess of its actual cost?

Mr. FREDERICK H. ECKER. That is what gave us confidence in the operation; yes.

Mr. HENDERSON. Do you know whether there was any return paid on the $12,000,000?

Mr. FREDERICK H. ECKER. My understanding is there was never a penny paid to any interest that was secondary to ours.

Mr. HENDERSON. I gather that you had a very important judgment to make, and you decided that if you refused the possession you would probably not have an excess of value over your mortgage—that is, some part of the $12,000,000 and some part of the——

Mr. FREDERICK H. ECKER (interposing). We were satisfied we wouldn't have income equal to that which was being paid to us.

Mr. HENDERSON. As you looked at it as to capitalization of income.

Mr. FREDERICK H. ECKER. As we looked at it then, and as we see it now, if we could have done no better than the management of that building has done, we would have suffered a loss of $3,840,000.

Mr. HENDERSON. That is, you could not have, you might say, taken a second lien and sold for anything which——

Mr. FREDERICK H. ECKER (interposing). It is our judgment that under conditions that obtained in New York and have continued to obtain, we could not.

Mr. HENDERSON. Here is a $27,500,000 loan, now, as you had a forgiveness of accrued interest.

Mr. FREDERICK H. ECKER. A balance that hadn't been paid.

Mr. HENDERSON. A balance they didn't pay?

Mr. FREDERICK H. ECKER. Yes.

Mr. HENDERSON. That represents a sizable part of the admitted assets?

Mr. FREDERICK H. ECKER. We never carried it, and that is what I had reference to. It somewhat distorts this amount of interest unpaid. That really should not have been interest in arrears, because we made the adjustment, but technically it was, and therefore we included it there.

Mr. HENDERSON. But on the principal amount, you carried the principal amount?

Mr. FREDERICK H. ECKER. Carried the principal amount but no part of the interest.

Mr. HENDERSON. And that was the substantial assets item?

Mr. FREDERICK H. ECKER. $27,000,000.

Mr. HENDERSON. Now, on any part of your assets taken on the whole distribution, did you have at any one time a similar kind of decision to make as to whether you would take over or take an adjustment? You wouldn't have in $27,000,000 of farm mortgages at any one time, I guess. You might in connection with——

Mr. FREDERICK H. ECKER (interposing). In sum total, we might have much more than that, but no other instance where in a single item there was $27,000,000 involved.

Mr. HENDERSON. I don't recall, for example, whether you have holdings in any one corporation that got into similar difficulties that amounted to that.

Mr. FREDERICK H. ECKER. I am sorry, Mr. Henderson.

Mr. HENDERSON. Whether you had, say, in a railroad or some other corporation, as large an item where you had a similar decision as to whether you would take over.

Mr. FREDERICK H. ECKER. In the railroad situation you cannot take them over. We have more than 27 million in some of the properties. But you couldn't take it over as you would a piece of real estate and hold it and operate it.

I would be glad to say again that it is our best judgment that that is not a loan on which we will lose any money. We have a lower rate of interest, we have a better rate of interest than Government bonds paid us during that time, but, as for the future, if we must foreclose and take that property in the future, I sincerely believe it will not result in any loss.

Mr. HENDERSON. What is the average rate which is carried by your policy contracts?

Mr. FREDERICK H. ECKER. Do you mean the rate at which our premiums are calculated?

Mr. HENDERSON. Yes.

Mr. FREDERICK H. ECKER. It has been testified to that the premiums are made up of course of mortality tables, interest tables, and expense ratios. On interest return, 3 percent is the lowest basis on which our premiums are calculated.

Mr. HENDERSON. If you got 2½ percent to maturity, then you would be short about one-half of 1 percent on this.

Mr. FREDERICK H. ECKER. That isn't true with insurance. You see, there are two other factors. You might lose on the interest but make up on mortality or a saving on expense.

Mr. HENDERSON. I know, you make it up, there is no doubt of that, but it isn't up to the rate you have to get. There is an average on all assets.

Mr. FREDERICK H. ECKER. That is true on an asset of nearly $1,000,000,000 of Government bonds, and that is true of conditions today. We have nearly one billion of Government bonds that likewise do not pay 3 percent.

Mr. HENDERSON. How much of your assets are earning less than the 3-percent rate?

Mr. GESELL. I think Mr. Howe's figures showed a little over 31 percent.[1]

Mr. HENDERSON. So it is in that category that has to be made up by the other 69 percent?

Mr. FREDERICK H. ECKER. That is right.

The CHAIRMAN. This particular item is in the 30 percent?

---

[1] See "Exhibit No. 2266," appendix, p. 15496.

Mr. HENDERSON. It would fall into that; yes.

Mr. FREDERICK H. ECKER. Our life insurance, it has been testified to, is a long-range business. There are times in which the earnings are less, the interest is less. There have been times in which the mortality was very much greater than the tables on which we calculate our premiums, but over a long range we get the average back. If we don't in mortality, we expect to do it in interest.

Mr. HENDERSON. On that point, suppose that particular section flourishes and they do get on a very good basis, can you increase the interest rate?

Mr. FREDERICK H. ECKER. Not over 4 percent. We have agreed that it should be 2½ percent until a date in 1943, but if they do have earnings in excess of that 2½ we get it in reduction of the principal. They cannot pay out any money on any secondary interest, stock, or what not. And it goes to 4 percent in 1943.

Mr. HENDERSON. The rate goes to 4 percent at that time?

Mr. FREDERICK H. ECKER. Yes, sir; and any earnings over 2½ percent we get. Any earnings over the 4 percent we get until something like $7,750,000 of principal is paid. That is in that memorandum.

Mr. HENDERSON. That would mean you had about 7 years—suppose you got the 4 percent, you would have 6 or 7 years in which you would have 1 percent over your assumed rate of income.

Mr. FREDERICK H. ECKER. A good many investments, Mr. Henderson, made during this period will not yield us 4 percent for the next 7 years.

The CHAIRMAN. On the whole, your income is still substantially more than your disbursements?

Mr. FREDERICK H. ECKER. Oh, yes.

The CHAIRMAN. Your assets are increasing, are they not, all the time?

Mr. FREDERICK H. ECKER. Our assets are increasing. Of course, the company has a large surplus. I hesitate to refer to that because Mr. Gesell says it came up from time to time. But our earnings on surplus of over 309 millions of dollars are earnings which can be used to make up a deficiency of interest on reserve; that you know.

Mr. GESELL. At the time you took this investment, did you have an opportunity to share it with anyone else?

Mr. FREDERICK H. ECKER. No; nor would we if we had.

May I say there over long years of experience we found it better policy not to share a mortgage investment with anyone. If you have partners it isn't so easy to deal with—your financial adviser will tell you that, that you might have a partner that would want to foreclose, and you maybe wouldn't want to foreclose. It is more advantageous in a mortgage loan to either have it all or none.

Mr. GESELL. So there was never any consideration given at the time this investment was made as to whether anyone else should go with you on the risk?

Mr. FREDERICK H. ECKER. There wasn't the slightest consideration given to that. Of course, it wouldn't be our business to suggest it. Either they wanted it or they didn't.

Mr. GESELL. Was this proposition brought to you, or did you seek it?

Mr. FREDERICK H. ECKER. Oh, it was brought to us.

Mr. GESELL. The plans were all laid down when the building was brought to you?

Mr. FREDERICK H. ECKER. Sketched plans, outlined plans of what the building was to be. Our acceptance is subject to working plans, specifications being made satisfactory.

Mr. GESELL. Did you to some extent have a voice in what kind of a building this would be and how it would be constructed, and so forth?

Mr. FREDERICK H. ECKER. Yes; if it wasn't satisfactory to us we didn't make the loan.

Mr. GESELL. I mean——

Mr. FREDERICK H. ECKER (interposing). But that is very definite, that is a complete control.

Mr. GESELL. That would be on the construction determined upon but I am thinking more in terms of plans and specifications.

Mr. FREDERICK H. ECKER. The plans and specifications must be satisfactory or we were not obligated to make the loan. There we employed our own engineers and our own architect to advise us.

Mr. GESELL. What was the judgment of the board of directors with respect to making an investment of this tremendous size, this mortgage risk?

Mr. FREDERICK H. ECKER. It isn't tremendous in respect to our total assets. That is a relative term. Twenty-seven million to a company with five billion of assets isn't any greater than $10,000 might be to a proportionately smaller institution.

Mr. GESELL. I suppose it is one of the biggest investments of its kind ever made by anybody.

Mr. FREDERICK H. ECKER. On a single building; yes; but not a single project.

Mr. GESELL. Then you will pardon me for calling it a big investment.

Senator KING. Rockefeller Center called for over a hundred million of bonds; did it not?

Mr. FREDERICK H. ECKER. We have 36 million of bonds there. The investment is some 78 million in addition to that.

The CHAIRMAN. You have 36 million?

Mr. FREDERICK H. ECKER. Thirty-six million.

The CHAIRMAN. Of bonds on Rockefeller Center?

Mr. FREDERICK H. ECKER. We have.

Mr. GESELL. That was not a mortgage, though, was it?

Mr. FREDERICK H. ECKER. It was the investment made under the provisions of the law, with the obligation of the solvent corporation secured by adequate collateral. There is a slight difference between that form of investment and the mortgage.

The CHAIRMAN. Under the New York law you can buy bonds which are secured by real estate——

Mr. FREDERICK H. ECKER (interposing). One could.

The CHAIRMAN. More easily than you could give a real-estate mortgage.

Mr. FREDERICK H. ECKER. Not more easily, but you could buy it just as readily.

Mr. GESELL. What was the judgment of the board of directors with respect to—what were the considerations with respect to putting——

Mr. FREDERICK H. ECKER (interposing). It was the judgment of the real estate committee rather than the board, if that is what you mean, because under our bylaws and in compliance with the laws of the State of New York, no loan or purchase may be made that shall not first have been authorized by the board or a committee of the board appointed to supervise such investment.

Mr. GESELL. What was the judgment of the real estate committee with respect to making——

Mr. FREDERICK H. ECKER (interposing). Unanimously.

Mr. GESELL. I have been trying to finish a question, Mr. Ecker.

Mr. FREDERICK H. ECKER. I am sorry.

Mr. GESELL. What was the judgment of the real estate committee with respect to making an investment of this large amount in the city of New York, and was there consideration given as to whether it would be more desirable to put this amount of money out to work with a broader diversification?

Mr. FREDERICK H. ECKER. In just the form you asked the question. I must answer it by saying that the favorable action by the committee was unanimous.

Mr. GESELL. What consideration was given in the meeting of the board as to whether it would have been more desirable to diversify these funds?

Mr. FREDERICK H. ECKER. That particular question was not discussed, but this was a matter that was considered very carefully by the real estate committee, on which we have two very outstanding real estate experts, and they were consulted and they have given their best consideration to this transaction.

Senator KING. I assume you did have diversified loans?

Mr. FREDERICK H. ECKER. At that time, sir, we were having as many as one thousand at each meeting.

Senator KING. That is applications for loans which you considered?

Mr. FREDERICK H. ECKER. That we accepted. That would include all these——

Mr. GESELL (interposing). How long did one of those meetings last?

Mr. FREDERICK H. ECKER. That was correspondents' loans, everything included.

Mr. GESELL. How long does one of those meetings last?

Mr. FREDERICK H. ECKER. From 1 to 3 hours, depending on the business to be transacted.

Mr. GESELL. And you would consider at one of those meetings as many as a thousand loans?

Mr. FREDERICK H. ECKER. Counting our correspondent loans. Now, there is a difference in considering a single loan of a large amount and a volume of loans from a correspondent which is accepted under an arrangement made with these correspondents, and those arrangements are known to the committee; and which, may I say, have been carefully gone over, combed over, by the experts we have in our real-estate division, and they having passed on each of those loans, they come with the recommendation of the comptroller and his assistants to the real-estate committee.

Mr. GESELL. Now, I want to discuss some of those other mortgages. Which of you gentlemen wishes to testify?

Mr. HAYES. Before you leave the one you are on, there is one question that occurs to me in connection with the Empire State. Do I understand you are even at the present time receiving financial statements showing the operations of that building?

Mr. FREDERICK H. ECKER. We do.

Mr. HAYES. Do those financial statements disclose the inability presently of that building to pay the 2½ percent presently provided for?

Mr. FREDERICK H. ECKER. Yes, sir; they do disclose that the income is insufficient. It doesn't today yield 2½ percent, and there is a contribution from someone each time interest has fallen due to make up the payment we receive.

Mr. HAYES. You are not in position to forecast the possibilities of that building in 1943 to pay the 4 percent?

Mr. FREDERICK H. ECKER. No; except the gradual improvement in conditions, and our best judgment is in 1943 it will be on a paying basis.

Mr. HAYES. And if it is not in a position to pay 4 percent at that time, it will make it necessary to have a recasting.

The CHAIRMAN. It occurs to the chairman to remark that if the T. N. E. C. is to succeed in the objectives it undertook, perhaps the Empire State and a lot of other properties will be making money in 1943.

Mr. GESELL. Now, with respect to these other mortgages, Mr. F. W. Ecker, do you wish to testify with respect to these other mortgages?

Mr. F. W. ECKER. What are they?

Mr. GESELL. What about 20 Wacker Drive, the Chicago Opera House? Are you familiar with that property?

Mr. F. W. ECKER. I know we have had an average income there of 3.44 percent.

Mr. GESELL. That was a loan of $10,000,000 made in 1928, was it not?

Mr. F. W. ECKER. That is right.

Mr. GESELL. And the interest on that ranged on the terms of the mortgage from 5½ to 5 percent?

Mr. F. W. ECKER. I don't know whether I have all the details here or not. Yes; I think that is right.

Mr. GESELL. The questionnaire return indicates that there is $1,225,000 of interest past due as of December 31, 1938.

Mr. F. W. ECKER. Yes. I think that is right. I haven't that figure right here.

Mr. GESELL. And taxes of $19,000 delinquent as of that time.

Mr. F. W. ECKER. Nineteen thousand dollars on a $10,000,000 property?

Mr. GESELL. That is what the questionnaire shows.

Mr. F. W. ECKER. I don't know just why that would come about, but that is possible.

Mr. Gesell. Why have you not foreclosed in the case of that piece of property?

Mr. F. W. Ecker. For the similar reason that that property is working itself out also.

Mr. Gesell. Will you explain how it is working itself out?

Mr. F. W. Ecker. I say, we have averaged 3.44 percent over a period of time. There was a time when it was paying the full interest of 5½ percent, and then it dropped on down. As to just the details of it, I know that an arrangement was made fairly recently to adjust the interest there, and at that time we received additional collateral.

Mr. Gesell. I have no further questions with respect to the Metropolitan's urban mortgages and real estate; if the committee please, and I think it is too late to take up the question of the bond account at this time.

The Chairman. Are there any other questions?

Mr. Kades. Do I understand, Mr. Ecker, that none of your real-estate loans are ever passed upon by the board of directors?

Mr. F. W. Ecker. Oh, no. The real-estate loans are passed upon by our real-estate committee, which under our bylaws is the authority to handle such matters as are delegated to them; but the action of the real-estate committee is approved by the board of directors at a subsequent meeting, or ratified, rather.

Mr. Kades. Are they ratified specifically or in bulk? For example, Mr. Ecker, Sr., said he took up 1,000 loans at one real-estate committee meeting. Are the entire 1,000 loans ratified in bulk, or is any particular loan passed upon?

Mr. F. W. Ecker. The purpose of this arrangement is so that the total of 25 directors won't have to sit down and spend as much time as the real-estate committee does, and of course they are not specialists in real estate any way, but the minutes of the meeting of the real-estate committee are presented to the board in typewritten form. They may take them with them or go through them at the meeting, or any action that they desire, and those minutes are ratified and confirmed and approved, whatever the legal term may be.

Mr. Kades. Was the loan on the Empire State Building ever approved by the bord of directors?

Mr. F. W. Ecker. My assumption is that only in the same manner that I speak of.

The Chairman. Are there any other questions? You are through with Mr. Ecker?

Mr. Gesell. Until next Tuesday.

The Chairman. Do you want to proceed with the bond story next Tuesday?

Mr. Gesell. Next Tuesday. We have a discussion of cash balances scheduled for next Monday.

The Chairman. Do you want a session on Friday, Mr. Gesell?

Mr. Gesell. If it is just the same with you, I would like to go over until Monday.

Mr. Henderson. Mr. Ecker and I have decided that.

Mr. Gesell. If you can recess until Monday it will be very satisfactory.

The CHAIRMAN. Let me express my appreciation to the witnesses, one and all, for their time this afternoon.

Mr. FREDERICK H. ECKER. One witness expresses his appreciation to Mr. Gesell for allowing him to help.

The CHAIRMAN. Mr. Howe, have you completed your computation? [1]

Mr. HOWE. Yes; I have, Senator.

The CHAIRMAN. Will you please put it in the record, then?

Mr. HOWE. Of the $902,022,000 unpaid principal amount of mortgages owned by the Metropolitan Life Insurance Co. on December 31, 1938, $191,086,000 represented loans in the amount of less than $25,000 each. There were 58,622 of these loans. $710,936,000 represented the unpaid principal amount of loans of $25,000 or more. There were 2,405 of these loans.

The CHAIRMAN. The committee stands in recess until 10 o'clock on Monday morning.

(Whereupon, at 3:30 p. m., the committee adjourned until Monday, February 26, 1940, at 10 a. m.)

---

[1] See supra, p. 15155.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, FEBRUARY 26, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Wednesday, February 21, 1940, in the Caucus Room, Senate Office Building, Representative Hatton W. Sumners presiding.

Present: Representative Sumners (vice chairman); Senator King; Representative Reece; Messrs. Lubin, Kades, Henderson, Pike, Kreps, and Brackett.

Present also: Harry D. White, Department of the Treasury; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; and Helmer Johnson, attorney, Securities and Exchange Commission.

The Vice Chairman. The committee will come to order. Are you ready to proceed, Mr. Gesell?

Mr. Gesell. I am; yes, Judge Sumners.

One or two matters have come up with respect to the hearings last week which I would like to clarify before we get started this morning. Mr. Thomas A. Buckner, of the New York Life, who testified, has sent me a letter calling attention to one or two slight inaccuracies he made in connection with his testimony in giving figures, and he has asked this letter to be included in the record so as to clarify his testimony. I think that is desirable.

The Vice Chairman. The letter may be included.

(The letter referred to was marked "Exhibit No. 2302" and is included in the appendix on pp. 15524, 15525.)

Mr. Gesell. When Mr. George Van Schaick was on the witness stand a question was raised as to what the exact wording of chapter 40 of the laws of 1933 of the State of New York was. The committee will recall that that was an act giving emergency powers to the superintendent of insurance. I now have a copy of that chapter of the laws and, in response to the suggestion of the committee, would like to offer it for the record.

The Vice Chairman. It may be included in the record.

(The document referred to was marked "Exhibit No. 2303 and is included in the appendix on p. 15525.)

Mr. Gesell. Furthermore, I have a letter from Mr. Vincent P. Whitsitt, Association of Life Insurance Presidents, advising the committee with respect to the attitude the association took in regard to legislation involving real estate or real estate mortgages. That should be offered for the record.

(The letter referred to was marked "Exhibit No. 2304" and is included in the appendix on pp. 15526–15527.)

Mr. GESELL. Now, today if the committee please, we are going to consider life-insurance company cash balances, and just to refresh the committee's recollection, referring to "Exhibit No. 2250," the committee will observe, on table 102 of the exhibit, the percentages of cash held by the various 26 companies in relation to their total admitted assets.[1]

It will be observed that the percentage of assets in cash ranges from 5.02 percent in the case of the Penn Mutual down to as low as 0.71 percent in the case of the Western and Southern.

Table 98, which is also in evidence before this committee, shows on the very top line the increase in cash which has occurred since 1929, cash rising from $102,000,000 in '29 to $665,000,000 in 1938.[2] The committee will also recall that Mr. Howe in testifying introduced "Exhibit No. 2264" which is in the record, which shows that cash increased for the average of the 26 companies from 0.69 percent of the assets in 1929 to 2.74 percent of the assets as of December 31, 1938.[3]

There are two other tables relating to cash balances.[4] These are also in evidence before the committee and show the cash balances for each of the 26 companies for the period '29 to '38 and in addition the interest income on cash balances received by the various companies. Those interest earnings are shown on 107.

The first witness this morning is Mr. Saylor.

The VICE CHAIRMAN. Mr. Saylor, will you take the stand? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SAYLOR. I do.

TESTIMONY OF GEORGE SAYLOR, VICE PRESIDENT, CHASE NATIONAL BANK, NEW YORK, N. Y.

Mr. GESELL. Mr. Saylor, will you state your full name and your position for the record, please, sir?

Mr. SAYLOR. I am George H. Saylor, vice president, Chase National Bank, located in the Metropolitan branch and in charge of that branch.

Mr. GESELL. What is the Metropolitan branch of the Chase bank?

Mr. SAYLOR. One of the 33 domestic branches.

Mr. GESELL. Where is it located?

Mr. SAYLOR. At Fourth Avenue and Twenty-third Street, New York, in the building of the Metropolitan Life.

Mr. GESELL. You say it is in the Metropolitan Life Building?

Mr. SAYLOR. That is right—one of them.

Mr. GESELL. The Metropolitan is the biggest customer of that branch, is it not?

Mr. SAYLOR. It is.

Mr. GESELL. How long have you been connected with the Metropolitan branch?

---

[1] See Hearings, Part 10–A, p. 102
[2] Ibid., p. 98.
[3] See appendix, p. 15495.
[4] See Hearings, Part 10–A, pp. 106–107.

Mr. SAYLOR. Since 1928 actively, and inactively even before that. I have been in charge since 1933.

Mr. GESELL. Now, can you tell us whether or not the Metropolitan is the biggest customer of the Metropolitan Bank?

Mr. SAYLOR. It is the largest customer of the Metropolitan branch.

Mr. GESELL. What type of account does it carry there? Will you give us some idea how that is handled?

Mr. SAYLOR. It is purely a checking account. There are no loans, of course, but there are many transactions because of its size; cashing checks and making deposits, checking, all the transactions that take place between large corporations and banks.

Mr. GESELL. What we want to get is some idea of what those transactions were. That is a checking account, you say?

Mr. SAYLOR. Checking account.

Mr. GESELL. How much does the balance run?

Mr. SAYLOR. There is in possession of Mr. Aldrich all of those balances which were given.

Mr. GESELL. Yes; I have that information. I just thought if you could give us a round figure as to what the balance runs it would help at this time. It is in the neighborhood of $30,000,000 or $40,000,000, is it not?

Mr. SAYLOR. Yes; it would be all of that. Mine is secondary information. It was all furnished.

Mr. GESELL. Very well. I will come to that.

How many checks do you clear a year, have you any idea, for the Metropolitan?

Mr. SAYLOR. I might give you the information on a monthly basis.

Mr. GESELL. Certainly.

Mr. SAYLOR. In the month of January there were 910,000 separate transactions; the checks paid in that month were $569,000.

Mr. GESELL. That is more or less typical of what happens from month to month, is it not?

Mr. SAYLOR. I would say this was an average month.

Mr. GESELL. What are the totals for the year? Do you happen to have those?

Mr. SAYLOR. No, because we made it up only for the month of January, but if it is a normal month we multiply 910,000 by 12; 10,000,000 separate transactions.

Mr. GESELL. About 10,000,000 separate transactions.

Now, I would like to offer for the record at this time a schedule which has been prepared from the Convention Form Annual Statement of the Metropolitan Life Insurance Co., which is filed with all the various State insurance officials. This is simply a schedule showing the balances carried by the Metropolitan Life Insurance Co. in the various brackets, the portions of those balances carried in interest, those carried not of interest, the total balances, and the amount of insurance received. This schedule shows that the total deposits in New York City amounted, as of December 31, 1938, to $80,198,422.30. That is balances not at interest. Balances at interest total $16,950,000, making their total New York City balances $97,148,422.30.

The total amount of money on deposit with the Chase Bank, according to these figures, was $31,063,878 not at interest, and $3,000,000 at interest, or a total of $34,063,878.

(The schedule referred to was marked "Exhibit No. 2305" and is included in appendix on pp. 15527–15528.)

Mr. GESELL. Now, Mr. Saylor, can you give us some idea of the history of the Metropolitan branch of——

The VICE CHAIRMAN (interposing). Mr. Gesell, right in that connection, could you, by a few questions, disclose the general character of the accounts for which these checks were drawn? May I ask you what items in the main did this enormous number of checks cover. Was it to pay salaries and liabilities under the policies through your bank?

Mr. SAYLOR. Well, they paid claims. I will be frank with you. I am not an operating officer, so these details are not in my possession. They refer to pay-roll checks, checks paid over the window, and for paying claims, things of that sort.

The VICE CHAIRMAN. Have you any idea what additional expense your bank incurs in order to handle this account?

Mr. SAYLOR. I have no idea of the expense.

The VICE CHAIRMAN. Who does?

Mr. SAYLOR. The last report was made up in that connection by the auditing and controllers department, and I have never had a copy of it.

The VICE CHAIRMAN. But who in your bank has any idea what it costs you in clerical help and office space and general equipment to handle 10,000,000 checks a year?

Mr. SAYLOR. The controller's department.

The VICE CHAIRMAN. Who is he? Where is he?

Mr. SAYLOR. He is in New York.

The VICE CHAIRMAN. Send a wire up there and get him to tell you, will you?

Mr. SAYLOR. Will you repeat what you want? It will be difficult for me to tell him. It will be difficult for me to tell him unless you repeat it to me.

The VICE CHAIRMAN. You testified that you handled about 10,000,000 checks a year for this company, and it is showing a lot of money on deposit. If I were handling your case, I would try to show how much expense I incurred to handle that account I thought maybe you had the evidence.

Mr. SAYLOR. I think that has been done.

The VICE CHAIRMAN. Then it is all right.

Mr. SAYLOR. We can get it.

The VICE CHAIRMAN. I won't press the question.

Mr. GESELL. Perhaps we can get at it this way a little, Mr. Saylor. Is the account with the Metropolitan branch a profitable account for Chase?

Mr. SAYLOR. I believe it is, if it could loan the money, that is.

Mr. GESELL. You say, if it could?

Mr. SAYLOR. Yes.

Mr. GESELL. Let's take the realities of the question. I take it from your question or your answer that it can't. So is it profitable for the branch or not profitable?

Mr. SAYLOR. I would say it is profitable.

Mr. GESELL. Can you give us an idea how profitable the account is?

Mr. SAYLOR. I would like to look at the report that is made up in that connection, which I think is available here, but I haven't got it.

Mr. GESELL. If it is here in the room, I would like you to get hold of it.

Was there a special study of it?

Mr. SAYLOR. I believe there was a study made, Mr. Gesell. The profit may have ranged between $200,000 or $300,000. I have no copy of the report. I made no study of it and could make it up myself anyway.

Mr. GESELL. Can you give us some idea of the history of the Metropolitan branch, of why it was established, or where it was and how long it has been in operation, some of the background information concerning it? It went way back to the days of the Armstrong Committee, didn't it?

Mr. SAYLOR. I wouldn't know much about it. All I know about the Metropolitan Bank is that it became a part of the Chase National Bank in 1921.

Mr. PIKE. What was it before that, Mr. Saylor?

Mr. SAYLOR. The Metropolitan Bank.

Mr. GESELL. And that bank was taken into the Chase at that time?

Mr. SAYLOR. That is right.

Mr. GESELL. Are you familiar with the advisory committee?

The VICE CHAIRMAN. Just a minute. Did the Metropolitan Bank have this account at the time it was taken in by the Chase?

Mr. SAYLOR. The Metropolitan Bank did have the Metropolitan Life account, yes.

Mr. GESELL. There is an advisory committee to the Metropolitan branch?

Mr. SAYLOR. There is.

Mr. GESELL. Who are the members of that advisory committee?

Mr. SAYLOR. I am not prepared to give you that information. I think Mr. Aldrich has the information.

Mr. GESELL. You, as the manager of the branch, don't know who the members of the advisory committee are?

Mr. SAYLOR. Yes, I know who they are.

Mr. GESELL. Will you tell us, please?

Mr. SAYLOR. Mr. F. H. Ecker, George E. Warren of Chase, vice president; H. D. Campbell, Mr. Aldrich, chairman of the board of Chase; and myself as vice president of the Chase; Mr. William De Bost, who is president of the Union Dime Savings Bank; Mr. Zacher, who is president of Travelers Insurance Co.; and more recently, Mr. Tanner of Tanner, Silcocks & Friend.

Mr. GESELL. What does that advisory committee do?

Mr. SAYLOR. I would prefer to have Mr. Aldrich describe the advisory committees to you. I know what this one does.

Mr. GESELL. I would prefer to have you answer my question, sir, which is from the point of view of the manager of this branch. What, as far as you know, does the advisory committee do?

Mr. SAYLOR. It advises. It listens to reports submitted of the operation of the branch.

Mr. GESELL. How often does it meet?

Mr. SAYLOR. Once a month except in the summertime.

Mr. GESELL. And what does it advise about?

Mr. SAYLOR. Whenever anything of interest arises, whenever any discussions take place that call for advice, the committee comments.

The VICE CHAIRMAN. About what?

Mr. SAYLOR. Well, the answer to that is there is not a great deal to give advice on.

The VICE CHAIRMAN. What have you got it for, then?

Mr. SAYLOR. I didn't create the committees.

The VICE CHAIRMAN. Beg your pardon?

Mr. SAYLOR. They are for the associations.

The VICE CHAIRMAN. You don't need company, do you? For what?

Mr. SAYLOR. I still say I didn't create the advisory committee and I would like Mr. Aldrich to answer that question.

The VICE CHAIRMAN. We understand that thoroughly, but you are a sworn witness and if you have the information we would like you to give it. If you refuse to give it, we will have to see what we can do about it.

Mr. SAYLOR. There is no refusal. You say, "Why do you have them?" I can only give you my personal idea.

The VICE CHAIRMAN. That is all we want.

Mr. SAYLOR. I say the associations of these men mean much to us, they are broad-gaged businessmen, attorneys, etc. If anything comes up where we need the advice of others they are there to give it to us.

The VICE CHAIRMAN. About what subjects do you usually consult them?

Mr. SAYLOR. There are not a great many of them before the advisory committee of a branch.

The VICE CHAIRMAN. I didn't ask you how many. I said, what do you consult them about, speaking generally? And you know.

Mr. GESELL. You are a member of the committee, are you not?

Mr. SAYLOR. Why, yes.

The VICE CHAIRMAN. Are you going to answer?

Mr. SAYLOR. I am trying to think it out. You are asking questions that are a little difficult.

The VICE CHAIRMAN. Difficult why?

Mr. SAYLOR. Because I am trying to think of a subject on which they might advise.

The VICE CHAIRMAN. Is it that difficult to find out what those fellows have been doing all these years?

Mr. SAYLOR. Well, the loans; I say the loans are submitted—loans, discounts, foreign exchange, and other matters. They listen to those reports and discuss those when they feel like it. They advise us if they have anything to advise us on, there isn't an awful lot to advise on.

Mr. GESELL. Are they in effect a board of directors of the branch?

Mr. SAYLOR. In a sense. I think there is no legal responsibility.

Mr. GESELL. Beg your pardon?

Mr. SAYLOR. In a sense they are a board of directors; in this case members of the board of directors of the Metropolitan Bank were continued as an advisory committee of the Metropolitan Branch of the Chase Bank.

Mr. GESELL. Are the actions of the Metropolitan Branch also approved by the board of directors of the Chase Bank?

Mr. SAYLOR. They are.

Mr. GESELL. So that in the case of this branch you have two groups you bring these matters up with, both the advisory committee and the board of directors?

Mr. SAYLOR. I would like to make this statement, that approval is by the board of directors of the head office.

Mr. GESELL. That is, of the bank, of the Chase Bank?

Mr. SAYLOR. Yes. The approval is at the head office, that is the board of directors. These reports are submitted to the members of the advisory committee but they are approved by the board of directors of the bank.

Mr. GESELL. There must be something special to come before the advisory committee if they meet every month. There must be some function they perform. What do you do, discuss how you can get business?

Mr. SAYLOR. That comes up at times.

Mr. GESELL. Tell us about that. What kind of advice do these men lend you in that regard?

Mr. SAYLOR. If they have any suggestions to make, prospects, or anything like that, they make them.

Mr. GESELL. I would like you to be a little more specific, sir, and give us some concrete examples of the matters that have come before the committee.

The VICE CHAIRMAN. May I say now, the committee has no disposition to pry into the details of your proceedings to a degree that would be embarrassing to disclose to your competitors, at the moment at least, but we do feel that, to be candid with you, you know more about this thing than you are telling.

Mr. SAYLOR. There is no disposition on my part to withhold anything. An advisory committee in a Branch is a somewhat different body than directors of the bank. They listen to the various reports. If they have comments they make them. The approval is by the board of directors. There are not many things that come up in an advisory committee that can be discussed.

Mr. PIKE. The advisory committee has no power, has it?

Mr. SAYLOR. It has no power. It has no legal status.

Mr. PIKE. It can discuss conditions, but little beyond that?

Mr. SAYLOR. Little beyond that. I mean if they bring anything up, we of course are only too glad to consider it.

Mr. GESELL. What kind of things do they bring up?

Mr. SAYLOR. There are not many things that are brought up.

Mr. GESELL. Well, what things are brought up, Mr. Saylor?

Mr. SAYLOR. Perhaps new business; perhaps some comments on the Chase Safe Deposit Co., or something of that sort; business that could be developed.

Mr. GESELL. Is this group helpful in getting new business for the Metropolitan Branch?

Mr. SAYLOR. To some extent; not to a large degree.

Mr. GESELL. Will you give us some idea of how they have gotten new business for the branch?

Mr. SAYLOR. Simply recommending that somebody is available to open an account, to solicit it.

Mr. GESELL. You mean they give you leads to follow up?

Mr. SAYLOR. They might give leads, but not a great many, to be perfectly frank.

Mr. GESELL. Well, now, perhaps we can come back to this branch with Mr. Aldrich.

Mr. HENDERSON. Let me get this straight. I am not clear on it at all. You have this advisory committee, and that was continued after the Chase took over in 1921, is that it?

Mr. SAYLOR. The board of directors of the Metropolitan Bank, and it was continued as an advisory committee of the Metropolitan branch of the Chase.

Mr. HENDERSON. Who owned the Metropolitan Bank before the Chase bought it? Was it an independent bank or was it a branch of another bank?

Mr. SAYLOR. That is something I don't know, Mr. Henderson.

Mr. HENDERSON. You mean you don't know?

Mr. SAYLOR. I don't know who owned it before the Chase acquired it.

Mr. HENDERSON. You mean it has never come up in all your time there?

Mr. SAYLOR. If you are asking me percentages I can't answer your question. If you ask me who owned some of it, I would say naturally Metropolitan Life owned part of it.

Mr. HENDERSON. Metropolitan Life owned it until 1921?

Mr. SAYLOR. Yes. I don't know the percentages.

Mr. HENDERSON. I don't ask what were the percentages. I just asked for information.

Then the trustees of that bank—were they trustees or directors——

Mr. SAYLOR. They were directors.

Mr. HENDERSON. Became an advisory committee for the Metropolitan branch of the Chase bank?

Mr. SAYLOR. That is right.

Mr. HENDERSON. And they have continued up to the present time?

Mr. SAYLOR. Right.

Mr. HENDERSON. Do the other branches of the Chase Bank, as far as you know, have an advisory committee?

Mr. SAYLOR. Some do, Mr. Henderson; some do not. There is no regularity about it.

Mr. HENDERSON. But this committee meets every month except in summer?

Mr. SAYLOR. That is right.

Mr. HENDERSON. Do you have pretty good attendance?

Mr. SAYLOR. The committee has been very small and the attendance has only been about 70 percent, due to the age of one of the members who has not been able to attend. We are adding members now.

Mr. HENDERSON. And your testimony is that it is not a very important function to serve, they don't bring in much business; Mr. Zacher doesn't bring in much business; is that it?

Mr. SAYLOR. That is true.

Mr. GESELL. Can you tell us, Mr. Saylor, what your duties are as manager of this branch?

Mr. Saylor. Principally a loaning officer, with very little to do with the operating details. I supervise the credits of two other branches.

Mr. Gesell. Well, now, are you the person who solicits new accounts for the branch?

Mr. Saylor. One of them. We all solicit them.

Mr. Gesell. And are you the man who is most in contact between the branch and the Metropolitan Life Insurance Co.?

Mr. Saylor. Not necessarily. The activity requires several of our officers to be constantly in touch with the Metropolitan Life.

Mr. Gesell. Would it be correct to say that you are the principal contact man between the Metropolitan and the Chase Branch?

Mr. Saylor. In point of rank; yes.

(Representative Reece assumed the chair.)

Mr. Gesell. You have occasion to consult with officials of the Metropolitan quite regularly about matters affecting the account?

Mr. Saylor. That is true.

Mr. Gesell. What sort of matters do you take up with the Metropolitan Life Insurance Co.? I suppose, first of all, you engage in efforts to get new business from them.

Mr. Saylor. That is not a very active department, getting new business from the Metropolitan Life.

Mr. Gesell. What particular type of things do you take up?

Mr. Saylor. I take up with the various officers requests by our bank correspondents or depositors for business from the Metropolitan Life. That might be from one department or another of the Metropolitan Life.

Mr. Gesell. You mean that people write to the Chase Bank and ask the Chase to help in getting some business or working out some kind of arrangement with the Metropolitan, and you take that up with the Metropolitan on behalf of the Chase?

Mr. Saylor. I do.

Mr. Gessell. Now, I would like to run through some of those various matters with you at this time. First of all I wish to show you two memorandums from your files of the Chase relative to real estate receiverships, and ask you if you recognize those memorandums?

Mr. Saylor. I do.

Mr. Gessell. Who is Mr. Kiep, of the new business department, who signed the first of the two memorandums?

Mr. Saylor. He was a business solicitor.

Mr. Gessell. He was one of the men active in getting business, is that it?

Mr. Saylor. That is true.

Mr. Gessell. Of the Chase?

Mr. Saylor. Of the Chase. He probably left the bank 6 or 7 years ago.

Mr. Gessell. This memorandum is dated July 29, 1932, entitled "Metropolitan Life Insurance Company Real Estate Receiverships," and signed by H. A. Kiep, Jr., New Business Department [reading "Exhibit No. 2306"]:

Had a talk with Mr. Frederick Ecker, Jr. reference bank accounts of receivers who are appointed by the courts to administer properties on which the

Metropolitan Life Insurance Company holds mortgages which are in default. He talked with Mr. Norton, comptroller in charge of these matters. Mr. Norton will instruct the company's attorneys to request the courts to designate Chase Bank depository. Mr. Ecker suggests that there may be occasional situations where cash collections are the rule, such as hotel properties, where the nearness of a branch to point of collection might be the determining factor. In such cases, in event we do not have a nearby branch, they might refrain from designating any bank. However, in all others they will request the court to name this bank depository for the receiver. Mr. Ecker also said if there are any specific cases we wish to see him about not to hesitate to do so.

There is a subsequent memorandum which says [reading "Exhibit No. 2307"]:

Today I had a telephone call from Mr. Saylor, vice president, Metropolitan Branch, and he said that he had just seen a copy of Mr. Kiep's memo of July 29th wherein Mr. Kiep mentions contacting the Metropolitan Life Insurance people regarding possible future business. Mr. Saylor said that inasmuch as he was the prime contact with Metropolitan he wishes us to confer with him before making approaches such as this. I explained to him the general situation and why the move was made, but I think it might be well for you to advise Mr. Kiep and suggest to him hereafter to check in with Mr. Saylor before contacting any Metropolitan Life people.

I wish to offer these memoranda for the record.

Acting Chairman Reece. They may be admitted.

(The memoranda referred to were marked "Exhibits Nos. 2306 and 2307," and appear in full in the text on pp. 15195, 15196.)

Mr. Gesell. Can you elaborate on these memoranda a little, Mr. Saylor, and tell us more of the surrounding circumstances?

Mr. Saylor. Of course, I didn't figure in this personally, except to the extent that when it reached my attention that Mr. Kiep had approached Mr. F. W. Ecker I at that time, suggested that perhaps in the future it would be well to contact with me. That wasn't because I was selfish and wanted to make these contacts, but that I knew various officers in the Metropolitan Life and thought I could direct anybody who wanted to go there to the proper man.

Mr. Gesell. You would know who best to see.

Mr. Saylor. In this case you note Mr. Ecker called for Mr. Norton. Had Mr. Kiep come to me I would have sent him to Mr. Norton.

Mr. Gesell. Had you discussed matters of this sort from time to time with the Metropolitan, arranging to be appointed depository for a receiver on a property in which they had an interest?

Mr. Saylor. I had never discussed it with them, and in connection with this memorandum I believe the investigation showed that Chase never received anything as a result of this conversation.

Mr. Gesell. It is true, is it not, that the Chase has been a depository for receivers on Metropolitan property?

Mr. Saylor. I can't answer that without reviewing the records. It is entirely possible.

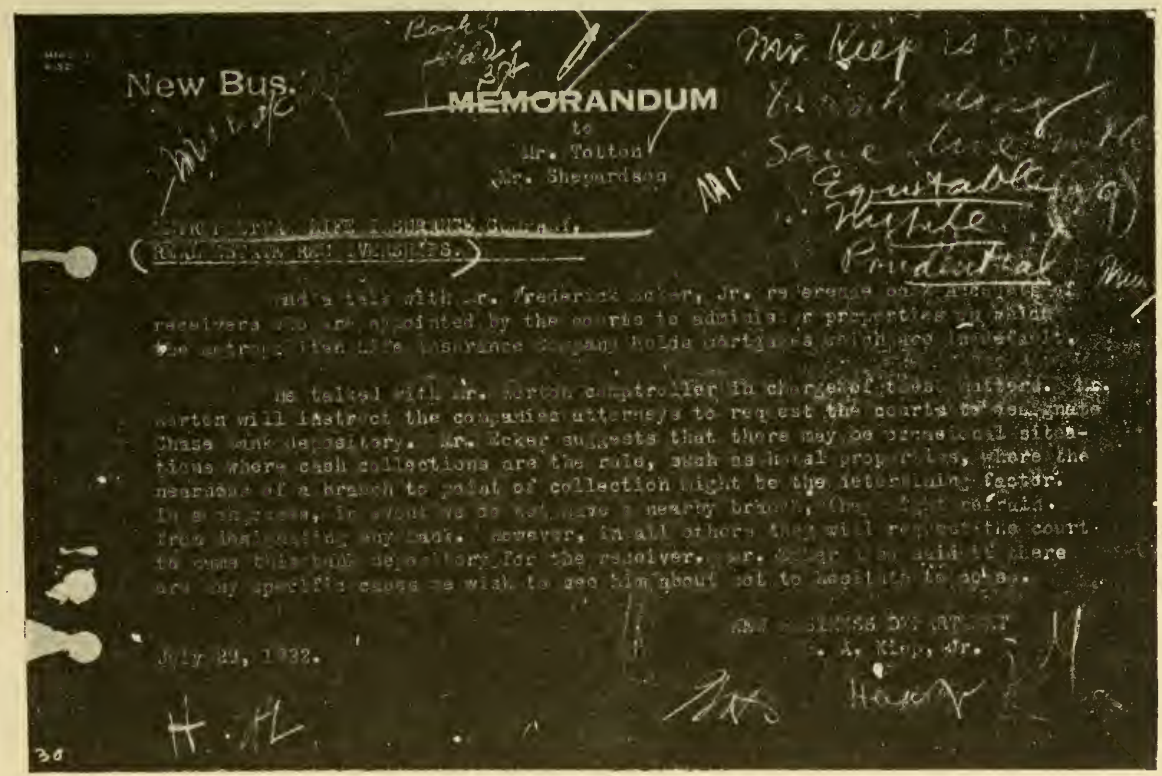
Mr. Gesell. Now I wish to show you a letter dated August 22, 1938, signed by Mr. S. Armstrong, vice president, addressed to Mr. Frederick W. Ecker, and two related letters, and ask you if you recognize those as coming from the file.

Mr. Saylor. I recognize those as coming from the file.

Mr. Gesell. Does this represent another type of request which is sometimes made of the Metropolitan by the Chase?

EXHIBIT No. 2306

[From the files of the Chase National Bank]



New Bus.

MEMORANDUM

to

Mr. Tolton

Mr. Shepardson

Mr. Kiep is ... Equitable Mutual Life Prudential

[illegible] LIFE INSURANCE [illegible]
(REAL ESTATE [illegible])

[illegible] a talk with Mr. Frederick Ecker, Jr. reference [illegible] receivers who are appointed by the courts to administer properties on which the Metropolitan Life Insurance Company holds mortgages which are in default.

We talked with Mr. [illegible] comptroller in charge of these matters. Mr. [illegible] will instruct the companies attorneys to request the courts to [illegible] Chase Bank depository. Mr. Ecker suggests that there may be occasional situations where cash collections are the rule, such as hotel properties, where the nearness of a branch to point of collection might be the determining factor. In such cases, in event we do not have a nearby branch, they [illegible] from designating any bank. However, in all others they will request the court to name this bank depository for the receiver. Mr. Ecker also said if there are any specific cases we wish to see him about not to hesitate to do so.

NEW BUSINESS DEPARTMENT
[illegible] Kiep, Jr.

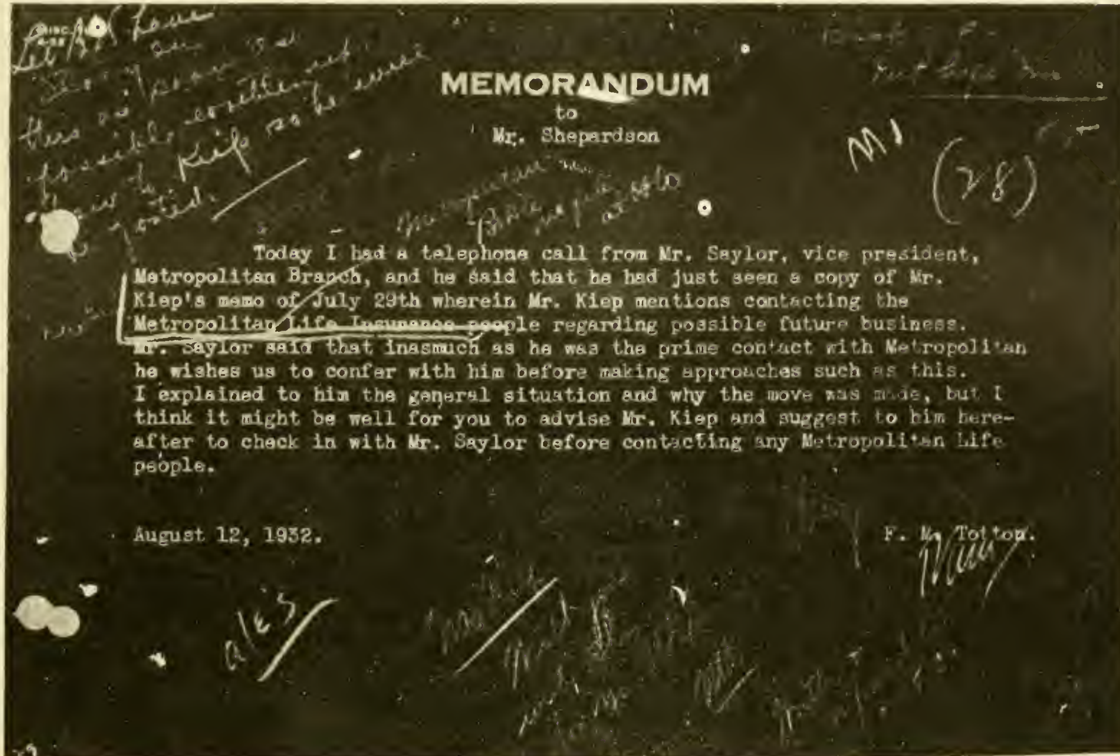
July 29, 1932.

H. M.

30

EXHIBIT No. 2307

[From the files of the Chase National Bank]



MEMORANDUM

to

Mr. Shepardson

Today I had a telephone call from Mr. Saylor, vice president, Metropolitan Branch, and he said that he had just seen a copy of Mr. Kiep's memo of July 29th wherein Mr. Kiep mentions contacting the Metropolitan Life Insurance people regarding possible future business. Mr. Saylor said that inasmuch as he was the prime contact with Metropolitan he wishes us to confer with him before making approaches such as this. I explained to him the general situation and why the move was made, but I think it might be well for you to advise Mr. Kiep and suggest to him hereafter to check in with Mr. Saylor before contacting any Metropolitan Life people.

August 12, 1932.

F. M. Totton.

Mr. SAYLOR. It is the only one that I recall of that particular type.

Mr. GESELL. You mean the only one that you recall that was made by writing, or the only one that was made?

Mr. SAYLOR. It is the only one I recall by writing, and I don't remember any conversations.

Mr. GESELL. This is a letter from Mr. S. Armstrong, vice president, to Mr. Frederic W. Ecker, dated August 22, 1938, and states [reading "Exhibit No. 2308"]:

> A short time ago we wrote to Mr. I. B. Tigrett, President of the Gulf, Mobile and Northern Railroad Company, offering the facilities of our Trust Department in connection with any services which might be required in carrying out the proposed consolidation with the Mobile & Ohio Railroad Company.
>
> The press reports indicate that if this consolidation is carried through, two new mortgage indentures will be created and we would like to be appointed trustee under one of them.
>
> If you would put in a good word for the Chase whenever a favorable opportunity presents itself, the courtesy would be much appreciated.

(The letter referred to was marked "Exhibit No. 2308" and appears above.)

Mr. GESELL. There are two additional letters, in one of which Mr. F. W. Ecker advises that [reading from "Exhibit No. 2308-A"]:

> The whole matter, however, is still in preliminary stages and I would, therefore, suggest that you communicate with us on the subject again at a later time. In the meantime, I am referring your communication to the Secretary of our Committee with the request that it be brought up for consideration by the Committee at the appropriate time.

I would like to offer this for the record.

(The letters referred to were marked "Exhibits Nos. 2308-A and 2308-B" and are included in the appendix on pp. 15528-15529.)

Mr. GESELL. Mr. Saylor, I want to next show you correspondence dated October 6, 1936, and ask if you have ever seen that before.

Mr. SAYLOR. Yes, I have.

Mr. GESELL. I notice this letter, written by Mr. James A. Armstrong, assistant manager of the Times Square Branch of the Chase National Bank, to the assistant cashier, contains one or two sentences that I want to discuss with you. The letter says [reading]:

> The writer communicated with you at the time because we had discussed with the Treasurer of the Knott Management Corporation the question of putting the account on a paying basis.

That is evidently an account with the Times Square Branch

> and he stated the account was placed with us at the request of the Metropolitan Life Insurance Company, for whom they were managing the hotel.

I want to ask you whether it is usual for the Metropolitan to arrange to have hotels in which it has an interest keep their accounts with Chase's depositories?

Mr. SAYLOR. Not necessarily. I have no recollection of any plan of that sort.

Mr. GESELL. I don't ask you that. Have there been cases, however, where the Metropolitan has recommended that the Chase Bank be the depository of the funds for hotels such as this?

Mr. SAYLOR. I would need proof of that by consulting the records.

Mr. GESELL. I am not here trying to prove things to you. I am asking you to give us information.

Mr. SAYLOR. I will give it to you if I have it.

Mr. GESELL. I am asking you now what information you have with regard to the matter under inquiry?

Mr. SAYLOR. I still would have to see evidence that I could use to report to you.

Mr. GESELL. I take it, then, that you have no evidence, other than this letter, of the fact that the Metropolitan had encouraged hotels to keep accounts with Chase depositories, is that correct?

Mr. SAYLOR. That is correct.

Mr. GESELL. Now, I believe you said that there were times when correspondents or people acquainted with the Chase asked the Chase to try to get some business arrangement worked out with the Metropolitan, and that you handled such arrangements?

Mr. SAYLOR. That is right.

Mr. GESELL. I want to show you some correspondence from your files relative to the Pennsylvania Dixie Cement Corporation, and ask you if you recall seeing that correspondence before?

Mr. SAYLOR. I have seen it.

Mr. GESELL. Now, this is a case where the Metropolitan Life Insurance Co. was constructing a new building, was it not?

Mr. SAYLOR. It is.

Mr. GESELL. And the Cement Corporation wrote and asked that you put in a good word for them with the Chase in the hope that they might get the cement contract on that building from the contractor who had it under contract.

Mr. SAYLOR. Put in a word with the Metropolitan Life, yes.

Mr. GESELL. And this letter from Mr. Wing says [reading from "Exhibit No. 2309"]:

> We are very anxious indeed to secure this cement order. Three of your directors, namely Messrs. F. H. Ecker, N. Carlton and J. O'Brien, are on the Board of Directors of the Metropolitan. I presume because of this you are probably in position to have the owners speak a word in our behalf to the contractors who will buy the cement. Of course we do not expect them to pay a premium; but our price and everything else being equal we certainly trust you can get your three directors to prevail upon the proper officials of the Metropolitan Life Insurance Company to say a word to these contractors in our behalf.

Following that you were advised that the Pennsylvania Dixie Cement Corporation kept a balance with the Chase, were you not, by Mr. Van Sant, assistant cashier? [1]

Mr. SAYLOR. Right.

Mr. GESELL. And did you then take up the matter with the Metropolitan?

Mr. SAYLOR. I took up that matter and two other cement company requests.

Mr. GESELL. On the Pennsylvania Dixie Cement request your letter states [reading from "Exhibit No. 2309-B"]:

> We are informed that it is too soon to make any decision in this connection but that later on when the matter is reviewed Pennsylvania-Dixie Cement Corporation will receive consideration.

Mr. SAYLOR. I have since learned that none of those cement companies received any business.

Mr. GESELL. That was something we were unable to find out.

[1] See "Exhibit No. 2309-A," appendix, p. 15529.

You received other requests from other cement companies, did you not?

Mr. SAYLOR. I think there were three all told.

Mr. HENDERSON. You say you have since learned. How did you happen to learn it?

Mr. SAYLOR. I asked the Metropolitan Life. I was curious.

Mr. HENDERSON. You got curious after this matter came up in connection with these letters?

Mr. SAYLOR. Oh, yes; I wondered whether anybody did get any business, how it could work out, whether three of them could get it where three were interested.

(The letters referred to were marked "Exhibits Nos. 2309, 2309–A, 2309–B, and 2309–C" and are included in the appendix, on pp. 15529–15530.)

Mr. GESELL. You indicated one way it might work out in your letter to Mr. Ecker of February 10, 1938, did you not? This letter, which you have identified, reads [reading "Exhibit No. 2309–D"]:

> This is a confirmation of my telephone message to you this afternoon that the Pennsylvania-Dixie Cement Corporation have asked us to say a good word in their behalf in connection with using their cement in your new building. This company is a good customer of ours and maintains good balances. We shall also be obliged for any consideration you may be able to give their request.
>
> I have now written you three letters along this line in connection with cement. I do not know that it will make any difference but in the order of their importance to us the Lehigh-Portland Cement Company maintains the largest balances, Lone Star Cement Corporation next, and the Pennsylvania-Dixie Cement Corporation, last. I do not know offhand whether we have accounts from other cement companies but if this will be of any use to you in reaching your decision later on, I shall be glad to supply additional information.

I wish to offer this correspondence for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 2309–D" and appears in full in the text above.)

Mr. HENDERSON. Who told you to go to Metropolitan to find out whether any of these three companies got the cement contract?

Mr. SAYLOR. I asked Mr. Madden.

Mr. HENDERSON. And he looked it up for you?

Mr. SAYLOR. He knew, apparently.

Mr. HENDERSON. When the Metropolitan is building you are rather busy, aren't you, with all your accounts?

Mr. SAYLOR. Not as many requests come in as you might think.

Mr. HENDERSON. There is a sort of note in that "I have now written you three letters along this line in connection with cement."[1] I just wondered whether you didn't get weary sometimes. There is a note of weariness in that line.

Mr. SAYLOR. I think they were very patient with me, Mr. Henderson, and when you look at these records, all of them are routine in connection with banking, whether it is Metropolitan Life or other depositors seeking information. (It comes along; it is passed along in the ordinary course of business, and if they do one thing we report it back; if they do another we report it back.) It is nothing more than routine throughout the bank.

---

[1] See "Exhibit No. 2309–D," above.

Mr. GESELL. Let's take up this question and see how routine this is. Do you recognize this memorandum from Mr. Gafford to yourself dated June 9, 1931?

Mr. SAYLOR. I do.

Mr. GESELL. Is this one of those routine matters you refer to?

Mr. SAYLOR. I consider it routine.

Mr. GESELL. Who is Mr. Gafford?

Mr. SAYLOR. Mr. Gafford is a second vice president of the Chase, interested mostly in soliciting bank accounts.

Mr. GESELL. This says [reading "Exhibit No. 2310"]:

> Re: Union Trust Company, East St. Louis, Illinois.
>
> I am calling for help. Attached is a letter just received from Mr. F. J. Shay, Cashier of the Union Trust Company of East St. Louis with reference to Metropolitan Life's account in that city.
>
> I have talked to Mr. Schlafly, Chairman of the Board, on several occasions and he has definitely agreed to give us the principal New York account of his bank if we can help him obtain some commercial business. I feel sure acquisition of the Metropolitan account would bring this about at once. There are four banks in East St. Louis and yet Chase does not have a correspondent there. Union Trust has the best location in the business district. It is a substantial bank. R. B. Mellon and Mr. Davis of Aluminum Company of America which has a plant nearby, are substantial stockholders. Would you feel like presenting this matter to your friends in the Metropolitan at some convenient time?

(The letter referred to was marked "Exhibit No. 2310" and appears above.)

Mr. GESELL. Here is a case where one of the vice presidents is asking that you solicit the account of the Metropolitan for a bank in order that the Chase can in turn work out a correspondent relationship with a bank in East St. Louis, is it not?

Mr. SAYLOR. It is. It is an isolated case.

Mr. HENDERSON. You said it was a routine case, and I understand you were giving me an explanation of a previous answer that this is the kind of thing that is happening all the time.

Mr. SAYLOR. It is still routine, taking these matters up with them.

Mr. HENDERSON. You mean it doesn't happen every day that you get a letter or a memo as you did from Mr. Gafford about this particular thing, trying to get a correspondent in East St. Louis?

Mr. SAYLOR. That is a little different from the rest of them, yes.

Mr. HENDERSON. It is a little different, but you get something of this order practically every day?

Mr. SAYLOR. Not practically every day, Mr. Henderson. I was looking back——

Mr. HENDERSON (interposing). If it isn't a bank it is a cement company; if it isn't a cement company it is a hotel management company, or something like that?

Mr. SAYLOR. They don't come in that often; that is the point I am making. Looking back now, I suppose there has been just one in 3 weeks.

Mr. GESELL. Well, now, do you recognize the other related correspondence attached to that?

Mr. SAYLOR. Yes, I do.

Mr. GESELL. What happened in this case, Mr. Saylor? Metropolitan transferred its account, did it not?

Mr. SAYLOR. We were asked, I think in 1931, in June, to try and get a Metropolitan account for the Union Trust Co. There was no action taken on it until September, when the Metropolitan Life said they were going to open an account. I understand that in 1928—I don't have all of this correspondence—we had been approached before, or rather the local agent of the Metropolitan Life, when asked if he would change from one bank to another, said no. At the time we came into the picture in June, 1931, the agent changed his mind and the account was opened then.

Mr. HENDERSON. Did the agent change his mind or have it changed by someone?

Mr. SAYLOR. I couldn't reply to that. That is something for the Metropolitan Life organization to answer.

Mr. GESELL. The facts are, are they not, Mr. Saylor, that in September the Metropolitan switched its account from the Southern Illinois National Bank and placed it in the Union Trust Co.?

Mr. SAYLOR. Yes, but there may have been various reasons I wouldn't know about.

Mr. GESELL. Did you answer my question?

Mr. SAYLOR. I said "Yes."

Mr. GESELL. I wish to offer this correspondence for the record.

Acting Chairman REECE. It may be admitted.

(The letters referred to were marked "Exhibits Nos. 2310-A to 2310-E and are included in the appendix on pp. 15531-15532.)

Mr. GESELL. That correspondence indicates that the Union Trust Co. lost the account a little later on, and there was a new solicitation by the Chase and the account was again put back in the Union Trust. That is correct, is it not?

Mr. SAYLOR. No, I don't recollect it that way.

Mr. GESELL. May I have the correspondence, please? How do you recollect it, sir?

Mr. SAYLOR. I recollect that in June, when we took the matter up with the Metropolitan Life, the account was opened (some time later, in September) and I understand it was their agent's desire to switch.

Mr. GESELL. I asked you whether it was not a fact that the Union Trust Co. lost the account after it was established in 1931, and that in 1933 there was a new solicitation by the Chase, and the account was reopened?

Mr. SAYLOR. I frankly can't answer that. I have no record of the Union Trust Co. closing its account after it opened in 1931. I do recall correspondence in 1933 which says that "we have instructed our local agent to open an account." It is a little bit confusing to me.

Mr. GESELL. That would indicate that the account must have dropped out and been reopened.

Mr. SAYLOR. It might be that. I haven't any record of it. I know it opened in October, 1931. After that I am not informed. It could be a separate type of account, a new account.

Mr. GESELL. Records submitted to us by the Metropolitan Life indicate that this account was closed in March of 1933, and reopened in June of 1933.

Mr. SAYLOR. If it was reopened in June 1933, I recall no contact with the Metropolitan Life asking that it be reopened. At least I haven't the information here.

Mr. GESELL. There is correspondence just offered in the record where they advised you of that fact, is there not? [1]

Mr. SAYLOR. Simply that they advised us that they were going to open.

Mr. GESELL. Now, do officers of the Metropolitan solicit accounts with the Chase?

Mr. SAYLOR. I would say there was no active solicitation at all.

Mr. GESELL. Is there any inactive solicitation?

Mr. SAYLOR. I don't know that. I mean, there are no records.

Mr. GESELL. You seem to take the position, Mr. Saylor, that I am trying to prove things to you. I am trying to get information from you; I am not trying to prove anything.

To your knowledge, do officers of the Metropolitan Life solicit accounts for the Chase?

Mr. SAYLOR. No.

Mr. GESELL. Have you ever had any knowledge in that regard at all, any instance of it?

Mr. SAYLOR. There is a record in the correspondence here that one officer solicited something many years ago.

Mr. GESELL. That is the correspondence you see in my hand, I take it?

Mr. SAYLOR. I don't know; it is in 1924.

Mr. GESELL. 1931, that is. That says that Mr. Ecker solicited the account of the Mountain States Bank for the Chase, does it not?

Mr. SAYLOR. In 1924.

Mr. GESELL. Is that the one you refer to?

Mr. SAYLOR. Yes; in the second to last line.

Mr. GESELL. And you have no other information in that regard at all?

Mr. SAYLOR. I have not.

Mr. GESELL. Now, I next want to consider with you two memorandums involving your discussions with Mr. Fackner, comptroller of the Metropolitan Life Insurance Co. in 1930, relating to the First National Bank of Atlanta, Ga. Do you recall those two memorandums which I show you now?

Mr. SAYLOR. I have seen them before.

Mr. GESELL. Will you explain to me what that is all about? Perhaps I might read to the committee the memorandum you have identified while you are studying the situation. It is a memorandum from Mr. Saylor to Mr. Fackner, comptroller of the Metropolitan Life, dated February 20, 1930, and says [reading "Exhibit No. 2311"]:

At the request of Mr. McHugh, Chairman of our Executive Committee, Mr. Ollesheimer or I desire to introduce to you Mr. John K. Ottley, President of the First National Bank, Atlanta, Georgia.

The First National Bank is a recent merger of the Fourth National, of which Mr. Ottley was President, and the Atlanta & Lowry National Bank. The Atlanta & Lowry National, I believe, controlled the Trust Company of Georgia, with which you are doing business. I think the stockholders of the Fourth National were practically identical with the stockholders of the Atlanta Savings Bank, which transacts a real estate mortgage business. Within the past week I understand the Trust Company of Georgia has arranged to acquire all the stock of the Atlanta Savings Bank, the directors

[1] See "Exhibit No. 2310–C," appendix, p. 15532.

of the latter having approved the arrangement. The stockholders will vote later but they are expected to confirm.

Mr. Ottley, who I believe is also Vice President of the Atlanta Savings Bank, will no doubt have with him a Mr. Work, General Manager of the Real Estate Loan business of the Atlanta Savings Bank. Mr. Ottley is also very familiar with that branch of the business. I am telling you all this because they gave me the story but they undoubtedly will also tell it to you. They do not know I am getting in touch with you in this way. Mr. Ottley will explain the purpose of his visit.

Mr. Ottley said the group interested in the First National Bank is probably the most powerful banking group in Georgia. The Chase National Bank, I think, will be selected as the principal correspondent of the First National. Their balances with us now are running around $2,000,000. In the past we have had accounts both from the Atlanta & Lowry National and the Fourth National. We should like to help these people all we can.

G. H. Saylor.

February 19, 1930.

I now understand that it is satisfactory to you to see Mr. Ottley at 10:30 a. m., Monday, February 24. If I am at my desk when he calls, I shall take the liberty of introducing him to you.

G. H. Saylor.

February 20, 1930.

(The letter referred to was marked "Exhibit No. 2311" and appears in full in the text on pp. 15202–15203.)

Mr. Gesell. The second memorandum is the one that particularly interests me, Mr. Saylor. It is dated February 27, 1930, which is just a week later than the first memorandum. It is captioned, "First National Bank, Atlanta, Georgia." [reading "Exhibit No. 2311–A"]:

Both Mr. Fackner—

that is, the Comptroller of the Metropolitan—

and Mr. Ottley—

the Atlanta banker——

said they were satisfied with the result of their discussion. As I understand it, the Trust Company of Georgia had only one insurance connection—that of the Metropolitan Life—and the Atlanta Savings Bank had relations with the New York, Mutual and one or two smaller New England insurance companies.

It was arranged that for the time being the Trust Company of Georgia and the Atlanta Savings Bank would not combine their operations. In other words, they would continue to represent as heretofore; but should Mr. Ottley wish to merge the two companies, he will first call on Mr. Fackner and discuss the matter.

(I take it that is the Trust Company and the Atlanta Savings Bank.)

(The memorandum referred to was marked "Exhibit No. 2311–A" and appears in full in the text above.)

Mr. Gesell. Now, those memoranda would indicate to me pretty clearly, Mr. Saylor, that because of the fact that these two banks, which were to merge, represented different insurance interests, it was felt desirable not to merge them, and it was further agreed that no merger would take place until the Comptroller of the Metropolitan Life had been consulted. Is that a correct interpretation?

Mr. Saylor. I don't know, because I simply introduced one friend to another.

Mr. Gesell. You wrote a memorandum that would indicate you knew a great deal more than that, the one I just read, of February

27, in which you outlined the terms of the agreement between these individuals whom you introduced.

Mr. SAYLOR. They were simply repeated to me.

Mr. GESELL (reading from "Exhibit No. 2311–A"):

> It was arranged that for the time being the Trust Company of Georgia and the Atlanta Savings Bank would not combine their operations. In other words, they would continue to represent as heretofore but should Mr. Ottley wish to merge the two companies, he will first call on Mr. Fackner and discuss the matter.

Can you tell us a little of the background of that and explain what happened.[1]

Mr. SAYLOR. I can give you no more than appears in these memoranda. I was not present at any discussion that took place.

Mr. GESELL. I wish to offer the memoranda for the record.

Acting Chairman REECE. They may be admitted.

Mr. GESELL. Whom did you get the information from?

Mr. SAYLOR. I would say Mr. Fackner. I have to draw on my memory. I am not certain, but I presume that is it.

Mr. GESELL. What importance was it of the Chase to make a memorandum such as you did?

Mr. SAYLOR. No special reason—to keep my associates informed.

Mr. GESELL. Why did you make the memorandum?

Mr. SAYLOR. To keep them informed of what was taking place.

Mr. GESELL. The net effect of this was as I have stated, was it not, that these two banks did not merge without Mr. Fackner being consulted?

Mr. SAYLOR. That is what the memorandum reads. I am—wait a minute. If Mr. Ottley wished to merge the two companies "he will first call on Mr. Fackner and discuss the matter."[2] That doesn't mean it has any relation to the merger.

Mr. GESELL. Why would Mr. Fackner have to be consulted about the merger of two banks in Atlanta, Ga.?

Mr. SAYLOR. He wouldn't have to be. I can't talk for Mr. Fackner, nor did I sit in on that conversation. I would simply say that Mr. Fackner was passing on the handling of his insurance business in relation to these banks.

Mr. GESELL. That is the point I want to get into. It is very confusing for one bank to represent two insurance interests, is it not, outside of New York?

Mr. SAYLOR. I don't know. I have never been in that position.

Mr. GESELL. Wasn't that one of the questions that was raised by the correspondence and these conversations?

Mr. SAYLOR. The question would appear to have been raised.

Mr. HENDERSON. Are you mad about something, Mr. Saylor? I just wondered if you wanted to get something off your chest.

Mr. SAYLOR. Not a thing.

Mr. HENDERSON. This is as good a place to have it out as any I know.

Mr. SAYLOR. Not at all. I am just at a disadvantage; it is the first time I have ever been a witness, except once in my life. It is a little bit new to me.

---

[1] For additional information on this, see testimony of Mr. F. W. Ecker, infra, pp. 15133 ff.

[2] See "Exhibit No. 2311–A," infra, p. 15203.

Mr. HENDERSON. Maybe that's it. You gave the impression someone who is smoldering. We hate to see them smolder. We would rather have them on fire.

Mr. SAYLOR. I assure you, Mr. Henderson——

Mr. HENDERSON (interposing). All right. Maybe we will get along better.

Mr. GESELL. There are cases, Mr. Saylor, are there not, where when the Metropolitan changes an account from one bank to another, it advises you, in order that you may communicate with the bank and take such advantage as there is out of advising the bank that a change is to be made?

Mr. SAYLOR. They have advised us occasionally when they have opened up accounts; sometimes, so we might keep them informed regarding the condition of the bank, but many times they have written us to say that they did not want us to say that we had initiated a change, and there is evidence of that in this correspondence.

Mr. GESELL. You are referring, I take it, to the correspondence with regard to the Empire Trust & Savings Bank, are you not, which I show you here?

Mr. SAYLOR. I wasn't referring to that, Mr. Gesell. I was referring to correspondence——

Mr. GESELL (interposing). I guess you were referring to the other one, the First National Bank and Riverside Trust Co. There the memorandum states: "He did not want us to indicate that we initiated the change and I told him we would never take that position."[1] Is that the one?

Mr. SAYLOR. That is one of them, but there is still another one, the St. Louis County Bank and the Clayton National Bank of Missouri, in 1935, two letters from Mr. Washington to me. His letter of March 7 reads in part [reading]:

In view of Mr. Boyle's memorandum of March 4—

Mr. Boyle is a representative of Chase—

I want to emphasize that our decision in this matter has resulted entirely from information furnished by the Manager of our Clayton office. As you, of course, know, we would not be influenced in such a matter as this by the Chase's correspondent relationships. I shall appreciate it if you will have Mr. Frost—

Another Chase representative—

make it perfectly plain to the officials of the St. Louis County Bank that this is the case.

On March 27 he wrote me [reading further]:

For your information and in confidence, we decided to make this change because of the very small ratio of capital funds in the St. Louis County Bank to its deposits, this being a case where the somewhat inadequate capital funds are not offset by such other factors as extreme liquidity, the St. Louis County Bank, as a matter of fact, having fixed assets about equal to its capital, and in addition, a considerable amount of mortgage loans.

President Schmid, of the St. Louis County Bank, had written us that the bank had no immediate intention of increasing capital, and we wrote him that our Manager's account would be closed in accordance with the company's policy of maintaining its accounts in banks with adequate capital.

---

[1] See "Exhibit No. 2313–B," appendix, p. 15536.

Mr. GESELL. Do you recognize this correspondence which I show you with respect to the Empire Bank?

Mr. SAYLOR. Yes.

Mr. GESELL. This was a slightly different kind of situation, was it not? Mr. George of the Metropolitan, treasurer, wrote you on December 7, 1929, as follows [reading from "Exhibit No. 2312–C"]:

In May of this year we had some correspondence and discussion relative to the possibility of placing our Gross Park district office account with the Empire Trust and Savings Bank, one of your correspondents.

At that time I did not feel warranted for various reasons in opening an account with the Empire Trust and Savings Bank. Recently, however, the matter has again been broached by Mr. L. A. Phillips, the Manager of our Gross Park District, and I have concluded to approve transferring his account to the Empire Trust and Savings Bank.

I am glad that we have this opportunity to establish a connection with one of your correspondents.

You then wrote Mr. Purdy, vice president of the Chase Head Office, and said [reading from "Exhibit No. 2312–D"]:

Mr. George has very kindly informed us that the Metropolitan Life has decided to place their Gross Park district office account with the Empire Trust & Savings Bank, Chicago. I am sure that he is willing that we shall make some capital out of this.

Will you please return the correspondence to me after you have made the copies you may desire?

You then wrote Mr. George and said (reading from "Exhibit No. 2312–E"):

Thank you for your letter of December 7, informing us that you have decided to place your Gross Park district office account with the Empire Trust & Savings Bank, Chicago. We hope the Empire Trust will see in this change a manifestation of our friendly influence with your company and at the same time will not next week ask us to get them an account from the United States Treasury. I more than appreciate your kindness in calling our attention to this new banking connection of your company.

Mr. HENDERSON. I missed that. Who was that from?

Mr. GESELL. Mr. Saylor to Mr. George.

Mr. HENDERSON. Mr. Saylor says——

Mr. GESELL (interposing and reading from "Exhibit No. 2312–E"):

We hope the Empire Trust will see in this change a manifestation of our friendly influence with your company and at the same time will not next week ask us to get them an account from the United States Treasury.

The next letter is from Mr. Purdy of the Chase Home Office to Mr. Saylor, saying (reading from "Exhibit No. 2312–F"):

We have received your favor of the 9th instant enclosing correspondence regarding the Metropolitan Life-Empire Trust & Savings Bank of Chicago matter, which as requested we return herewith. We are glad to have the privilege of writing our friends at Chicago and appreciate the friendly consideration of the Metropolitan Life Insurance Company.

A final memorandum in the files (reading from "Exhibit No. 2312–G"):

Referring further to your memorandum regarding the Empire Trust & Savings Bank of your city, we are pleased to state that today we were advised by the Metropolitan Life Insurance Company that they are going to place their Gross Park district office account with the Empire Trust & Savings Bank, and it will be in order for you to so advise them.

Mr. SAYLOR. I think their local manager recommended that too.

Mr. GESELL. That wasn't the point I was considering with you. It was rather, is it not true that on occasions the Metropolitan gives you information concerning how they are going to handle their bank accounts in order that you may, as you say, make capital out of that information?

Mr. SAYLOR. We make very little capital out of it because very few accounts were placed at our request.

Mr. GESELL. That again does not answer my question. This was an account that was not placed at your request. This was an account that was placed because the Metropolitan manager wanted the account put in that bank.

Mr. SAYLOR. That is right.

Mr. GESELL. The Metropolitan, however, advised you of what they were going to do in order that you might communicate with the bank and, as you say, make such capital out of it as you can. That is right, isn't it?

Mr. SAYLOR. Right.

Mr. GESELL. You have identified this correspondence with respect to the First National, Riverside, have you not?

Mr. SAYLOR. Yes.

Mr. GESELL. I offer the correspondence re Empire Trust and Savings.

Acting Chairman REECE. The correspondence offered may be admitted.

(The correspondence referred to was marked "Exhibits Nos. 2312 and 2312-A to 2312-G" and is included in the appendix on pp. 15533–15535.)

Mr. GESELL. Do you recognize that other correspondence?

Mr. SAYLOR. I do.

Mr. GESELL. I would like to offer this correspondence on the Riverside, N. J., First National Bank for the record, and I have no further questions of this witness.

(The memoranda referred to were marked "Exhibits Nos. 2313, 2313-A and 2313-B" and are included in the appendix on pp. 15535–15537.)

Acting Chairman REECE. Are there any questions by the members of the committee? If not, you may be excused, and thank you very kindly.

(The witness, Mr. Saylor, was excused.)

Mr. GESELL. Mr. Espinosa, will you take the stand a moment?

Acting Chairman REECE. Do you solemnly swear that the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ESPINOSA. I do.

TESTIMONY OF JOSÉ R. ESPINOSA, ACCOUNTANT, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.

Mr. GESELL. Will you state your name for the record?

Mr. ESPINOSA. José R. Espinosa.

Mr. GESELL. You are an expert accountant attached to the staff of the Securities and Exchange Commission?

Mr. ESPINOSA. I am.

Mr. GESELL. Did you obtain from the Metropolitan Life Insurance Co. information concerning the history of district depositories of that company from January 1, 1931, to April, 1939?

Mr. ESPINOSA. I did.

Mr. GESELL. Did you then prepare schedules setting out that information and furnish those schedules to the Chase National Bank requesting information as to which banks the Chase had as correspondents?

Mr. ESPINOSA. I did.

Mr. GESELL. Will you describe what type of schedule you submitted to the Chase Bank?

Mr. ESPINOSA. The schedule listed the district depositaries of the Metropolitan Life Insurance Co., excluding those district depositories for New York City and vicinity. I then handed this schedule to the Chase National Bank and asked them to fill in on the schedule whether or not any of these banks were correspondents of the Chase, also to state whether or not the Chase bank had a correspondent in that particular city.

Mr. GESELL. And from the information that you received from these two sources, have you prepared the schedule which I now show you entitled "District Depositories of Metropolitan Life Insurance Company Related to Chase National Bank Correspondents"?

Mr. ESPINOSA. I did.

Mr. GESELL. That schedule, as far as you can determine, is correct and accurate?

Mr. ESPINOSA. It is.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman REECE. The schedule may be admitted.

(The schedule referred to was marked "Exhibit No. 2314" and is included in the appendix on p. 15537.)

Mr. GESELL. I will now ask you whether these documents before you are the documents upon which that schedule was based?

Mr. ESPINOSA. They are.

Mr. GESELL. I offer these documents to be filed with the committee in support of the schedule just introduced.

(The documents referred to were marked "Exhibit No. 2315" and are on file with the committee.)

Mr. GESELL. I have no further questions of this witness.

(The witness, Mr. Espinosa, was excused.)

Mr. JOHN L. O'BRIAN (counsel, Metropolitan Life Insurance Co., New York, N. Y.). As counsel for the Metropolitan, in connection with that I desire to state on behalf of the Metropolitan that of these 268 banks here shown as correspondents of the Chase throughout the country in which the Metropolitan has accounts,[1] 186 of that number are also correspondents at the same time of competitors of the Chase in New York City with which the Metropolitan is also doing business.

Mr. GESELL. I think that helps clarify that exhibit.

I should like to offer at this time a schedule entitled, "Directors Interlocking Chase National Bank of the City of New York and Metropolitan Life Insurance Co., January 1, 1928 to December 31, 1939, inclusive." This schedule has been prepared from information furnished us by the Chase and from information furnished by the Metropolitan and contained in its annual reports.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 2316" and is included in the appendix on p. 15538.)

Mr. GESELL. That is offered, as are all these exhibits, subject to check and correction at any time.

---

[1] "Exhibit No. 2314," appendix, p. 15537.

The next witness is Mr. Aldrich.

Acting Chairman Reece. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Aldrich. I do.

TESTIMONY OF WINTHROP WILLIAMS ALDRICH, CHAIRMAN OF THE BOARD, CHASE NATIONAL BANK, NEW YORK, N. Y.

Mr. Gesell. Mr. Aldrich, will you state your full name and position for the record, please, sir?

Mr. Aldrich. Winthrop Williams Aldrich, chairman of the board of the Chase National Bank.

Mr. Gesell. How long have you occupied that position, Mr. Aldrich?

Mr. Aldrich. Sinch April 1930.

Mr. Gesell. You are also a director of the Metropolitan Life Insurance Co., are you not, sir?

Mr. Aldrich. Yes.

Mr. Gesell. When were you elected a director of the Metropolitan Life?

Mr. Aldrich. October 26, 1937.

Mr. Gesell. On what committees of the Metropolitan Life do you serve?

Mr. Aldrich. I am on the finance committee. I also sit at times on some of the other committees, but principally the finance committee.

Mr. Gesell. That is your particular assignment.

Mr. Aldrich. Yes.

Mr. Gesell. The Chase National Bank has carried credit balances for the nine largest insurance companies, as indicated on this schedule furnished by your officers, is that not correct?

Mr. Aldrich. Yes; I haven't seen the schedule before but I assume that is correct.

Mr. Gesell. I should like to offer this schedule not to be printed, but for the record, and to submit for printing a schedule which summarizes the information contained in those schedules.

Acting Chairman Reece. They may be admitted.

(The detailed schedule referred to was marked "Exhibit No. 2317" and is on file with the committee. The summary schedule referred to was marked "Exhibit No. 2318" and is included in the appendix on p. 15540.)

Mr. Gesell. The Chase Bank also has interlocking directors with several of the larger insurance companies, has it not?

Mr. Aldrich. I don't know what you mean by the word "interlocking."

Mr. Gesell. There are common directors as between the Metropolitan and the Chase, are there not?

Mr. Aldrich. Mr. Ecker is director of the bank and I am director of the insurance company and there are other directors who have been directors of both companies in the past. Mr. Newcomb Carlton would be on there.

Mr. Gesell. You have a common director at the present time, have you not, with the Mutual Life Insurance Co. of New York? Mr. Robert C. Stanley?

Mr. ALDRICH. Yes; I think he went on the Mutual Life sometime in the last month or two, I don't know just when.

Mr. GESELL. Then you have, have you not, a common director with the Prudential Life Insurance Co., Mr. O'Olier?

Mr. ALDRICH. No, Mr. D'Olier is not on our board. Mr. Bayne is.

Mr. GESELL. Mr. Howard Bayne is on your board?

Mr. ALDRICH. Mr. Howard Bayne is on our board.

Mr. GESELL. And Mr. D'Olier was but has resigned?

Mr. ALDRICH. That is correct.

Mr. GESELL. In the case of the Equitable of New York there are common directors, are there not?

Mr. ALDRICH. Mr. Parkinson is a director of the bank and I believe Mr. Cutler is a director of the insurance company.

Mr. GESELL. Mr. Cutler is of the bank?

Mr. ALDRICH. He is a director of the bank.

Mr. GESELL. I have here schedules showing common directors that have existed between the insurance companies mentioned at any time from January 1, 1928 to December 31, 1938. These schedules are just to give the exact dates supplementing Mr. Aldrich's testimony. I should like to offer them for the record.

(The vice chairman, Representative Sumners, assumed the Chair.)

The VICE CHAIRMAN. They may be received.

(The schedules referred to were marked "Exhibit No. 2319" and are included in the appendix on p. 15541.)

Mr. GESELL. I wanted to ask you to give us some idea of the Chase National Bank, how big it is, how much cash it has on hand. Give us a little idea of how it operates.

Mr. ALDRICH. Well, of course, the amount of cash on hand varies from time to time.

Mr. GESELL. Taking a convenient balance sheet date. I have here your '38 statement, which indicated cash $861,000,000.

Mr. ALDRICH. I don't seem to be able to find it. This memorandum I have shows an excess of service, not the total cash.

Mr. GESELL. That is the 1938 statement. Give us some idea.

Mr. ALDRICH. This statement shows that—it is the 1939 statement, as a matter of fact—our total assets at the end of the year 1939 were approximately $3,000,000.

Mr. GESELL. You mean $3,000,000,000?

Mr. ALDRICH. Yes.

Mr. GESELL. And how much cash on hand did you hold as of that balance sheet date?

Mr. ALDRICH. I imagine we had about, well, it is rather difficult for me to say off hand, but we have about——

Mr. WHITE (interposing). I happen to have a 1939 statement.

Mr. ALDRICH. I would rather talk from that, if I could.

It is $1,293,000,000.

Mr. GESELL. That is the cash.

Mr. ALDRICH. Cash in bank.

Mr. GESELL. Now, the Chase has branches throughout the country or only in the city of New York?

Mr. ALDRICH. Only in the city of New York.

Mr. GESELL. And outside of the city of New York it has correspondents?

Mr. ALDRICH. That is right.

Mr. GESELL. Will you tell us what is a correspondent, what type of banking connection is involved?

Mr. ALDRICH. Well, a correspondent is a bank that carries a deposit with us and with whom we have relations which include all sorts of banking transactions.

Mr. GESELL. The correspondence relationship leads to facilities and services between the two banks, does it not?

Mr. ALDRICH. That is correct.

Mr. GESELL. Now, coming back to the insurance connections——

Mr. ALDRICH (interposing). I might say that on December 30, 1939, our deposits were $2,803,000,000.

Mr. GESELL. And in 1938, from this statement?

Mr. ALDRICH. $2,500,000,000.

Mr. GESELL. And the schedule introduced shows that as of December 31, 1938, you had $123,000,000 on deposit from these nine large insurance companies, and as of 1939, $175,000,000 on deposit.

Now, I want to ask you some general questions about——

The VICE CHAIRMAN (interposing). What percentage is that of the total deposits?

Mr. ALDRICH. The total deposits?

The VICE CHAIRMAN. What percentage of your total deposits were these insurance deposits?

Mr. ALDRICH. I would have to figure, the total deposits——

The VICE CHAIRMAN (interposing). As of January 30.

Mr. ALDRICH. As of December 30, 1939, were $2,803,000,000.

The VICE CHAIRMAN. I have that, but I don't want to have to figure it up.

Mr. GESELL. We will compute it for you.

Mr. ALDRICH. I don't like to try to compute it myself.

Mr. GESELL. We will compute it.

Senator KING. I understand it is 6.3 percent of your deposits that are those insurance companies.[1]

Mr. ALDRICH. Yes?

Senator KING. If that is not right, we can correct it in the record.[1]

Mr. GESELL. Now, how did these common directorships come about, Mr. Aldrich?

Mr. ALDRICH. Well, it is principally because of mergers. Mr. Ecker and Mr.—well, to start a different place, Mr. Parkinson was a director of the Park Bank and he became a director of the Chase National Bank when Chase merged with the Park Bank. Mr. Howard Bayne was a director of the Seaboard Bank, which was merged with the Equitable Trust Co., and became a director of the Chase Bank when the Equitable was merged with Chase. Mr. Ecker and Mr. Newcomb Carlton were directors of Chase originally.

Mr. GESELL. Looking at it from the other point of view, how did it happen that Chase directors became directors of insurance companies? What are the factors that bring that about?

Mr. ALDRICH. You will have to ask the insurance companies that. I don't know.

Mr. GESELL. Well, you are a director of an insurance company. What were the factors that led to your becoming a director?

[1] See correction, infra, p. 15218.

Mr. ALDRICH. I was not a director when those factors were considered.

Mr. GESELL. When your name was considered, you mean?

Mr. ALDRICH. Yes.

Mr. GESELL. Let me get at it this way: Are there advantages to the bank in having its representatives on the boards of insurance companies?

Mr. ALDRICH. I should say not. I can't see what they are, if any.

Mr. GESELL. You can see no advantages?

Mr. ALDRICH. No.

Mr. GESELL. Are there any disadvantages that you can see?

Mr. ALDRICH. No; I shouldn't think there were any disadvantages.

Mr. GESELL. What would prompt a man such as yourself to become a director of the Metropolitan?

Mr. ALDRICH. Well, looking at it from a personal point of view, the reason I would want to be on the Metropolitan board would be because I would consider I could do a great service by doing it.

Mr. GESELL. Service to whom?

Mr. ALDRICH. To the community.

Mr. GESELL. And you would go on the Metropolitan board as a matter of public service?

Mr. ALDRICH. Yes.

Mr. HENDERSON. Would you distinguish between your directorship there and your directorship of other organizations that were, say, commercial or industrial organizations?

Mr. ALDRICH. Only in degree. It is a bigger situation, more widely spread.

Mr. GESELL. You are a director of both the American Telephone & Telegraph and Westinghouse Electric, are you not?

Mr. ALDRICH. Yes.

Mr. HENDERSON. Didn't you say it would be a matter of degree there? You would go on A. T. & T. and Westinghouse?

Mr. ALDRICH. I would say A. T. & T. is also an opportunity for great public service.

Mr. HENDERSON. Westinghouse?

Mr. ALDRICH. To a minor degree.

Mr. HENDERSON. Would there be any banking advantages with it also?

Mr. ALDRICH. I shouldn't think so; no.

Mr. HENDERSON. You don't think the knowledge of A. T. & T. financial affairs is of any assistance?

Mr. ALDRICH. I think it is of assistance to me in being able to see the economic picture perhaps more clearly from the Nation-wide point of view, to be connected as a director with institutions that have a national scope, but outside of that, I don't think so.

The VICE CHAIRMAN. Mr. Aldrich, wouldn't, if nothing more, an intimate acquaintanceship with your colleagues on these boards tend to bring business to your bank?

Mr. ALDRICH. Well, it never has been so in my experience; I think possibly because of the fact that that relationship of the Chase National Bank at the time I came into the banking business was so widely spread there was not probably much opportunity in that respect.

The VICE CHAIRMAN. You mean someone had gone ahead creating proper relations?

Mr. ALDRICH. Probably so. The fact is our bank has such wide contacts that I have had very little to do, in my banking career, with establishing new contacts.

The VICE CHAIRMAN. Isn't it sound policy from the standpoint of your bank's interest, to keep contacts, your lines thrown out, and retain contact with these big organizations that deposit a lot of money, whose accounts are worth a lot to any bank?

Mr. ALDRICH. I think it is unquestionably true that it is a desirable thing to have personal and banking contacts as wide as possible, but that would not be to me the controlling motive.

Mr. GESELL. Does the bank encourage its men to accept insurance directorships?

Mr. ALDRICH. No.

Mr. GESELL. When a member of your board is offered a directorship of an insurance company does he, as a matter of custom, usually consult with you or with other members of the Chase Bank before he takes that position?

Mr. ALDRICH. I think that that would be true if he were an officer of the bank, he would talk to me before he became a director of any other company, but if he were simply a director of the bank he would not.

Mr. GESELL. He would not?

Mr. ALDRICH. As a matter of fact, I didn't even know that Mr. Stanley, who was a director of the bank, was on the Mutual board?

Mr. GESELL. Mr. Stanley.

Mr. ALDRICH. Mr. Stanley was a director.

Mr. GESELL. So that you would have some opportunity to discuss the matter with any officer before he took such a step.

Mr. ALDRICH. I don't think that an officer of the bank would be apt to take a directorship in any other company without speaking to me about it.

Mr. GESELL. Why is there the distinction between the director and the officer?

Mr. ALDRICH. I believe the director would probably think it was none of my business.

Mr. GESELL. The officer would feel it was because you were a superior officer of the organization?

Mr. ALDRICH. Yes.

Mr. GESELL. Does the bank have any insurance men on its board?

Mr. ALDRICH. I should say not as such. I think that the insurance men who are on our board are all men that I would want to have on the board if they were not on it, and of course the advantages to the bank of having insurance men on the board are very apparent.

In the first place, the heads of these great insurance companies have all had very wide experience, especially in the investment field, and they have all had the opportunity to observe the whole picture of the economics of the Nation, and they are all men whom I believe to be of high character. They would, therefore, be the type of men that I would like to have on the board. Looking at it from the point of view of the bank, they have one great advantage, and that is that they have nothing to sell to us.

In a great many instances, men who have great knowledge in the investment field have things that they want to sell, and therefore are not particularly desirable as bank directors. That does not apply to the heads of insurance companies.

Mr. GESELL. Therefore, you feel you can get perhaps more impartial investment advice?

Mr. ALDRICH. Well, better informed advice than most people have, and completely impartial.

Mr. GESELL. You say they have nothing to sell. Where does the Chase carry its group insurance?

Mr. ALDRICH. We carry our group insurance with the Metropolitan and the Equitable, I believe.

Mr. GESELL. When was that contract sold?

Mr. ALDRICH. I am talking about things they advise us about. I am talking about investments and things of that kind.

Mr. GESELL. I see.

Are there any other advantages that come besides this impartial investment advice from having insurance people on the board?

Mr. ALDRICH. Oh, I think there are a great many advantages besides that. I thought I had made that clear. I think their knowledge of the general situation, their experience, and their wisdom generally, are extremely valuable.

Mr. GESELL. From the strictly business point of view, is it helpful to the bank in any way?

Mr. ALDRICH. Well, not that I can think of, particularly.

Mr. GESELL. There are definite business advantages to the bank in having a close connection with an insurance company, are there not, such as we have considered here this morning?

Mr. ALDRICH. Well, frankly, it seems to me that those things are trivial.

Mr. GESELL. Well, as individual things perhaps they are trivial. I mean, generally.

Mr. ALDRICH. Even in their total effect.

Mr. GESELL. Such matters as getting bank accounts for real-estate receivers, getting appointments as trustees? Such as getting appointments as trustees under mortgage?

Mr. ALDRICH. I don't think we ever got anything like that.

Mr. GESELL. You would feel that your requests to them, coupled with your close connection with the bank, gave you no preferred position in that regard at all?

Mr. ALDRICH. I should say not. I would say myself not in the slightest degree, but I suppose there have been cases when it has had some effect.

Mr. GESELL. We had one pretty definite case, didn't we, where a bank account was taken away from one bank and given to another because of a solicitation of your officers?

Mr. ALDRICH. We have over 3,000 correspondents over the country. The reason we have those correspondents is because of the relations we have with the banks themselves, not anything that the Metropolitan Life or any other life-insurance company can do for us.

Mr. GESELL. One of your officers said, "If we can get the Metropolitan account for the Union Trust Co., then we can get the Union Trust Co. as a correspondent."[1] That was a pretty clear-cut statement, it seemed to me.

[1] See "Exhibit No. 2310," supra, p. 15200.

Mr. ALDRICH. As a matter of fact, I doubt very much whether the Union Trust Co. is one of our correspondents. That particular branch may be.

Mr. GESELL. I believe it is so shown on the schedule.

Mr. ALDRICH. I am inclined to believe that it isn't.

Mr. GESELL. Let's get that large schedule.

Have you given any consideration, Mr. Aldrich, to some of the possible conflicts that can arise out of such a close banking relationship as your company appears to have with the Metropolitan?

Mr. ALDRICH. Such as what?

Mr. GESELL. Well, you have got a large account from them, have you not?

Mr. ALDRICH. Yes.

Mr. GESELL. Let's assume the bank gets into difficulties of some sort, needs the cash, and the Metropolitan needs the cash, isn't that something that would present a rather difficult situation?

Mr. ALDRICH. Well, we haven't ever got into a position where we were in difficulty because of a lack of cash, but if we did it would mean we were unable to meet our obligation.

Mr. GESELL. Taking the situation where the Metropolitan desires to withdraw its account and you, as an officer of the bank, realize if they do it may embarrass the bank in some way, it seems to me there is some degree of conflict.

Mr. ALDRICH. We have $1,293,000,000 in cash and their account at top is $75,000,000. We have an excess reserve of $600,000,000 at the present time.

Mr. HENDERSON. You are talking about a contemplated situation, but haven't there been situations in more recent history where there is a conflict between the interest of the depositor and the interest of the bank?

Mr. ALDRICH. I don't know what you are referring to.

Mr. HENDERSON. I am asking you whether there haven't been conflicts.

Mr. ALDRICH. Between the interest of the depositor and the interest of the banks?

Mr. HENDERSON. Yes. Haven't there been times when there weren't excess reserves, as there are now, and where there was a decided necessity for maintaining the cash position of the banks? The insurance companies ran into it and the drain on them was so great they had to take steps to check the amount of withdrawals which they had.

Mr. ALDRICH. We never have had to do that. Of course, the banks generally were closed at one time.

Mr. HENDERSON. I don't want to review a lot of painful history to you, Mr. Aldrich, but I think certainly the history of the Detroit banks and certain accounts there and the history of some of the New York strains would indicate that could very definitely happen. I am surprised that you can't see it. There could be very definitely a conflict of interest. I am surprised you can't see it.

Mr. ALDRICH. If an insurance company called on a bank for cash and the bank couldn't give it to them, the bank would have to close its doors. There is a conflict of interest perhaps, but the conflict of interest comes where the bank can't meet its obligation.

Mr. HENDERSON. If one were a director of both institutions, he would be making a decision on his part, as director of the insurance company, to call on the bank for an action which would close the bank, would he not?

Mr. ALDRICH. That would be true in regard to the situation which could exist whether or not he is a director.

Mr. HENDERSON. Not as far as that individual is concerned?

Mr. ALDRICH. If any depositor of a bank knows that his withdrawal deposit would close the bank, he has to take into consideration the question of whether he wants to have a deposit with an insolvent bank or whether he wants to leave his deposit in a going concern. The fact that he is a director makes no difference whatever.

Mr. HENDERSON. That decision is going on in one man's mind. There isn't a difference where there are two people concerned?

Mr. ALDRICH. His primary interest would be his own company.

Mr. HENDERSON. Certainly the primary interest, and you indicate the fact that he has a secondary interest. I can understand why he would take one interest and one decision as against another, but I can't understand anyone's saying it would be the same thing, there is no conflict of interest with an interlocking director.

Mr. ALDRICH. Frankly, the question of what would happen if a bank was insolvent has never crossed my mind.

Mr. HENDERSON. It doesn't necessarily have to be insolvent, does it?

Mr. ALDRICH. It would be insolvent if you couldn't pay your obligations on demand. You would have to close the bank.

Mr. HENDERSON. Oh, suppose all depositors——

Mr. ALDRICH (interposing). I don't know what good it is for me to discuss with you the question of what would happen if a bank couldn't meet its obligations. As a matter of fact, it seems to be perfectly clear that one of the reasons why the insurance company have their deposits with large institutions is that they are very liquid and because of that fact they don't have to face that situation. That is the very reason I assume that the insurance companies want to carry their principal accounts with banks where that thing couldn't happen.

Mr. HENDERSON. We were discussing the general question of whether there is a conflict of interest, and you keep putting it on the question of solvency.

Mr. GESELL. I plead guilty to that.

Mr. ALDRICH. He asked me what would happen if an insurance company wanted to take its deposit out and couldn't. I said the bank would have to close its doors. I don't think it is a question of conflict of interest at all.

Mr. GESELL. Let's take the day-to-day relationship. The bank is in a landlord-tenant relationship with the Metropolitan.

Mr. ALDRICH. As far as the Metropolitan Branch is concerned.

Mr. GESELL. It rents space from the Metropolitan. The Metropolitan has your group insurance, along with the Equitable?

Mr. ALDRICH. Yes.

Mr. GESELL. You have a very active account at the Metropolitan Branch, involving some 10,000,000 transactions a year, I believe Mr. Saylor said?

Mr. ALDRICH. Yes.

Mr. GESELL. Now, in all that day-to-day conduct of business, do I understand that you say that you feel the dual interest of any of the directors who must decide questions involving that relationship or policy affecting that relationship doesn't present any matters in conflict at all?

Mr. ALDRICH. Yes.

Mr. GESELL. Would you say the same, even when we get into a situation such as existed in 1930, where there were seven common directors as between the Metropolitan and the Chase National Bank?

Mr. ALDRICH. Yes; I would.

Mr. GESELL. How many directors do you have?

Mr. ALDRICH. We had at that time, I think, 83.

Mr. GESELL. Eighty-three. That was a result of all the banks taken over?

Mr. ALDRICH. Yes.

Mr. GESELL. And the Metropolitan has about 24, is it?

Mr. ALDRICH. I don't know.

Mr. HENDERSON. How many do you have now, Mr. Aldrich?

Mr. ALDRICH. The Banking Act of 1933 limited the number of directors you could have to 25, which relieved us of a considerable amount of embarrassment. We now have, I think, 23.

Mr. HENDERSON. So you really had a number of spares in 1933.

Mr. GESELL. Now, Mr. Aldrich, can you explain this advisory committee to us a little and the history surrounding the development of the Chase's interest in the Metropolitan Branch?

Mr. ALDRICH. Well, I don't know anything about the original merger of the Metropolitan branch with Chase.

Most of these advisory committees we have inherited. They are supposed to be local, the groups of men who are interested in that part of the city where the branches are located. They are supposed to have some special knowledge of the character of the business as carried on. They meet monthly, and they go over the loans that are made in the branches, and the discounts that are made in that particular branch. They have no power to authorize the branch to make a loan. That, of course, lies with the board of directors. Their function is to talk with the officers of the branch about all of the problems in that branch, including the credit of individual companies which may be borrowing money in that branch, and to a certain degree I think they help the branch officers in getting new business and that sort of thing.

I have to admit that I never have felt they had any very important function.

Mr. HENDERSON. This was another of those many things you inherited when you took over, was it?

Mr. ALDRICH. I personally don't think I would have started the branch advisory boards. We haven't started any since I have been the head of the bank, and we have abandoned two.

Mr. HENDERSON. I think some of the disinheritances you have accomplished are very worthy. This may be another you will want to take into account.

Mr. ALDRICH. I will tell you where I think they have served a really definitely good purpose in the case where a branch is in a particular part of the city, say, where there is some fur trading or some special trading. If you get on your branch advisory board two or three men who know that business, they are very helpful to the branch officers.

Mr. HENDERSON. You mean if you get in a region where business is particularly done on fast-moving credit, I suppose the advisory committee would be very helpful.

Mr. ALDRICH. That type of thing. I think particularly of the fur trade and garment trade. They really have a function in those parts of the city. In some of the downtown sections they have a real function where we have shipping and things of that kind. Of course they are all men of high character and high standing in the city, and to that extent it is a good thing for us to have them on the advisory boards, because it has that connection, the business connection.

I must admit that to me they haven't any very great importance.

Mr. GESELL. Do matters involving the Chase National Bank come before the financial committee of the Metropolitan?

Mr. ALDRICH. I have never seen a case.

Mr. GESELL. Does the finance committee determine the allocation of funds as between various banks?

Mr. ALDRICH. Not that I know of. I would say the answer is definitely no. Purely a matter of investment. I mean by that that the finance committee handles investments.

The VICE CHAIRMAN. Who does determine the allocations of deposits?

Mr. ALDRICH. I don't know.

Mr. GESELL. Does it come before the main board of directors?

Mr. ALDRICH. The question of when an account is going to be open comes before the main board of directors.

Mr. GESELL. What about which accounts shall have the most money and which shall be kept active and which accounts shall be kept inactive, and which accounts shall be carried at interest and which accounts shall not be carried at interest?

Mr. ALDRICH. I can't answer that.

Mr. GESELL. Those matters haven't come before you in your capacity?

Mr. ALDRICH. Not in any way. The question of authorizing the depository does come before the board.

The VICE CHAIRMAN. Who periodically checks up on where the money of these insurance companies is placed?

Mr. ALDRICH. You mean in the insurance company?

The VICE CHAIRMAN. Where are you on the board?

Mr. ALDRICH. I am on the board of the Metropolitan, and I don't know the answer to that.

Mr. GESELL. I might say, Judge, this afternoon we are going to have the treasurers of three companies on to discuss that matter at some length.

Our figures show that insurance deposits were 6.2 percent of your total deposits.[1]

Mr. PIKE. '39 or '38?

Mr. GESELL. '39 figures.

Can you put all this cash that you have, 6.2 percent—insurance cash I am talking about—or $15,000,000 that was shown in 1939, at work?

---

[1] Supra, p. 15211.

Mr. ALDRICH. Of course, you can't. One of the difficulties of dealing with the question is how much an account costs or allocating things to a particular account. That is made very difficult by the fact that you cannot take any particular sum of money out of your total assets and say that you can use that sum for this, or you have got a pool of funds, and you can't possibly identify any particular thing in those funds. It is very difficult, in the over-all picture, the cost of the operation of the bank, to say, "This is the cost of operating a particular deposit." Of course, you can take, in the case of the Metropolitan branch, the total cost of operating a branch and allocate a certain percentage of that to the Metropolitan deposit, by reason of the fact that that was a certain percentage of total deposits in the branch, and get a rough figure that way, but the same thing is true of your total over-all picture.

If you have got, as we have now, $600,000,000 of excess reserve, you might say that we will allocate $100,000,000 of our assets to excess reserves. On the other hand, you can say that of every single account you have in the bank, you can't possibly identify one account as distinguished from another.

Mr. GESELL. Of your total deposits, what percentage would you say were out to work?

Mr. ALDRICH. Well, again, we have $2,800,000,000 of deposits; we have about $600,000,000 of excess reserves.

Mr. GESELL. That means that there are $600,000,000 that you hold that you could put out did conditions permit?

Mr. ALDRICH. Well, yes; that is correct. What it literally means is that we have approximately $600,000,000 on deposit with the Federal Reserve banks more than the law requires us to have to cover the required reserve against our deposits. But the country as a whole has $6,000,000,000. We have about 10 percent of the total excess reserves in the country.

Mr. GESELL. Mr. Aldrich, from the point of view of a director of the Metropolitan I presume that you would be in a position to tell us what prompts Metropolitan placing such a large amount of its funds in New York City.

Mr. ALDRICH. Well, as I understand it—it is strictly true that I have never investigated the manner in which the Metropolitan determines where it keeps its deposits. In answering that question, I am just speaking from my knowledge and may be saying something contrary to what will be told you by the officers of the insurance company—but I assume they keep that amount of cash in New York because there is where they have their principal working balances and that at the present time there are two factors in the situation—one is that they want to keep a large amount of cash on hand because of the war situation and the general economic situation, and perhaps another reason is that they find it as difficult as we do to find investments for that cash. I don't know; I ought not to try to speak for the officers of the Metropolitan because I just plain don't know.

Mr. GESELL. I take it that we would be in agreement that the cash has accumulated for several reasons, among which is the inability to invest the funds. The schedule that we have in evidence showed in 1938 that $97,000,000, roughly, out of $108,000,000 are in New York City.[1]

---

[1] "Exhibit No. 2305," appendix, pp. 15527–15528.

Mr. ALDRICH. I must admit that I am surprised to see the small percentage of the total assets of these insurance companies that are being kept cash, from the schedule that you put in this morning.[2] I would have thought it was larger.

Mr. GESELL. I believe those figures are right. We have discussed them heretofore.

Mr. ALDRICH. I don't know, of course.

Mr. GESELL. I was wondering whether or not some of this money perhaps couldn't get to work if it was put out in smaller banks throughout the country. What are your opinions on that, sir?

Mr. ALDRICH. Well, of course, in the first place, it would be impossible, as I see it, to carry on an account of the character of the principal account of Metropolitan, where it has 10,000,000 items going through annually in a group of small banks scattered throughout the country. It has got to be in one place.

Mr. GESELL. I think we are in agreement on that, but these other big balances are pretty much inactive accounts.

Mr. ALDRICH. Well, at the present time, as I said, there are $6,000,000,000 of excess reserves throughout the country, and, of course, the excess reserves of the New York banks are very largely caused by the banks throughout the country keeping deposits with the banks in New York. Our balances from our account banks are considerably larger than the balances from the insurance company, very much larger.

Mr. GESELL. Your correspondents are, by and large, the larger and stronger banks, are they not?

Mr. ALDRICH. No; I wouldn't say that. We have over 3,000 correspondents. They are all, we hope, strong banks.

Mr. GESELL. Would it be your considered opinion that there are not small banks throughout he country which could use, let's say, a deposit of five or ten or twenty-five thousand?

Mr. ALDRICH. Generally speaking, I think that the banks of the country, at the present time, have more money than they can use; I think that is almost universay.

Mr. GESELL. You don't believe, then, that there are small banks in need of funds?

Mr. ALDRICH. I wouldn't dare say that there were not, but I should say that this statement is true, that with the excess reserves of the country about $6,000,000,000, the thing we are suffering from more than anything else at the present time is a plethora of money rather than any shortage.

Mr. GESELL. Do you believe as a matter of broad social policy that it might be more desirable even in the situation which prevails at the present time, for a large institution like the Metropolitan to diversify its funds more than it has?

Mr. ALDRICH. Diversify? Do you mean keep cash balances or diversify its investments?

Mr. GESELL. No; its cash balances; put some money in Kansas City, in New Orleans, and all the middle-sized cities around the country where no home office deposits are carried at the present time.

Mr. ALDRICH. I should say that, looking at it from the point of

---

[2] "Exhibit No. 2318," appendix, p. 15540.

view of the Metropolitan, they should keep their balances in the places where they need them for their business, and I take it that they do do that. I literally don't know one thing about where or how the Metropolitan keeps its bank accounts.

Mr. GESELL. I am a little surprised at that. You being so prominent in the banking community, I would have thought you would have been consulted by the Metropolitan as to matters of banking policy.

Mr. ALDRICH. Well, as a matter of fact, if the Metropolitan wanted to know whether a bank was of the character that it was safe for them to put their funds in it, they would undoubtedly consult the Chase National Bank and they might very well do it through me. It would depend a good deal upon who was doing it.

Mr. GESELL. You would check to see whether a bank was a good bank?

Mr. ALDRICH. Yes; but they would not, I think, take up with me, unless it were at the point where they were about to open a deposit, the question of whether they should have a deposit in one city rather than another or one town other than another. As a matter of fact, that is a detail which probably would be handled by the officers without consultation.

Mr. GESELL. Without coming to the board?

Mr. ALDRICH. Well, up to the point where they open the account.

Mr. GESELL. Until a specific recommendation was made?

Mr. ALDRICH. Right; I should think so. There again I am not sure.

Mr. GESELL. And your answer to my question as to whether it would be desirable for an institution like the Metropolitan to diversify its cash balances to a greater extent than has been done was, I believe, that you believe it is good policy for the Metropolitan to keep its funds where it does business, where it has need of the funds?

Mr. ALDRICH. I should think that the Metropolitan would be guided by its own needs from a business point of view as to where it kept its funds.

Mr. GESELL. I suppose we are in agreement that there are large deposits of the Metropolitan at the present time which are not tapped from year to year and which are for all intents and purposes inactive deposits?

Mr. ALDRICH. I should think that the Metropolitan must keep, on the average, a large sum of money in cash, which it would keep on deposit with the banks, and undoubtedly that would mean some of those accounts would be, as to their residual amount, inactive, but as a matter of fact I don't know of any company in the country that has more active bank accounts than the Metropolitan.

Mr. GESELL. That would apply to its district accounts particularly, would it not?

Mr. ALDRICH. You are getting into a field there that I don't know anything about.

Mr. GESELL. Let's take the $3,000,000, for example, that they have with the Chase. That part of the balance is at interest. That, I take it, is a time deposit which rests with the Chase for a period of time; it is not an active deposit?

Mr. ALDRICH. Yes.

Mr. GESELL. Wouldn't it perhaps be helpful to have that $3,000,000 resting, say, in Fort Worth, Tex., or in Tampa, Fla., or in Kansas City, or some place else?

Mr. ALDRICH. It certainly would be helpful to us at the present time if they did, because we wouldn't have to pay interest on it.

Mr. GESELL. And your position would be that they would be unable to place this money at interest at any other bank outside the city of New York?

Mr. ALDRICH. I don't know know whether they could or not; but, you see, the Banking Act of 1933 provides that you cannot pay interest on a demand deposit; therefore the only way they can get any interest is on time deposits; and in a situation like this, where we have $60,000,000 of excess reserves, any additional deposit that we have is simply a liability, because we have to pay a twelfth of 1 percent on it to the Federal Deposit Insurance Corporation, and the bigger our deposits are the less money we make at the present time.

Mr. GESELL. Do you believe that funds can be deposited at interest more easily in New York City than they can outside?

Mr. ALDRICH. No; I do not.

Mr. GESELL. Then, coming back to my question——

Mr. ALDRICH (interposing). I should think you could deposit funds at interest anywhere. I haven't looked into it, but I can't imagine a bank wanting to add to its excess reserves by taking time deposits and paying interest on them.

Mr. GESELL. Coming back to my original question, then, do you feel it would be desirable for the Metropolitan to make such a deposit as this outside of the city of New York if it could make such a deposit at interest?

Mr. ALDRICH. I would say that as far as the Metropolitan is concerned, if they could get interest on a time deposit and they have the money available, the thing they should do would be to get as much interest on it as they could.

Mr. GESELL. And let's say they would get the same interest for a bank outside of New York, or in New York, where, from a point of view of broad policy, would it be more desirable for the funds to rest?

Mr. ALDRICH. From the point of view of the Metropolitan, I shouldn't think it would make any difference if they could get the same interest, and the bank is equally as reliable.

Mr. GESELL. From the point of view of social policy, do you feel it would be more desirable for those funds to get out of New York?

Mr. ALDRICH. I don't think at the present moment any such question of social policy arises, because the excess reserves all over the country are so great there is just no question about it.

The VICE CHAIRMAN. A man who goes into a bank now who wants to have anybody smile at him goes in to borrow some money, and not deposit it.

Mr. ALDRICH. That is certainly true, particularly if he wants to deposit it on time.

The VICE CHAIRMAN. I have had them speaking to me lately.

Mr. GESELL. I have no further questions of Mr. Aldrich.

Mr. KADES. What interest do you pay on your time deposit of the Metropolitan?

Mr. ALDRICH. There is some correspondence which has been given to your people about this very deposit which my recollection showed that we had a conversation with the Metropolitan as to what the interest rate should be, and whether it would be a quarter or a half of 1 percent, and we didn't want to take it at a half of 1 percent because of the fact that we couldn't buy any Federal obligations at that time which would make it compensatory to take it; in other words, we would lose money on it if we took it, and the question was whether half of 1 percent should be reduced to a quarter of 1 percent.

What our rate is at the present moment on time I couldn't answer, but it must be under a half of 1 percent, I should think, and even then it wouldn't be compensatory, because we find it almost impossible to earn a half of 1 percent on our total resources.

Mr. KADES. For how long a period of time are the time deposits, as a rule, in the case of the Metropolitan?

Mr. ALDRICH. I can't answer that. I think it is 6 months, 6 months and a day, I understand. There are some technical regulations there in connection with time deposits which are intended to prevent banks from avoiding the statutory provision that you can't pay interest on deposits, therefore you have got to have certain specific regulations in regard to time deposits that clearly differentiate them from demand deposits, and the banks naturally come right up to the edge of that line in making a time deposit.

Mr. KADES. According to the schedule that Mr. Gesell introduced earlier, as of December 31, 1938, the balance not at interest of the Metropolitan with the Chase was over $31,000,000. Of that amount, how much would you have estimated would be withdrawn within 6 months?[1]

Mr. ALDRICH. Well, you see, it is a constantly revolving fund. It is hard to realize that our total deposits will go up and down fifty to eighty to ninety million dollars a day. Sometimes the activity in that account is such that they might draw on us for $20,000,000 in 1 day.

Mr. KADES. Do you know what the lowest level was during the year 1939?

Mr. ALDRICH. 1939?

Mr. KADES. This figure is as of December 31, 1938.

Mr. ALDRICH. I think you have a schedule of that.

Mr. GESELL. Yes, I do; and I offered it in the record, and the total deposits show on this schedule at $175,000,000 as of December 31, 1938, for all companies, of which $64,000,000 is deposit of the Metropolitan.[2] The amount on time and demand is not shown.

Mr. ALDRICH. You are asking for the total amount on demand, aren't you, or the lowest total amount on demand?

Mr. KADES. That is right.

Mr. ALDRICH. I should think it was substantially, say, $25,000,000 as a guess; I don't know.

Mr. KADES. It would not be less than twenty or twenty-five million out of the thirty-one million?

Mr. ALDRICH. I honestly don't know the answer. I don't dare answer the question. It is substantial, but I don't know what it is.

---

[1] "Exhibit No. 2305," appendix, pp. 15527–15528.
[2] "Exhibit No. 2318," appendid, p. 15540.

Mr. Kades. The reason I asked the question, Mr. Aldrich, was because according to the same schedule there seems to be a relationship between the amount of balances kept by the Metropolitan Life Insurance Co. not at interest and the amount kept at interest.[1] For example, with the New York Trust Co. there was $6,000,000 not at interest, $2,000,000 at interest, approximately one-third. In the Central Hanover Bank & Trust Co., $6,000,000 not at interest, $2,000,000 at interest, also a third. Bankers Trust Co., $6,000,000 not at interest, $2,000,000 at interest, also a third. National City Bank of New York, $6,000,000 not at interest, at interest $2,000,000, also one-third. The First National Bank of New York City, $5,000,000 not at interest, none at interest. J. P. Morgan & Co., $3,700,000 not at interest, balance at interest $1,250,000, also approximately one-third. Chemical Bank & Trust Co., $3,500,000 not at interest, $1,000,000 at interest, also one-third. Guaranty Trust Co., $3,500,000 not at interest, $1,000,000 at interest, also a third, and so on. Is there any reason which you can state why the ratio of one-third or thereabouts is not kept in connection with the deposit in the Chase?

Mr. Aldrich. I don't know anything about that.

Mr. Henderson. I want to go back for a moment, for the purpose of the record, to this interlocking directorate. We may have gotten into some confusion there, but I happen to be administering some acts. We have the Trust Indenture Act, we have the Securities and Exchange Act, we have the Utility Holding Company Act, and we have just sent up a series of reports on investment trusts. I happen to have listened to testimony here, I have read the Pecora hearings and the like and I do find constantly that there is a conflict. Maybe I should have offered it as my testimony rather than asking if you didn't see it. I offer that for the record as the reason why I made the statements I did to you.

Dr. Lubin. Mr. Aldrich, would you know offhand the approximate number of depositors in your bank who are accustomed to have deposits of amounts in excess of 50 or 60 million dollars?

Mr. Aldrich. No; I wouldn't. We have quite a number

Dr. Lubin. You do have quite a number?

Mr. Aldrich. Yes.

Dr. Lubin. Whose day-to-day balance would run on the average consistently 50 or 60 million dollars?

Mr. Aldrich. One or two occur to me right away, the Metropolitan Life, the city of New York—you say in excess of $50,000,000?

Dr. Lubin. Yes.

Mr. Aldrich. I take that back, not quite a number. The Equitable Life. Those are the only ones I can think of.

Dr. Lubin. In other words, of the three deposits, two of them are insurance companies.

Mr. Aldrich. That is right.

Dr. Lubin. Has the Metropolitan any time asked the Chase to permit it to increase its balance on deposit for interest, time deposit?

Mr. Aldrich. Time deposit? I think—yes, I think it has. Isn't that in that correspondence?

Mr. Gesell. Yes; I believe so.

---

[1] "Exhibit No. 2305," appendix, pp. 15527–15528.

Dr. LUBIN. Did the bank accept its request for permission?

Mr. ALDRICH. I think not.

Mr. GESELL. I think there are some cases where they did and some where they did not.

Mr. ALDRICH. It depends a great deal on what the rate of interest is that they ask. Naturally, we don't like to take time deposits that are going to result in a loss to us.

Dr. LUBIN. Would you know whether in the recent year, let's say in the past 12 months, any request has been made by Metropolitan to do that?

Mr. ALDRICH. This particular thing they are talking about was within the last 2 years.

Dr. LUBIN. And you refused to permit it?

Mr. ALDRICH. I believe so, yes.

The VICE CHAIRMAN. Any other questions, gentlemen? Is there any reason why Mr. Aldrich may not be excused?

Mr. GESELL. None whatsoever, so far as I am concerned.

The VICE CHAIRMAN. I assume this committee will meet about 2:30, won't it?

Mr. GESELL. I have one thing I would like to put in the record before Mr. Aldrich leaves. The question came up as to whether the Union Trust Co. of East St. Louis was or was not a correspondent of the Chase. Records indicate that from '31 to '33 they were a correspondent having money with the Chase Bank.

(The witness, Mr. Aldrich, was excused.)

The VICE CHAIRMAN. We will reconvene at 2:30.

(Whereupon, at 12:40 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:35 p. m., on the expiration of the recess, Representative B. Carroll Reece presiding.

Acting Chairman REECE. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes, I am.

Acting Chairman REECE. The committee will please come to order.

Mr. GESELL. The first witness this afternoon is Mr. Washington.

Acting Chairman REECE. Do you solemnly swear the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WASHINGTON. I do.

Acting Chairman REECE. Be seated, please.

TESTIMONY OF LAWRENCE WASHINGTON, ASSISTANT TREASURER, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.

Mr. GESELL. Mr. Washington, will you state your full name and your position for the reporter, please, sir?

Mr. WASHINGTON. Lawrence Washington, assistant treasurer, Metropolitan Life Insurance Co.

Mr. GESELL. What are your duties, Mr. Washington, as assistant treasurer?

Mr. WASHINGTON. My duties have to do with the cash transactions of the company, handling its receipts, disbursements, banking arrangements.

Mr. GESELL. You are the man who handles the day-to-day banking arrangements for the Metropolitan, are you not?

Mr. WASHINGTON. Yes; I operate them. I, of course, do not decide questions of banking policy. I am the operating officer.

Mr. GESELL. Who determines where you shall deposit money, or matters of that broad policy nature?

Mr. WASHINGTON. You refer, of course, to the company, the direct company accounts?

Mr. GESELL. Yes.

Mr. WASHINGTON. The senior financial officers—treasurer, and vice president Ecker.

Mr. GESELL. And you are the man who carries those policies into effect?

Mr. WASHINGTON. I am.

Mr. GESELL. Now, I wanted, first of all, to get from you a little better idea of just what kind of account this is that the Metropolitan has with the Chase Bank. How much is on time, how much is on demand, what are the factors that determine the size of the account, and how is it handled?

Mr. WASHINGTON. The company's home office active checking account is in the Chase. That is the company's only really active United States home-office account. All the company checks for different purposes drawn at the home office in New York are drawn on the account in the Chase. All funds coming into New York are deposited in the Chase. So that regulates the size of the deposit in the Chase at any time, how much we get in and how much we pay out.

We, of course, do have large, so-called reserve accounts in many of the New York banks, but the fluctuations occur in the Chase account and they are, of course, very large.

Mr. GESELL. Now, the other accounts that you refer to are, by and large, inactive accounts?

Mr. WASHINGTON. They are inactive accounts.

Mr. GESELL. The money is kept there waiting some large investment or some change in policy?

Mr. WASHINGTON. Quite right.

Mr. GESELL. And the only active New York account is the Chase account.

Mr. WASHINGTON. Yes. In the company's home office. Of course, we have subsidiary accounts for our farm-loan offices and things of that sort.

Mr. GESELL. You have district office accounts.

Mr. WASHINGTON. They are all over the country; yes.

Mr. GESELL. Now, the balance at the Chase fluctuates, you say. What has been the minimum balance there on demand in recent years?

Mr. WASHINGTON. I think the lowest balance in the last few years was around $4,000,000.

Mr. GESELL. Around $4,000,000. Generally at what level does it stay?

Mr. WASHINGTON. Well, it would fluctuate anywhere between, $4,000,000 was the low point—say, between that point and the high, I couldn't give you that offhand. I suppose it ran up to $50,000,000 or $60,000,000 at times, maybe over that.

Mr. GESELL. It ran over that. According to the records that the Chase Bank submitted it was up over $100,000,000 in '38 and '39 as of June 30.

Mr. WASHINGTON. 1938 and 1939.

Mr. GESELL. Also in 1934 it was over $100,000,000.

Mr. WASHINGTON. You are asking me about our balances. Of course, those figures would not at all check with the figures given you by the Chase because when we draw a check on a bank it goes out of our account. So far as the Chase is concerned, it doesn't go out of the account until it clears, so that you wouldn't expect any accurate check between those figures.

Let me see what my own figures show for that period. What was that date, Mr. Gesell?

Mr. GESELL. I had as of June in 1934, 1938, and 1939.

Mr. WASHINGTON. Well, our figures never showed that much in June 1938. The top figure was $103,000,000 and that included time too, so it would have been $97,000,000 at that time; in June 1937, our largest balance in the Chase was $65,000,000. That was $59,000,000 on demand, as we had $6,000,000 on time. In 1936——

Mr. GESELL. Yes.

Mr. WASHINGTON. $55,000,000 less $6,000,000; that is $49,000,000. In 1935—$59,000,000 on demand. In June 1934 our total funds (I haven't got them separated for that year), were $104,000,000.

Mr. GESELL. That gives some idea of the fluctuation of accounts.

Mr. WASHINGTON. Very wide fluctuations.

Mr. GESELL. How much have you been carrying on time in the account?

Mr. WASHINGTON. In the Chase?

Mr. GESELL. Yes.

Mr. WASHINGTON. Until sometime in the fall of 1938 we had $6,250,000.

Mr. GESELL. Had you tried to put more money on time with the Chase?

Mr. WASHINGTON. I have not. Whether one of the other financial officers entered into negotiations of that sort, I don't know. I never did.

Mr. GESELL. You had made no negotiations to put more in?

Mr. WASHINGTON. No.

Mr. GESELL. Now, generally speaking, with respect to your other bank balances, I think, as Mr. Kades developed with Mr. Aldrich this morning, the amount of balance at interest and the balance not at interest are about in the ratio of 3 to 1.

Mr. WASHINGTON. At the present time; yes. Of course, until the fall of 1938 it was about fifty-fifty.

Mr. GESELL. What determines how much you have on demand, how much you will have on time in these various accounts?

Mr. WASHINGTON. As far as I am concerned, the senior financial officers determine that.

Mr. GESELL. And you have no knowledge as to what lies back of that?

Mr. WASHINGTON. No.

Mr. GESELL. You just carry it out?

Mr. WASHINGTON. Right.

Mr. GESELL. I take it that by the senior officers you mean the treasurer, do you not?

Mr. WASHINGTON. Treasurer and vice president Ecker.

Mr. GESELL. What do you do, Mr. Washington, when you receive these requests from Mr. Saylor, such as we had in the record this morning? I noticed most of them were directed to you or involve conversations with you.

Mr. WASHINGTON. You mean with reference to our district office banks?

Mr. GESELL. With reference to district office banks and the other type of thing.

Mr. WASHINGTON. The other type of thing doesn't come to me, I believe; that is those that were discussed this morning.

Well, I can clarify that for you, I think. It is a very common practice among banks throughout the country, if they are seeking an account at the Metropolitan Life, they don't know us particularly but they do know their New York correspondent bank, so they write to their New York correspondent bank to put their request before us, and the New York correspondent bank, whether it be the Chase or some other bank, does so. Ordinarily, we do what I would describe as going through the motions. We look up the account and tell them that the present banking arrangement is perfectly satisfactory but that later on if we have to change the account we will give the bank consideration.

There are, of course, other cases. We may be on the point of changing a bank account or considering it or opening a new office. That becomes known in the city where the office is to be opened and the banks there try to get the business, and may very likely again approach us through their New York correspondents. We decide the case purely in the interest of the Metropolitan Life principally to get a strong bank, the nearest one to the district office. Sometimes it happens that we will select a bank which the Chase has recommended to us. I suppose more often that is not the case. One thing has nothing to do with another. We pay no attention whatsoever to requests coming through the Chase. They aren't really Chase requests. As a general thing, they are simply requests of the banks forwarded to us by the Chase. We pay no attention to them at all and select the depository on the basis of the soundness of the bank and convenient location.

(The vice chairman, Representative Sumners, assumed the chair.)

Mr. GESELL. What was the factor that led to the change in the Union Trust Co. of East St. Louis?

Mr. WASHINGTON. My file is a little bit more extensive than that brought up this morning. It goes back to a situation 2 or 3 years prior to the date the Chase interested itself in the matter. In 1928, the manager of our East St. Louis office wrote us and said the bank he was then using was 1,400 feet away from the office, while the First National and Union Trust Co. were 400 feet away, and it would be more convenient to deal with a nearby bank.

Mr. GESELL. As I recall the change that we discussed this morning, it took place in 1931, 3 years later. Was it a result of that request?

Mr. WASHINGTON. No.

Mr. GESELL. All I want is for you to tell us the reason why the changes were made.

Mr. WASHINGTON. The change was made to put the account into a more convenient bank, to put it in what I regarded at that time as a stronger bank, and on our manager's recommendation. He sold some insurance to the bank, and I think his recommendation was influenced by that.

Mr. GESELL. Have you that recommendation there, sir?

Mr. WASHINGTON. Yes.

Mr. GESELL. May I have it?

Mr. WASHINGTON. These files are awfully nice to put things in but hard to get things out of.

Mr. GESELL. I would be glad to read it into the record but not destroy your file. But I want to see it.

Mr. WASHINGTON. That letter, of course, is only a very small part of this story.

Mr. GESELL. I want the whole story.

That is the letter dated July 1, 1931, to Mr. George signed by the manager stating [reading]:

> Since my letter of June 22, Mr. Schlafley has discovered he had over fifty employees connected with the bank and I made arrangements with him to close this group. There is a prospect of corporation insurance in this bank which would far offset any loss we might sustain through changing our deposit, and they would also furnish us messenger service. If agreeable with you I am willing to go ahead with the change.

Is that the letter you referred to?

Mr. WASHINGTON. Yes; that is one. I want to give you a little fuller picture of that situation, however.

You will remember the banking situation was a little bit disturbed, putting it mildly, at this time, that is in 1931. Shortly before these transactions took place, I had gone out to Chicago, St. Louis, and other centers to talk with the principal banks there, to get their opinion of the position of the banks we were using and the other banks, and I acquired a good deal of information of one sort and another on that point. Among others, it was felt generally that the Union Trust Co. was a bank more likely to stay open, hold up, than the other bank. Whether that was justified or not, I don't know.

So that I was rather seeking an opportunity at that time to better our banking situation. Furthermore, as soon as we looked into this matter, as I say, we saw that our manager was dealing with an inconveniently located bank.

Mr. GESELL. You could have seen that from looking back to your account, the letter you received in 1928.

Mr. WASHINGTON. That is how we did determine that.

Mr. GESELL. That is how you found it out in 1931? I don't understand that.

Mr. WASHINGTON. When in 1931 the Chase took up with us the request of the East St. Louis bank—I believe it was coupled with a statement of the East St. Louis bank that they were centrally located, that they were thinking of taking out some insurance policy with us, and I looked at my file. The letter of 1928, of course, showed that that bank was, as I said, not only badly located from our point of view, but at that time I was of the opinion the other bank was the stronger bank.

Mr. GESELL. Does this question of the selling of insurance have an effect on where you place your bank accounts?

Mr. WASHINGTON. For the last 4 or 5 years we haven't even considered it. I should say prior to that time, other things being equal, out of two banks that were equally desirable we would use the one with which we were doing business.

Mr. GESELL. You mean if one bank had a group insurance policy and the other didn't, the money would be placed where the group insurance policy was?

Mr. WASHINGTON. Other factors being equal, the one being as convenient and as strong as the other, yes; whether it was group insurance or any other insurance.

Mr. GESELL. If an officer of one of the other banks took out a substantial policy, you would be inclined to favor his bank with the deposit?

Mr. WASHINGTON. Other things being equal, yes.

Mr. GESELL. When was that policy changed?

Mr. WASHINGTON. That is putting it rather strongly. It was never a definite policy.

Mr. GESELL. You said up to a few years ago.

Mr. WASHINGTON. The last 4 or 5 years we have not considered that matter at all. I don't know whether we have had occasion to—whether there have been cases in which things were absolutely equal. If such an occasion should come now and we were opening a new office and had to open a bank account or there was a change of location, as between two banks equally strong, equally convenient, I think we would be inclined to give it to the bank that was doing business with us.

Mr. GESELL. What is the attitude of the company with respect to policy loans where you know that a bank in which you have a deposit is about to make a loan on a Metropolitan policy? What happens in a case like that? Do you permit those loans?

Mr. WASHINGTON. We have absolutely no interest in whether any bank makes any loan on Metropolitan policies or not.

Mr. GESELL. Do you recall this correspondence, sir? [1]

Mr. WASHINGTON. Yes.

Mr. GESELL. That would tend to indicate something a little different, would it not?

Mr. WASHINGTON. I don't think so.

Mr. GESELL. Will you explain what happened in that situation, then, sir?

Mr. WASHINGTON. Yes. We had an agent at that time out on Staten Island whom I didn't know, and don't know now. Raymond Jones, vice president of the Bank of Manhattan, whom I have known for many years, and, of course, had a great many business dealings with——

Mr. GESELL (interposing). Your company has an account with his bank, does it not?

Mr. WASHINGTON. Yes. He called me up and said that Mr. Ketzer had endeavored to arrange some loans—some policy loans—t

[1] "Exhibits Nos. 2320 to 2320-B," infra, pp. 15231-15232.

be made by the Bank of Manhattan at a low rate of interest. To do that, I believe, he had gone to a branch of the Manhattan in which he had an account and obtained a letter of introduction to another branch, outlined the situation to them, and they had said they would make such a loan at a given rate of interest. I forget what it was. It wasn't low enough to suit our representative, and the deal was not consummated.

He then wrote a letter of criticism to the Bank of Manhattan and, as I remember it, was quite critical of its policy of not loaning on policies at a lower rate of interest and so getting the business which he said he would have obtained for the bank.[1]

Mr. GESELL. That is the letter you refer to, is it not?

Mr. KADES. While we are waiting, would you tell us who Mr. Ketzer is?

Mr. O'BRIAN. He is an agent of the Metropolitan Life.

Mr. WASHINGTON. Yes; that is the letter.

Mr. GESELL. I didn't mean to interrupt you.

Mr. WASHINGTON. These loans that our agent was endeavoring to get the Bank of Manhattan to take were not on policies of the Metropolitan Life; they were policies issued by other companies. Mr. Jones called me up and said that he was much disturbed that a representative of the Metropolitan Life should have occasion to criticize the Bank of Manhattan. He outlined the circumstances of the case to me, and I told him that from what he told me it appeared our agent had acted out of his province and had been overzealous, that if he would send me up the correspondence I would go into the question more thoroughly. He did send me up the correspondence at that time. I discussed the agent's action with the superintendent of agencies. He agreed with me that he was acting entirely out of his field, that he should act neither as a loan broker nor a bank management critic, and a letter was written to the agent informing him of what the policy of the company was in such matters, that he should not criticize bank policies and he shouldn't endeavor to act as a loan broker.

Senator KING. Was he reproved by the company because of his action?

Mr. WASHINGTON. I would call it a reproof; yes.

Mr. GESELL. The letter is among these you have identified?[2]

Mr. WASHINGTON. Yes. The letter is in there.

Mr. GESELL. I can read the correspondence for the record.

The letter from the Metropolitan agent, Mr. Ketzer, to Mr. Philip Licht, of the Bank of Manhattan, dated June 15, 1938, to which Mr. Washington refers, states [reading "Exhibit No. 2320"]:

> Enclosed you will find a letter of introduction to Vice-President Kavanaugh as requested by you.
>
> It is a shame that this man's request for a loan of $20,000 at 3% was given such poor consideration in view of the fact that he is Vice-President of Young & Rubicam, whose salary is $50,000 a year. He was willing to open an account with the Bank of Manhattan and it was possible that he could transfer the Young & Rubicam account to your branch office at 41st and Madison Ave.
>
> Mr. Eldridge desired this loan for the purpose of liquidating loans now existing against his life insurance policies and he was willing to assign all of his policies to the Bank of Manhattan, which would have fully protected your bank in either

[1] "Exhibit No. 2320," infra, pp. 15231–15232.
[2] "Exhibit No. 2320–B," infra, p. 15232.

the event of his death or in the event that he could not repay the loan, because, as you know, an assignee has the right to borrow or cash surrender any assigned policy without permission of the insured.

Mr. Kavanaugh was willing to grant Mr. Eldridge a 4% loan, but I was able to secure a loan for him at 2¾%.

I do wish to thank you for your courtesies and to assure you that I am deeply appreciative of same.

The letter dated June 20, 1938, to Mr. Washington from Mr. Raymond E. Jones, vice president of the Bank of the Manhattan Co., reads [reading "Exhibit No. 2320–A"]:

You asked me to send you the name of your agent who had endeavored to arrange a loan at one of our branches against policies of your Company.

I have explained to you the policy of our Bank in the matter of loans on life insurance policies, particularly when the companies are friendly to us. As you know, we find it difficult to obtain good loans today, but nevertheless do not feel that we should take policy loans away from the insurance companies where the business rightfully belongs. Perhaps the best way to explain the incident is to send you the enclosed letters which please treat in confidence.

If you have any suggestions which you might care to make regarding the policy which we are trying to pursue in this matter I shall be glad to hear from you.

And the letter written by the superintendent of agencies of the Metropolitan to Mr. Ketzer, dated July 6, 1938, reads [reading "Exhibit No. 2320–B"]:

It has come to my attention that in connection with a recent canvass of Mr. Clarence E. Eldridge, to whom you sold substantial life insurance policies, you endeavored to make arrangements under which Mr. Eldridge could borrow from banks on his life insurance policies in order to liquidate loans held by life insurance companies. It was even reported to me that in at least one instance you criticized a bank for offering what you deemed unsuitable terms for such a loan.

This Company has very close relations with many of the large banks in New York City and elsewhere. Some of these banks for reasons of their own do not look with favor upon life insurance policies as collateral, and some of them out of regard for the life insurance business decline at least to solicit this type of business.

Your activities in connection with Mr. Eldridge's life insurance have proved a cause of embarrassment to the Company, and I can only regard them as being beyond your province. I must very definitely request that in the future you abstain from dealings of this nature with banks until you have communicated to the Home Office just what you propose to do, and have obtained its approval.

I would like to offer this correspondence for the record.

(The letters referred to were marked "Exhibits Nos. 2320, 2320–A and 2320–B" and appear in full in the text on pp. 15231–15232.)

Senator King. Have you any statement you would like to make, Mr. Washington?

Mr. Washington. I would like to say one word to clear up this Ketzer matter. Of course, I have nothing to do with the matter of policy loans. However, you probably heard the last paragraph of the letter from Mr. Jones, in which he said something to the effect that it wasn't the policy of the bank to make life-insurance loans, and rather invited me to comment on that.[1]

I called him up and told him that so far as the Metropolitan Life was concerned, it didn't care a particle whether the Bank of Manhattan or any other bank made loans on life insurance or anything else; that that was part of its own management problem. I may say that that is very definitely the policy of my company. It has been communicated to me by my superior officers, and time and time again

[1] "Exhibit No. 2320–A," supra, p. 15232.

I have told inquiring bankers that we certainly had no objection whatsoever to their making loans on life insurance if they thought that was good business.

Mr. HENDERSON. You do regard it as a company matter if an agent criticizes a bank?

Mr. WASHINGTON. Well, we certainly don't want our agents kicking up trouble with banks; no.

Mr. HENDERSON. Even when it is not within the company's business?

Mr. WASHINGTON. Oh that is not quite true of this case.

Mr. HENDERSON. I understand the transaction had nothing to do with the Metropolitan. The policy loans weren't on policies with the Metropolitan.

Mr. WASHINGTON. Well, except that of course Mr. Ketzer was known to the Bank of Manhattan principally and only as a representative of the Metropolitan Life Insurance Co.

Mr. HENDERSON. They knew he was not making the transaction as a representative of the Metropolitan, didn't they?

Mr. WASHINGTON. The Bank of Manhattan evidently was under the impression that these were Metropolitan loans. They were not. They were loans on policies of other companies, and we wouldn't want our agents to go barging into insurance policies of other companies anyway. Their business, according to our view of the matter, is to sell life insurance on its merits to people who can afford to pay for it.

Mr. HENDERSON. Supposing he is a Metropolitan agent and he didn't like the way the gas company ran its affairs, and the vice president of the gas company happened to be a friend of yours and called you up. Would you discipline the agent in that case?

Mr. WASHINGTON. Oh, no, indeed. Ketzer's activity in this case was life-insurance business, Commissioner.

Mr. HENDERSON. It was life-insurance business, yes; but it had nothing to do with the Metropolitan. It seems to me that it was as an individual.

Mr. WASHINGTON. It seemed to be clear that his operations concerned the writing of more insurance for the Metropolitan Life Insurance Co. That was his object. He was endeavoring, apparently, to persuade one man to take his bank account away from a bank in which it then was, and that of his company, and put them in the bank of the Manhattan company in order, indirectly, that out of this transaction Mr. Ketzer could write some life insurance.

Mr. HENDERSON. That is almost identical to a transaction that was happening between the Chase Bank and some of the correspondents of the Metropolitan this morning, isn't it?

Mr. WASHINGTON. Sorry; I don't see any similarity.

Mr. HENDERSON. Somebody was trying to get somebody to make a change in order that somebody could get some business, and that is just about what this agent did in this case, it seems to me. I am not saying whether it was good or bad, but it looks to me as if it is the same kind of transaction.

Mr. WASHINGTON. I am not characterizing it either. We felt the agent had been overzealous and acted outside of his province in criticizing the bank, and we told him not to do it any more. He is one out of 20,000 agents. My criticizing Mr. Ketzer for getting involved with the Bank of Manhattan naturally doesn't represent any company policy of any sort.

Senator KING. Call your next witness.

(The witness, Mr. Washington, was excused.)

The VICE CHAIRMAN. The next witness.

Mr. GESELL. Mr. Greaves.

The VICE CHAIRMAN. Mr. Greaves, will you stand up to be sworn, please? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GREAVES. I do.

TESTIMONY OF HENRY GREAVES, TREASURER, THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES, NEW YORK, N. Y.

Mr. GESELL. Will you state your full name and your position for the record, please, sir?

Mr. GREAVES. Henry Greaves, treasurer, The Equitable Life Assurance Society of the United States.

Mr. GESELL. How long have you been treasurer of the Equitable, sir?

Mr. GREAVES. For 3 years.

Mr. GESELL. You say you have been treasurer for 3 years?

Mr. GREAVES. Three years.

Mr. GESELL. What are your duties as treasurer, sir?

Mr. GREAVES. I have charge of collections, custody of funds, and disbursements.

Mr. GESELL. What do you have to do with the determination of where the Equitable shall put its money, what bank accounts it will use?

Mr. GREAVES. In the first place, the depositories are authorized by the finance committee under section 14 of the bylaws.

Mr. GESELL. Who makes recommendations to the finance committee?

Mr. GREAVES. The treasurer.

Mr. GESELL. You mean yourself?

Mr. GREAVES. Yes.

Mr. GESELL. You then do have some authority in the determination of bank accounts, in that you make recommendations to the finance committee?

Mr. GREAVES. In the determination of bank accounts?

Mr. GESELL. Yes.

Mr. GREAVES. I make recommendations to the finance committee. In the first place, no recommendation is made to the finance committee of any bank that has not been thoroughly analyzed and found to be sound.

Mr. GESELL. But who selects the banks? Are you the fellow that selects them and recommends them to the finance committee?

Mr. GREAVES. In some instances I have selected them.

Mr. GESELL. Who else selects them besides yourself?

Mr. GREAVES. It might be my suggestion of a certain bank, or it may be a suggestion from one of our managers, or may be a suggestion from a bank itself.

Mr. GESELL. Now, the balances of the Equitable as of December 31, 1938, amounted to how much money?

Mr. GREAVES. December 1938, cash balances on the Society's books were a total of $111,760,476.84.

Mr. GESELL. Your company reported to us $112,794,000.[1]

Mr. GREAVES. These are home-office accounts.

Mr. GESELL. And of that 112, 111 were home-office accounts?

Mr. GREAVES. That does not include cashiers' accounts or any similar accounts.

Mr. GESELL. Now, was that money held, by and large, in New York City, the home-office accounts?

Mr. GREAVES. The home-office accounts principally were held in New York City.

Mr. GESELL. How much of the total were held in New York City? An approximation of it will suffice, sir.

Senator KING. Don't you have a balance sheet there?

Mr. GREAVES. No, sir; I haven't.

Mr. GESELL. Would you say about 90 percent of the money was held in New York City?

Mr. GREAVES. About 85.

Mr. GESELL. About 85 percent? In how many cases did you have an active account out of that, one in which you were checking and actively using, and how many of those were just inactive accounts where the money was left on deposit?

Mr. GREAVES. In New York City?

Mr. GESELL. Yes.

Mr. GREAVES. In New York City, well, I should say we had probably six active and perhaps—that was 1938, though, don't forget that—the rest inactive.

Mr. GESELL. How many inactive?

Mr. GREAVES. The inactive or practically inactive——

Mr. GESELL (interposing). How many accounts would be active?

Mr. GREAVES. About 10.

Mr. GESELL. Where did you keep your inactive accounts? Just give us some of the banks; you don't have to name them all. Let me run down the list: Chase Bank, was that active or inactive?

Mr. GREAVES. Active.

Mr. GESELL. Guaranty Trust?

Mr. GREAVES. Active.

Mr. GESELL. Bank of New York?

Mr. GREAVES. Inactive.

Mr. GESELL. Bankers Trust?

Mr. GREAVES. Active.

Mr. GESELL. Bank of the Manhattan Co.?

Mr. GREAVES. Somewhat active, but what we would term inactive.

Mr. GESELL. Central Hanover?

Mr. GREAVES. Central Hanover? Inactive.

Mr. GESELL. Chemical Bank & Trust Co.?

Mr. GREAVES. Inactive.

Mr. GESELL. Continental Bank & Trust Co.?

---

[1] See Hearings, Part 10–A, p. 100.

Mr. Greaves. Inactive.

Mr. Gesell. Corn Exchange Bank & Trust Co.?

Mr. Greaves. With the exception of the petty cash account, inactive.

Mr. Gesell. In the Corn Exchange, for example, you had $500,000 just on deposit there during that entire time, did you not?

Mr. Greaves. The entire time of '38?

Mr. Gesell. Yes.

Mr. Greaves. Is it so reported?

Mr. Gesell. Yes.

Mr. Greaves. Yes.

Mr. Gesell. How much money would you say, Mr. Greaves, your company needed to conduct its day-to-day business? Does it need $112,000,000?

Mr. Greaves. Perhaps I can give you that. We have had experience in the last 2 years which showed the desirability of maintaining a strong cash position.

Mr. Gesell. You say you found it desirable to keep a strong cash position?

Mr. Greaves. Our experience has taught us that in recent years, first in order to meet any emergencies that might arise by the demand liability features of our contracts, and in order to take advantage of investment opportunities. Witness last September when, in the market drop, we purchased over $50,000,000 of securities—and in addition to that I can give you an idea. Here are checks drawn daily: One check, 1938, June 29, $11,000,000; July 27, one check, $24,500,000; August 2, $24,500,000; August 12, $14,013,000; August 23, $25,000,000; October 20, $20,000,000; December 19, $25,000,000; December 27, $19,500,000; December 28, $10,000,000; December 30, $12,000,000.

The Vice Chairman. Are those checks drawn in payment of securities which you purchased?

Mr. Greaves. Investment. In '39, March 21, $14,500,000; March 28, $11,500,000; April 4, $24,000,000; June 13, $16,000,000; June 20, $13,500,000; June 23, $25,000,000; June 27, $29,000,000; July 3, $19,500,000; July 18, $15,500,000; July 25, $10,000,000; August 15, $15,000,000; September 27, $10,500,000; October 26, $10,000,000; November 28, $50,000,000; December 5, $38,000,000; December 12, $12,000,000; December 26, $21,500,000. That is probably for securities purchased, that would be one item. There may have been other securities.

Mr. Gesell. Now, will you tell us about how much you take in in a day?

Mr. Greaves. That varies. It varies from, I should say, half a million to a million, plus the total securities on the first of the month.

Mr. Gesell. What is your answer, about a half million or a million a day?

Mr. Greaves. From insurance receipts.

Mr. Gesell. Coming back to my question, how big a balance do you think is necessary for your company to maintain to conduct its business?

Mr. Greaves. That I am unable to answer, as to how much cash is necessary. We feel that we should be liquid and keep large cash balances.

Mr. GESELL. I understand that. Do you feel you have got too much cash, too little cash, or just the right amount?

Mr. GREAVES. We have more cash than we would have if we could get favorable investments.

Mr. GESELL. That is what I am getting at. How much less would it be? It is $112,000,000 as of December 31, '38. If that is too much, what is about right?

Mr. GREAVES. Well, I have always thought that an institution the size of the Equitable should have—I should say this is only my personal opinion, it has never been discussed, I have never discussed it—around $25,000,000 at least.

Mr. GESELL. Somewhere around $25,000,000?

Mr. GREAVES. Yes; more than that if it were like business was in '29 or those days. Don't forget our contracts call for tremendous amounts.

Senator KING. What do you mean by your contracts, your life insurance policies?

Mr. GREAVES. Yes; and annuities.

Mr. GESELL. You see what I am trying to get at. It is just how much of this cash you need and how much of it is the result of your inability to get it out into channels——

Mr. GREAVES (interposing). As I say, I have not figured out the actual necessity. I think it is more than actual necessity as to what the insurance company would need. From one day to another we don't know what we may need. We may turn around tomorrow and buy $50,000,000 of securities. If we didn't have the $50,000,000 we couldn't buy them.

Mr. GESEEL. Yes; and looking at it another way all your policyholders might come in some day and cash all their policies at once so you would have all cash. It seems to me there is a big range.

Mr. GREAVES. I think your ideas are a big range from mine.

Mr. GESELL. I think so, too.

Senator KING. Was not the question discussed by your board of directors as to what cash should be maintained as available to be drawn upon for investment, meeting obligations at any time? Is it left entirely to you, and having been left entirely to you, that you have no opinion?

Mr. GREAVES. I am not a member of the board, I am not a member of the finance committee, but I judge in recent years it is just as I stated.

Senator KING. Answer my question.

Mr. GREAVES. We feel that we should be in a very liquid position today.

Senator KING. Undoubtedly that is right, but the question I asked was whether or not that had been discussed by the finance committee or the directors and you had been instructed as to the amount of cash balance which you keep on hand.

Mr. GREAVES. I never was instructed as to the amount of cash balances to keep on hand.

Senator KING. Did the directors or the finance committee in your presence ever discuss the question of the retention of cash and how much should be made available at all times?

Mr. GREAVES. In my presence in the finance committee they frequently discussed our cash balances, not from the standpoint of how much we had to have, but that we had it.

Senator King. Was there any discussion in that finance committee when you had as much as $112,000,000 that you ought to get rid of some of that, loan it out and buy securities?

Mr. Greaves. We would like to get rid of it if we could.

Senator King. That was discussed, wasn't it?

Mr. Greaves. Plenty of times.

Senator King. You weren't desirous of keeping idle money there in any large amounts?

Mr. Greaves. Not if we could get the investments.

Senator King. And if there was $112,000,000, that would not be necessary, would it, in ordinary conditions?

Mr. Greaves. Not in ordinary times; no, sir. If we could invest the funds they wouldn't be there.

The Vice Chairman. You didn't get near enough the danger line that you were having any conference about whether or not you had enough money?

Mr. Greaves. Well, I can say this: Sometime ago, back in 1929, '30, and '31, there was a question of whether we would sell securities or not in order to get plenty of cash, because we had been investing, I think, all the cash down to $2,000,000 previous to 1929. Two or three million dollars was the total cash balance.

The Vice Chairman. You had to figure on scouting around and getting some more money.

Mr. Greaves. But we didn't have to; we didn't sell anything; we came through and built up our cash. That is one of the experiences we had.

Mr. Henderson. You have a half million dollars to a million dollars coming in every day?

Mr. Greaves. We didn't have a half million dollars or a million dollars in those days. I am speaking of today.

Mr. Gesell. Let me see if I can develop this a little further. I notice that you get no interest in any of these New York accounts.

Mr. Greaves. Right.

Mr. Gesell. Is it the policy of the company not to seek interest in these accounts, or do you seek interest and are unable to get it?

Mr. Greaves. I don't know what the policy is, but as I stated before, we felt that we ought to be in a highly liquid position to take advantage of investments as well as any calls from policyholders, so that if we wanted time deposits we could very well invest that cash in short-term securities.

The Vice Chairman. Isn't this an answer to his question? They had about $3,000,000 at one time and didn't consider it a sufficient emergency to put their securities on the market. Is that what you said?

Mr. Greaves. Yes.

Mr. Gesell. I accepted that. I am on another point now. I was now asking as to what is the policy of the bank with respect to putting his money at interest. None of these New York bank accounts get any interest.

Mr. Greaves. Policy of the company, you mean? You said the policy of the bank. Policy of the Equitable Life?

Mr. Gesell. I beg your pardon. I mean the Equitable Life Assurance Society of New York.

Mr. Greaves. Right.

Mr. Gesell. What is its policy with respect to getting interest? Do I understand you to say that it wants all its money immediately available on demand?

Mr. Greaves. Yes. We would like to have the money on demand. If we wanted it on time deposit we would invest in short-term securities.

Mr. Gesell. Here, for instance, in the Bank of New York, your schedule shows that you put $1,000,000 in that bank in July in 1938 and it sat there as a million dollars all the rest of that year at no rate of interest.

Mr. Greaves. Right.

Mr. Gesell. Do you mean to say that the company is so concerned about the fact that it may have to use its liquid position that it wouldn't want to put that in under a 6 months' basis or a year's basis?

Mr. Greaves. We want it there in case we do have to have it. I do say that we want it there in case we do have to use it. I gave you an illustration as of last September. We didn't know how long that thing was going to last, any more than anybody did, and if it went further and kept up we would have invested a great deal more money just in those few weeks, in 2 or 3 weeks we invested over $50,000,000.

Mr. Gesell. And in 2 or 3 weeks you would have taken in around 21 million, wouldn't you?

Mr. Greaves. I don't know, it all depends.

Mr. Pike. You take the attitude, Mr. Greaves, that it isn't worth while to take up $1,000,000 for 6 months for the $150,000 gross income that will bring as against having it free to spend any time you want it, even though you can't see the occasion right away?

Mr. Greaves. Yes; and of course it might not mean anything, but it is always in the back of my head that the banks personally would only do it for us as a favor. They don't want to tie up an account.

Mr. Gesell. You mean the banks in New York?

Mr. Greaves. The banks in New York, and I understand generally speaking. The small banks, the very small banks—perhaps looking into them, we might not even want to have an account—would ask for a time deposit in order to get some money.

Senator King. Isn't it a fact that many of the banks over the past 6 months, perhaps the past year and during the past few months, are writing letters to their depositors, savings and time, asking them to take the money out, they can't pay them any interest?

Mr. Greaves. I haven't heard that.

Mr. Gesell. May I ask what prompts the company to put such a large amount of its funds in New York City?

Mr. Greaves. To have it in New York where it is more convenient than when it is out in other parts of the country.

Mr. Gesell. I am afraid the buzzer made it difficult to hear.

Mr. Greaves. Because they want to have the funds in New York, large amounts, rather than out in the country.

Mr. Gesell. Why?

Mr. Greaves. Because it is handier, you can get it right away.

Mr. GESELL. You can send a wire and get money from the west coast almost in no time at all, can't you, these days?

Mr. GREAVES. I don't know.

Mr. GESELL. Mr. Greaves, you are treasurer of a big insurance company.

Mr. GREAVES. I know we can telegraph funds, but I don't know whether they telegraph funds to us. Yes; they do.

Mr. GESELL. Then if you could send just a wire or ask your local bank to call its correspondents out there and shift these funds by wire, I can't see what the advantage of having these funds in New York is.

Mr. GREAVES. All right, perhaps I can answer you in another way. I think up to the present we feel we have done quite a good deal of putting funds out.

Mr. GESELL. With 85 percent in New York City?

Mr. GREAVES. Indeed, with 15 percent out through the country.

Mr. GESELL. You feel 15 percent is a good diversification?

Mr. GREAVES. I know it is a great deal more than we used to have.

Mr. GESELL. That is very interesting. Has that been the result of some recent policy?

Mr. GREAVES. No policy, just the fact that we have had so much money and we have been more receptive to suggestions from our agents and the banks outside of the city of New York.

Mr. GESELL. You mean suggestions from your agents for deposits that will help them sell insurance?

Mr. GREAVES. Well, I wouldn't say that. They may get insurance and promote the Equitable's insurance business, and then, of course, there is another side of it. We have bank accounts outside of New York City to facilitate the paying of money to policyholders, and I might read to you in that connection——

Senator KING (interposing). I assume you have policyholders in nearly all States.

Mr. GREAVES. We have bank accounts——

Senator KING (interposing). I am asking about policyholders.

Mr. GREAVES. Yes; in all States, I should say, and we have bank accounts in, I should say, including the District of Columbia, I think it is 41 States.

Here is a letter from the Commissioner of Insurance of the State of Massachusetts, to companies transacting insurance in Massachusetts [reading]:

> It has come to my attention that certain companies are paying claims under policies covering property and interests in Massachusetts by the use of checks drawn on or drafts payable at banks located in Central and Western States, which causes delay to the claimants in collecting the amounts due.
>
> Claimants are entitled to receive payment of their claims with a minimum of delay in the collection of checks and drafts.
>
> I ask each company to make arrangements so that not later than June 20 all checks or drafts issued in settlement of Massachusetts claims will be payable at banks located within the Commonwealth or adjoining states so that the check or draft when presented for collection will, in the ordinary course of business, reach the bank at which it is payable not later than the business day following the day on which it is deposited.
>
> Each company is requested to inform me of its present practice regarding checks or drafts issued in payment of Massachusetts claims. Companies which now pay Massachusetts claims by checks or drafts payable at banks located in

other states are requested to inform me what arrangements will be made beginning July 20 to expedite the prompt payment of Massachusetts claims settled by check or draft.

Mr. Gesell. Do I understand you to say that you believe that having 15 percent of your home-office deposits outside of New York is a good diversification of those deposits?

Mr. Greaves. Fifteen percent of total deposits?

Mr. Gesell. Yes.

Mr. Greaves. The total cash?

Mr. Gesell. Yes; you believe that is an adequate diversification?

Mr. Greaves. I think it is adequate for the present, anyway. I am not saying that we won't open other accounts. In fact, we have been opening accounts, and they are taken up as they come up.

Mr. Gesell. What are the factors that prompt you to open accounts outside New York?

Mr. Greaves. If the bank is sound after it has been analyzed, if we feel that we can use it—you mean an active account?

Mr. Gesell. Any kind of an account other than the accounts that are necessary to conduct the day-to-day business.

Mr. Greaves. Active accounts that will facilitate things, if possible, for people who live in that community. We have active accounts in places where we have cashiers' accounts. The prime thing is, Do we have a bank account where we have a cashier?

Mr. Gesell. Do you put some of your accounts in active accounts outside of New York to assist you in the sale of insurance?

Mr. Greaves. Maybe it does assist in Equitable business interest with the agents.

Mr. Gesell. That isn't answering my question. Is that one of the things that prompts the placing of funds?

Mr. Greaves. I don't recall any particular bank where we actually put funds in—perhaps there are one or two instances—where we were going to get business. I think that we have had them where we have already had business.

Mr. Gesell. You mean where the bank wrote the group policy, or something of that sort, you would then favor the bank by putting deposits there?

Mr. Greaves. After the group was written. We certainly wouldn't put it before the group was written, as far as I know.

Mr. Gesell. But after the group was written you would?

Mr. Greaves. Provided the bank was a first-class bank. It wouldn't be done just for that purpose.

Mr. Gesell. What has the group got to do with it, then?

Mr. Greaves. It would be one of the considerations. It is one of them, but not altogether for that purpose.

Mr. Gesell. You mean it would have to be a sound bank?

Mr. Greaves. A sound bank and the people out there would get more policyholders.

Mr. Gesell. You mean help sell insurance?

Mr. Greaves. Yes.

Mr. Gesell. I don't see anything particularly wrong with that.

Mr. Greaves. I like to help the business interest of the Equitable, promoting the business interest of the Equitable Life.

Mr. Gesell. Do you recall having seen this letter, sir?

Mr. GREAVES. Yes.

Mr. GESELL. This is a letter addressed to Mr. Parkinson, of the Equitable, by Mr. Cecil Frankel, associate agency manager of Los Angeles in 1937. It says [reading from "Exhibit No. 2321-B"]:

You will recall when I was in New York I discussed our banking situation with you. We are carrying our account in the Bank of America, which at one time was covered by Group Insurance carried in our Society. The Bank of America is wholly owned by Transamerica. Several years ago the Bank of America cancelled our Group Insurance coverage and placed the business in their own Occidental life. The Occidental Life, not being in the Group Conference, quoted a much lower rate to our main Group patron in Los Angeles—the Union Oil Company—and wrote the Accident and Health Insurance which we had developed and would have written had it not been for the lower rate quoted.

Since the Farmers & Merchants Bank is the only bank in Los Angeles that carries Group Insurance with us, I believe it only fair that we do some business with them, not necessarily the entire account but part of it, as a reciprocal gesture. The President, Mr. Rossetti, has mentioned this matter on several occasions. I hope you will give it favorable consideration.

The VICE CHAIRMAN. Let me see if I can't help a little bit about all that testimony. You have an agent out in the community, and he tells you that the people that have had your account are doing business with some other insurance company, and he is your agent, trying to get business with your company. Why does it take so much testimony to make everybody know you are a good company and you have a good agent and you feel kindly toward him and the banks are equally solvent? Why don't you let him put the money where it will help him to get some business? If I were an agent working for a company that wouldn't do it, I would quit the company.

Mr. GREAVES. That is one consideration of doing it.

The VICE CHAIRMAN. Just lay it out on the table. You don't have to have a whole lot of figures and statistics for anybody to know that.

Senator KING. Is there anybody here who knows anything more about the technique of your transactions, handling your funds, than you do?

Mr. GREAVES. Handling the accounts? No; I don't think so. What are you asking, the technique?

Senator KING. Well, the plans which are followed, the loans which are made, where you leave your funds, and if so, why. Are you the best expositor of the policies and practices of the company?

Mr. GREAVES. Yes; the practices of the company.

Mr. GESELL. I wish to offer the correspondence relating to this particular account for the record.

(The documents referred to were marked "Exhibits Nos. 2321 and 2321-A to 2321-E" and are included in the appendix on pp. 15541-15544.)

Mr. GESELL. I have no further questions of this witness.

Mr. PIKE. I have just one. I should perhaps have asked it of the previous witness.

On this matter of maximum cash, I notice the Metropolitan it is always in June. Is there such a thing as a drive to get in agents' commissions usually by insurance companies in June?

Mr. GREAVES. I don't know. No; I don't think that is the case with us.

Mr. PIKE. I wondered why the cash was at a peak in June.

Mr. GREAVES. It may be just on account of the interest coupons and the maturities of funds. It may just have happened that way. Of course, December is generally a heavy month for receipts from agencies. December is probably one of the heaviest months.

Mr. GESELL. I have no further questions.

(Senator King assumed the chair.)

Acting Chairman KING. What do you do with that 85 percent of your funds which you hold in New York?

Mr. GREAVES. It is distributed in 16 banks.

Acting Chairman KING. In the metropolitan area of New York?

Mr. GREAVES. Yes.

Acting Chairman KING. And it is available, of course, for sight drafts or checks?

Mr. GREAVES. Yes.

Acting Chairman KING. What are your investments daily in stocks and bonds, so as to delete that rather large reserve?

Mr. GREAVES. As read off in that statement. That gives it to you.

Acting Chairman KING. Would there be a continuity?

Mr. GREAVES. That is exactly as it was, those figures that I gave you.

Acting Chairman KING. What are your cash deposits now in the banks of New York, approximately?

Mr. GREAVES. Today?

Acting Chairman KING. Oh, during the past few days or week or month?

Mr. GREAVES. Somewhere around $150,000,000 or $160,000,000.

Acting Chairman KING. Are you making any investments?

Mr. GREAVES. Trying to every day.

Acting Chairman KING. The reason you have such a large cash balance in the banks there is because you do not find securities which you deem proper to purchase?

Mr. GREAVES. We have not been able to acquire the securities we would like to purchase.

Mr. PIKE. At the price you would like to pay?

Mr. GREAVES. At the present rate we don't. As I say, I have nothing to do with the investment end of the business. All I have is the cash, but I do know that life-insurance companies like to invest in long-term securities. We don't consider the present rate is right. So we only invest what we have to invest to keep up our earnings on the assets.

Mr. PIKE. I suppose your investments in part are largely determined by the restrictions imposed by the laws of New York?

Mr. GREAVES. They have to be.

Mr. PIKE. Do you get any interest upon your time deposits?

Mr. GREAVES. We have no time deposits in New York.

Mr. PIKE. Do you get any interest upon any savings deposits?

Mr. GREAVES. We have no savings deposits.

Mr. PIKE. I believe the only interest your company receives is the foreign-bank account?

Mr. GREAVES. Right.

Mr. HENDERSON. Would they take any more deposits, those foreign-bank accounts?

Mr. GREAVES. Probably. We wouldn't give them any more.

Mr. HENDERSON. I think you are wise there. You are carrying about $150,000,000 or $160,000,000?

Mr. GREAVES. It goes up and down conservatively.

Mr. HENDERSON. You had as low as two or three million in the late twenties?

Mr. GREAVES. Prior to '29.

Mr. HENDERSON. You never had to sell any securities at any time in order to meet any of your out-payments?

Mr. GREAVES. No, sir. As I remember, we didn't sell any for that purpose.

Mr. HENDERSON. You want to keep liquid and take advantage of opportunities, and that is one of the reasons you have such a large balance at the present time?

Mr. GREAVES. Yes.

Acting Chairman KING. You would rather have a large balance and proper securities?

Mr. GREAVES. We would rather have a large balance than money invested at rates which we believe too low.

Mr. HENDERSON. Wouldn't you rather get some interest than no interest?

Mr. GREAVES. You might get some interest and wake up some day and find yourself with the book value of your securities several points above the market.

Mr. HENDERSON. You mean on account of the cost, what you paid for them. Well, it comes down to a question of where you can find investments for that money, as much as anything.

Mr. GREAVES. As I say, we have invested as much as we have to invest at the present rates.

Mr. HENDERSON. You mean in order to earn your contract?

Mr. GREAVES. But that is out of my control. I don't want you to think I have anything to do with the investment side at all.

Mr. HENDERSON. You have more idle funds than the total assets of some insurance companies. If they had anywhere like that idle amount, they couldn't meet their contracts, could they?

Mr. GREAVES. I don't know about that.

Mr. HENDERSON. Suppose you had admitted assets of $150,000,000 and you didn't earn anything on it, it went to the banks, you couldn't meet your contracts, could you?

Mr. GREAVES. We owned assets of $150,000,000, and we had it all in cash.

Mr. HENDERSON. If you had it all as you have, $150,000,000.

Mr. GREAVES. If that represented our assets we certainly wouldn't be earning anything.

Mr. HENDERSON. I know it doesn't. I am trying to get at some idea of the tremendous size of this business. $150,000,000 means, even in these days, quite a substantial sum.

Mr. GREAVES. Well, to me it is. I don't have to go to $150,000,000.

Mr. HENDERSON. Still it is large to me.

Mr. GESELL. I have no further questions.

Acting Chairman KING. Are there any other witnesses?

You are excused, Mr. Greaves.

(The witness, Mr. Greaves, was excused.)

Mr. GESELL. We have one more.

Acting Chairman KING. Who is he?

Mr. GESELL. He is the man who occupies a similar position in the New York Life. I don't believe Mr. Meyers has been sworn in.

Acting Chairman KING. Do you solemnly swear that the evidence you give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MEYERS. I do.

TESTIMONY OF ALFRED H. MEYERS, VICE PRESIDENT AND TREASURER, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.

Acting Chairman KING. State your name and position.

Mr. MEYERS. My name is Alfred H. Meyers. I am vice president and treasurer of the New York Life Insurance Co.

Mr. GESELL. What are your duties as treasurer?

Mr. MEYERS. Under the direction of the finance committee, I have general supervision of the funds and investments of the company.

Mr. GESELL. Are you responsible for making the recommendations to the finance committee as to how the company shall handle its banking funds, its cash funds?

Mr. MEYERS. I am.

Mr. GESELL. Do you select the banks and make the determination as to the type of deposit that will be made in those banks?

Mr. MEYERS. I do.

Mr. GESELL. Now, what are the present cash balances of the New York Life?

Mr. MEYERS. As of today?

Mr. GESELL. Take the end of the year or any convenient time.

Mr. MEYERS. Well, I think $70,000,000 right at present.

Mr. GESELL. Schedules 106 and 107 show that as of 1938 cash balances of your company were $50,466,000, and that on those cash balances you earned during the year $43.[1] That is correct, is it not?

Mr. MEYERS. It is.

Mr. GESELL. Where are the greatest bulk of those funds kept—in New York City?

Mr. MEYERS. In New York City.

Mr. GESELL. What percentage would you say are in New York City?

Mr. MEYERS. Well, I should estimate it at 80 percent, or somewhere about that, possibly between 80 and 90 percent.

Mr. GESELL. Now, have you a distinct policy as to how you are going to handle these funds in New York City, how much you keep in each bank?

Mr. MEYERS. Well, we have a sort of routine system for maintaining our bank balances in the different banks. We have what we are pleased to call our five main banks of deposit, where we keep all balances over stated balances we keep in our other accounts, if that is clear.

Mr. GESELL. I think it is.

Your five principal banks of deposit so-called are the Chemical, the Chase, the New York Trust Co., the Bankers Trust, and the Central Hanover?

Mr. MEYERS. That is correct.

---

[1] See Hearings, Part 10-A, pp. 106 and 107.

And you have probably fifteen other banks in which you keep funds?

Mr. MEYERS. No; I think there would be more than that, Mr. Gesell. General accounts now.

Mr. GESELL. I am talking about home office accounts.

Mr. MEYERS. In home office accounts I think we have 28 altogether.

Mr. GESELL. You keep $2,000,000 in the Irving Trust, do you not?

Mr. MEYERS. I think that is about right, two or two and a half million.

Mr. GESELL. You keep $2,000,000 in J. P. Morgan & Co. and the National City Bank and in the Guaranty Trust. Is that correct?

Mr. MEYERS. That is right.

Mr. GESELL. And $2,000,000 in the Bank of New York?

Mr. MEYERS. That is right.

Mr. GESELL. And there are two banks in which you keep $1,500,000, the Northern Trust Co. of Chicago and the Wells Fargo Trust Bank of San Francisco, and the rest of the banks for home office accounts have around a half million, $500,000?

Mr. MEYERS. That is right.

Mr. GESELL. And in these five principal branches of deposit, how do you determine how much each bank should get?

Mr. MEYERS. Well, they are pretty evenly divided with respect to the Chemical, the Chase, and the New York Trust, and the other two, the Bankers and the Central, are slightly under that, a million or two.

Mr. GESELL. Am I correct in saying the Chemical and Chase and New York Trust are maintained at a level of approximately $2,000,000 each in excess of the Bankers and Central Hanover?

Mr. MEYERS. Exactly right, Mr. Gesell.

Mr. GESELL. All of these funds are deposited, are they not, on a demand basis?

Mr. MEYERS. All.

Mr. GESELL. You have no time deposits?

Mr. MEYERS. None.

Mr. GESELL. Will you tell me what the philosophy or policy is back of having three banks in which you keep two million more than in two other banks, and two banks in which you keep so much more than these other accounts that we have discussed? You seem to have a definite pattern and I want to understand how it works.

Mr. MEYERS. Under normal conditions I would say that would be the condition that prevailed up to about 1931. We had three working accounts, Chemical, the Chase, and the New York Trust. Prior to that time we had the Bankers Trust and the Central Hanover Trust, which we discontinued when we moved uptown. The first three banks, old working accounts, performed extra services for us and we correspondingly give them a larger balance than we would the other accounts.

Mr. GESELL. What extra services are those?

Mr. MEYERS. They collect coupons and out-of-town items and furnish us cash for pay rolls.

Mr. GESELL. And do they want these large balances?

Mr. MEYERS. I have never heard any expressions from them one way or the other.

Mr. GESELL. They never said they didn't want them?

Mr. MEYERS. They never said they didn't. I wouldn't expect them ever to say that.

Mr. GESELL. Why do you keep so much money in New York?

Mr. MEYERS. Why, I suppose that is a pretty good system for a life insurance company that has——

Mr. GESELL (interposing). Why is it a pretty good system?

Mr. MEYERS. The ultimate disposition of all the cash we gather is its investment, and since New York is our investment headquarters, I would expect that is where the bulk of our money should be.

Mr. GESELL. How much, all other things being equal, would you like to keep? How much cash do you really need?

Mr. MEYERS. I couldn't answer that question, obviously.

Mr. GESELL. I don't know why that is obvious. You are the chief financial man. I should think you would have some idea what the amount of cash necessary to run the business is.

Mr. MEYERS. No; I couldn't answer that. I say this, that we have in mind the purpose in maintaining cash balances would be, first, to meet whatever investment engagements we had outstanding, and second, sufficient to meet any demand from policyholders, and third, with investment conditions as they are, to have sufficient money on hand to take care of any investment opportunities that may offer.

(The Vice Chairman, Representative Sumners, resumed the Chair.)

Mr. GESELL. Now assuming that you are able to invest your money, how much cash would you want to have?

Mr. MEYERS. I couldn't answer that question because I can't measure whatever demand might spring from our policyholders during such conditions as we have been going through for the last 6 or 7 years.

Mr. GESELL. You must have reached some decision that you at least have enough cash.

Mr. MEYERS. Well, I——

Mr. GESELL (interposing). Or do you think you haven't got enough cash?

Mr. MEYERS. I haven't heard anything definite on that other than——

Mr. GESELL (interposing). Whom would you hear it from? You are the chief financial officer.

Mr. MEYERS. We have discussed from time to time in the finance committee the amount of cash we should carry and the general feeling was that with a company of our magnitude, when we carried about 2 percent of our assets in cash, that that wasn't too much.

Mr. GESELL. And that is about the figure you have reached, is it, 2 percent?

Mr. MEYERS. Whether consciously or unconsciously, I think it runs right around 2 percent.

Mr. GESELL. Have you reached 2 percent from the fact that you have 2 percent, or do you reach 2 percent because you have analyzed the business and found that is what you need?

Mr. MEYERS. Well, Mr. Gesell, conditions change from time to time, and as investment opportunities appear to be coming along you would naturally keep more on hand than you would under other conditions. I can only cite last September as the best indication of that.

Mr. GESELL. I thought that most every insurance officer that we called down here would tell us about how anxious they are to get out more cash and invest more cash than they have been able to do. I take it from what you say that is evidently not quite the situation in your company.

Mr. MEYERS. I didn't want to be understood as making any statement of that kind. I said part of this balance would be sort of a reserve for any favorable investment opportunities that would offer.

Mr. GESELL. Assuming that you could get your money out, how much cash would you want to have?

Mr. MEYERS. I would never under present conditions—and this is only my own opinion—like to see our cash get below $30,000,000—30 or 40 million dollars.

Mr. GESELL. You see, all I am trying to get at is some measure of your ability to invest, in other words, the difference between what you want to have for the purposes of running a business as opposed to what you feel you have to have now, awaiting favorable investment opportunity. And you think about 30 million is rock bottom?

Mr. MEYERS. I would assume that that would be the lowest, the very lowest.

Mr. GESELL. Why does not your company deposit its money on a time basis? I don't mean all of it, but some of it.

Mr. MEYERS. I think we have always had the idea, Mr. Gesell, that if you had cash it should be what I am pleased to call "spot cash," that is immediately available. If you have a time deposit, you have merely a short-term investment and we have made our short-term investments independent of our cash balance, that is through short-term securities.

Mr. GESELL. You mean that you have kept your money on demand because you want to be able to get your hands on it immediately?

Mr. MEYERS. That is right.

Mr. GESELL. Am I right or wrong in having in the back of my head the idea that you could deposit your money on a time basis with a bank and if you withdrew it you would simply withdraw it and forfeit the interest which you otherwise would receive?

Mr. MEYERS. I think you are mistaken about that.

Mr. GESELL. You think that is not correct?

Mr. MEYERS. As I understand, the Reserve Board ruling is that you cannot withdraw time deposits.

Mr. GESELL. What is the shortest period you can make your time deposits for?

Mr. MEYERS. I haven't had any experience with time deposits, and I couldn't tell you. I understand about 6 months is the average period.

Mr. GESELL. What about putting accounts outside of New York? Your company seems to have a very definite policy not to put more than a small percentage of its funds outside of New York, that is the home-office cash balances. I wondered what is back of that policy?

Mr. MEYERS. We keep enough outside of New York to meet our needs, and a reasonable surplus over that.

Mr. GESELL. I have here some correspondence that promoted that question, Mr. Meyers, and I would like to call it to your attention. Here is a letter dated May 27, 1938, from your agency director in Savannah, Ga., addressed to Mr. George B. Cortelyou, Jr., one of your assistants [reading]:

DEAR MR. CORTELYOU: I don't know whether you will be interested in a message which I am authorized by the Citizens and Southern Bank to pass along to you. They state that they will accept up to $200,000.00 time deposit from us and allow us 1½ percent on it. While to draw the interest the money must remain on deposit 12 months, it would be subject to withdrawal on demand without any interest credit.

It just occurs to me that you might wish to avail yourself of this offer.

And the reply, which is written several days later, states [reading]:

We are in receipt of your letter of May 27th advising us that The Citizens and Southern National Bank will accept up to $200,000 as a time deposit and that they will allow 1½% interest on such deposit if left with the bank for a period of twelve months or longer.

It has long been a policy of this Company not to maintain dormant balances in the local depositories of our Branch Offices for the purpose outlined in your letter. In only a very few cases, such as the case in Savannah where a dormant balance was necessary to permit the Company to benefit by the Clearing House exemption for accounts in excess of a stated minimum, has a dormant balance been allowed in order to absorb certain charges which would otherwise be made against the account.

Here was a bank that seems to want a little money and a bank in which you haven't deposited any money. Obviously, if they wanted it at interest, and it was against the policy of the company to deposit money at interest it could have been deposited with the bank on a demand basis. That would have been acceptable to them. I wonder why a bank of that standing, particularly, would not be given opportunity to have those funds if it desired them?

Mr. Meyers. Well, my understanding of that would be that that would be their way of getting an account from us which we had no need for otherwise, and so far as their willingness to pay us 1½ percent on a 12 months' basis and the money to be available to us when we wanted, I think he is mistaken that he would be allowed to do that.

Mr. Gesell. Here is a bank that wanted a deposit from you of $200,000.

Mr. Meyers. They all do, Mr. Gesell.

Mr. Gesell. That is very interesting.

Mr. Henderson. You say they all want a deposit from you?

Mr. Meyers. In my experience with the New York Life Insurance Co. I don't think we have ever been solicited for bank business more than in the last few years.

Mr. Henderson. Have you any money in the Chase?

Mr. Meyers. Oh, yes.

Mr. Henderson. Maybe you and Mr. Aldrich ought to get together. He said it would be a real favor to him if you took some out of there. Maybe you and Mr. Aldrich can get together and put some out in the rest of the country. You have all these requests coming in, and he said it would do him a real service to whittle down some part of that 31 million they have in New York, and maybe we have found something here.

Mr. Gesell. These banks are really soliciting deposits from you, are they?

Mr. Meyers. Oh, yes; there isn't any question of that.

Mr. Gesell. In soliciting a deposit, I take it they want the funds. In the conduct of the banking business they are looking for the money.

Mr. Meyers. They are looking for the money; yes.

Mr. Gesell. Are they looking for some ancillary benefits that go with it?

Mr. Meyers. No; they want the account.

Mr. GESELL. That would indicate there was some need for funds?

Mr. MEYERS. No; not at all. It wouldn't occur to me that way for a minute.

Mr. GESELL. Will you explain what seems to be an anomoly?

Mr. MEYERS. I think they rather like to have the prestige of having the New York Life Insurance Co.'s account on their books.

Mr. GESELL. You mean for advertising purposes?

Mr. MEYERS. I don't know for what purpose but that is what they represent to us.

Mr. GESELL. You mean they say, "We have an account of the New York Life Insurance Co. and thus are in good shape"?

Mr. MEYERS. You would have to ask them about that. That is the story they put out.

Mr. HENDERSON. I think we ought to get hold of Mr. Saylor here, too. He is the person people take things up with in getting them fixed with the Chase. I think we have something here of which we ought to take advantage—all that money lying there wasting away and people getting prestige out of it. Now, there in Dallas, Fort Worth, Sacramento, and a few of those other places they could at least say, "We have the New York Life's account." That might stir up a little business. If they had the account they might be a little more anxious to loan it, too, wouldn't they?

Mr. MEYERS. They would have to testify to that, Mr. Henderson. I wouldn't know.

Mr. HENDERSON. I'll bet if the Citizens and Southern had it—their name has come up in several connections here—they would be pretty active about it. If the Citizens and Southern got that $200,000 from you they would be pretty active.

Mr. GESELL. I wondered why you don't give some of these banks the money. They ask for it and they want it and you have it and it isn't doing any particular good sitting there in some New York bank. Why don't you let them have it?

Mr. MEYERS. We haven't any need for the service; we have a banking accommodation that serves our needs.

Mr. GESELL. What need for the service of J. P. Morgan & Co. do you have? You have 2 million there.

Mr. MEYERS. Our accounts in New York City are probably under normal conditions more than we would need.

Mr. GESELL. That isn't an answer to my question, sir.

Mr. MEYERS. I hadn't finished, Mr. Gesell.

Mr. GESELL. I beg your pardon.

Mr. MEYERS. When our accounts increased and the need for liquidity arose, we had larger accounts than we normally carried, we adopted the policy of spreading our accounts among more banks than we had formerly carried, and probably more than we would need under ordinary conditions. And that is why your list——

Mr. HENDERSON (interposing). Why wouldn't it be a good thing to spread it out a little bit more, then? You get your money from all over the country, don't you?

Mr. MEYERS. That is true.

Mr. HENDERSON. Have you ever considered that as a company policy?

Mr. MEYERS. Not with respect to cash exclusively, but with respect to our entire investments we have, of course.

Mr. HENDERSON. There are some States which require you to invest a certain amount of the intake in State investments?

Mr. MEYERS. No; not that I know.

Mr. HENDERSON. Aren't there some?

Mr. MEYERS. Just Texas, I think, is the only State.

The VICE CHAIRMAN. Don't you count that? [Laughter.]

Mr. MEYERS. Judge, I'm sorry, we don't do business in Texas for that reason.

Mr. GESELL. These are three requests you have obtained from small banks, are they not, sir, asking for funds, little banks writing in saying they would like $5,000 and they are insured with the Federal Deposit Insurance Corporation and they could use the money?

Mr. MEYERS. Yes; those letters have come to us.

Mr. GESELL. I would like to offer these for the record.

The VICE CHAIRMAN. They may be received.

(The letters referred to were marked "Exhibits Nos. 2322, 2322-A and 2322-B" and are included in the appendix on pp. 15545-15546.)

Mr. HENDERSON. It would be fairly expensive to break up the total amount you have and put it out in amounts of $5,000 and keep track of it. You would be at considerably more expense.

Mr. MEYERS. Yes. I don't know that that would be a factor, though.

Mr. HENDERSON. You want it right there in New York where you can get at it quickly, is that it?

Mr. MEYERS. That would be under normal conditions true enough.

Mr. HENDERSON. How long has it been since we have had what you call normal conditions?

Mr. MEYERS. I would not be as disturbed about not putting small balances throughout the country under present conditions when money is very easy and there seems to be an abundance of it all over, than I would be if things got tight and we had to draw it back for any reason from those communities. Then I would suspect that we might be in for a little trouble.

Mr. HENDERSON. You would get a lot of ill will out of it?

Mr. MEYERS. We might even get worse than that if the thing got bad. I could well imagine that if we had, say, a lot of money in these smaller communities and things began to tighten up and we had to withdraw that money into New York we might make trouble for them.

Mr. HENDERSON. That is what I mean.

Mr. MEYERS. Exactly.

Mr. HENDERSON. How far off do you think that is?

Mr. MEYERS. I haven't any idea, sir.

Mr. HENDERSON. Do you keep track of what the excess reserves are?

Mr. MEYERS. Oh, in a general sort of way.

Mr. HENDERSON. Is that the kind of condition you mean?

Mr. MEYERS. I don't know. My experience with the New York Life has been that when we have had any of these tight situations they have always come out of a clear sky and without any advance notice. I couldn't prophesy.

Mr. HENDERSON. It is better to keep about $70,000,000, most of it close at hand, and take a chance on that?

Mr. MEYERS. That would be my idea.

Mr. GESELL. Here is the kind of thing I had in mind, Mr. Meyers. You said all these fellows, or most of them, seemed to want the account because of the prestige involved. Here is a little bank, the Merchants and Farmers Bank out in Statesville, N. C., that writes you on April 22, 1938 [reading]:

> At this season of the year our bank has right heavy demands for funds to carry over through the crop season until fall, and it occurred to us you might consider placing $5,000.00 to $10,000.00 with us on 2% deposit for ninety days or 2½% six months.
>
> We would be very pleased to have this favor from you as it would help us greatly in many ways to have you as one of our depositors or patrons. Also, it may prove to be some benefit to you in the future as you have many friends and policyholders in our town and community who are interested in our bank.

There seems to be some real demand for funds in that little community to carry over some crops or something of that sort.

Mr. MEYERS. Except that it runs counter to our policy of never opening accounts except in the cities in which we have branch offices. That has been a well-defined policy of the company back over all the years.

Mr. GESELL. And that would be why the funds would not be deposited with a bank such as this?

Mr. MEYERS. That is correct.

Mr. GESELL. I have no further questions for this witness.

The VICE CHAIRMAN. I don't think we will ask him any more questions now. A very important matter, I think, has been suggested—it has not been made very clear—and that is with regard to concentration of these funds held at no interest when there is at least some demand for funds in communities where they say they need the money and would pay some interest. Of course, we recognize that it isn't the business primarily of these insurance companies to be taking care of the banking needs of banks; they have their facilities through the Federal Reserve and their correspondent banks. I am wondering if to any degree the added difficulty in keeping track of the condition of many banks scattered through the country as against the difficulty in keeping track of a few banks near the place of the home office, cuts any figure in the determination of policy, but there doesn't seem to me to have been anything suggested by any of these answers to the queries indicating that that was in the picture.

Mr. MEYERS. I think probably, Judge, I could help a little on that. If we go back, say, prior to 1931 (I am speaking now only of our own company), the amount of cash that we had in the bank was just about enough to let us get by on as we gathered it from our different branch offices and brought it into New York. We kept it as closely invested as we dared. Now, we had a situation that came up in 1932 whereby you know, as has been testified here, the demand sprang up for cash from all sources, and this policy of ours, because we have larger balances now, is a continuation of that policy that served us in all of those years and brought all of our funds for investment—which is their primary purpose, after all—into New York. Now if we could see the next 5 years, as clearly as we see the last 5 years as we are sitting here today, it isn't at all unlikely that we might revise our system and revise our policy. The fact of the matter is, it was a continuation of an old policy in the face of the uncertainties that have prevailed within that period.

The VICE CHAIRMAN. Of course, this committee only wants to get a clear picture and to understand the facts.

Do I understand your answer to mean that at the present time you are operating under a condition to which you are not accustomed, it is not the usual condition, but an abnormal accumulation of surplus money, and that you are not engaged in the finding of places where you may put that money temporarily to some advantage to the bank and some profit to you, because you do regard that this condition is possibly temporary, or more or less temporary? Do you consider that if developments should indicate that this condition is not as temporary as you may at the present time have opinion it is, that these vast sums of money concentrated in New York might be distributed where they would be of economic value in the country, where they could be put to use, put to work? I don't know whether these big deposits that you have with these banks are indirectly available for these uses, or what sort of notion you gentlemen with great financial experience have about it, but there is a matter of public policy involved in a situation, if it obtains, under which funds which are necessary for the healthy operation of local businesses are withheld from local communities, if that be true.

Mr. MEYERS. Without being a banker, I would suspect that a lot of the money from the interior finds its way into New York as deposits from the banks who get it in the first place, so that it would seem to me that quite a bit of it would sift back to New York in any event.

The VICE CHAIRMAN. I am afraid that is true, that a lot of times banks in the small communities instead of putting the money out at a low rate of interest in those communities send it to New York and get a low rate of interest, to use in New York in an active market for transactions on the Exchange.

Mr. MEYERS. I would not like to give the impression that we have not increased our balances outside of New York. We have within the last few years; we have opened an additional account in Chicago, we have opened one in San Francisco, I think we have opened one in St. Louis since 1932, and that has brought larger deposits in those centers than we had under normal conditions.

The VICE CHAIRMAN. Are there any further questions?

(The witness, Mr. Meyers, was excused.)

Mr. GESELL. That completes the hearings for today.

The VICE CHAIRMAN. The committee will stand in recess until tomorrow at 10 o'clock.

(Whereupon, at 4:10 p. m., a recess was taken until 10 a. m., Tuesday, February 27, 1940.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, FEBRUARY 27, 1940

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:05 a. m., pursuant to adjournment on Monday, February 26, 1940, in the Caucus Room, Senate Office Building, Representative B. Carroll Reece, presiding.

Present: Representative Reece (acting chairman); Senators O'Mahoney (chairman) and King; Representative Sumners (vice chairman); Messrs. Henderson, Lubin, Kades, Pike, and Brackett.

Present also: James V. Hayes, Department of Justice; Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; and Helmer Johnson, attorney, Securities and Exchange Commission.

Acting Chairman REECE. The committee will come to order, please. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes, I am, Congressman Reece.

Acting Chairman REECE. Call your first witness.

Mr. GESELL. The first witness this morning is Mr. Stedman, of Prudential. Mr. Stedman has not been sworn.

Acting Chairman REECE. Do you solemnly swear that the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. STEDMAN. I do.

TESTIMONY OF JOHN W. STEDMAN, VICE PRESIDENT, PRUDENTIAL INSURANCE CO. OF AMERICA, NEWARK, N. J.

Mr. GESELL. Mr. Stedman, will you state your full name and your occupation for the record, please, sir?

Mr. STEDMAN. John W. Stedman.

Mr. GESELL. That is S-t-e-d-m-a-n?

Mr. STEDMAN. That's right; vice president, Prudential Insurance Co. of America.

Mr. GESELL. And how long have you been vice president of the Prudential?

Mr. STEDMAN. Since 1918.

Mr. GESELL. What particular department do you have in your charge?

Mr. STEDMAN. The bond department, securities-investment department.

Mr. GESELL. How long have you been in charge of that department, sir?

Mr. STEDMAN. Since I came to the Prudential in 1915.

Mr. GESELL. And do I understand that you have any responsibility over the mortgage-loan section of the company's investments?

Mr. STEDMAN. None whatever.

Mr. GESELL. That is under Mr. Rogers' charge, who was here before? [1]

Mr. STEDMAN. Yes.

Mr. GESELL. Well now, first of all this morning, can you give us some idea of what type of investment organization the Prudential has, how many men it has, what type of service they are in position to perform with respect to analyzing investments and matters of that sort?

Mr. STEDMAN. The staff employed in the original investigation and analysis and subsequent following of investments is composed of four divisions—railroad, utility, industrial (including miscellaneous), and municipal. Each division is headed by an engineer or specialist, a graduate of some first-class technical school or college, who before I induced him to come to Prudential had had nearly 20 years' experience in his chosen field. My idea was that by grafting on his special training and point of view an investment knowledge and outlook I would secure a real adviser who could correctly interpret for me the figures produced by statisticians.

Mr. GESELL. In other words, you have a trained railroad man and trained public utility man, a man particularly experienced in municipals and industrials, to head up these four divisions?

Mr. STEDMAN. Yes.

These specialists and advisers are each assisted by statisticians, younger men, whom we have trained according to our own ideas.

Mr. GESELL. How big a group does the entire division that you have in your charge amount to—that is, professional employees?

Mr. STEDMAN. There is the vice president, second vice president, and two managers. That is four. There are four specialists—eight. And each specialist has an average of two assistants, perhaps three. I would say more. Sixteen. Then there are stenographers and secretaries, I think about five in a department.

Mr. GESELL. Do you have all of your investment analysis work centered at the home office?

Mr. STEDMAN. Yes.

Mr. GESELL. Do you have any men in the field who have any responsibility for the selection or analysis of investments?

Mr. STEDMAN. We have one man with headquarters in Chicago at our mortgage loan branch office. He was established there nearly a year and a half ago to canvas the field for small industrial loans. He is an older man. He has had a good training. He does a certain amount of analytical work, but that is all checked at the home office.

Mr. GESELL. Otherwise the work all centers in the home office, all the analysis work?

Mr. STEDMAN. Yes. You see, we send out these specialists or engineers to inspect and look over properties before we make our investments. They inspect on the ground and report afterward.

Those men are able to give me a pretty shrewd "horseback" opinion or appraisal of the value of a public utility or an industrial property.

Mr. GESELL. I want to come in a moment to a little more detail as to how you analyze an issue and just what the considerations are.

---

[1] Mr. R. R. Rogers, supra.

First of all, I would like to turn for a moment to table 102 and 103 in order that we can get some idea of your bond portfolio.[1]

According to table 103, as of December 31, 1938, 54.75 percent of your entire admitted assets were in bonds and stocks, including Governments; that is correct, is it not?

Mr. STEDMAN. That is correct.

Mr. GESELL. With respect to each class, let me run through them with you a moment. In the case of Governments which account for over 21 percent of your entire bond portfolio, may I ask whether your Governments are increasing or diminishing?

Mr. STEDMAN. That percentage has increased; 23 percent in 1939—22.9, to be exact.

Mr. GESELL. And it has been increasing, has it not, during this 10-year period?

Mr. STEDMAN. Steadily.

Mr. GESELL. Now, with respect to political subdivisions, are they increasing or decreasing? I am not so much interested in the '39 figures, Mr. Stedman, as I am in having some idea whether there was an increase up to the '38 period.

Mr. STEDMAN. I have the figures here.

Mr. GESELL. I believe the question was, have your political subdivision bonds been increasing or diminishing?

Mr. STEDMAN. I see that in 1939 it was 3.37 percent of the total admitted assets; in 1938, 4.32. It did run up in 1934 to 5.88 percent.

Mr. GESELL. That was the high?

Mr. STEDMAN. That was the high, '34.

Mr. GESELL. Now, with regard to rails, they, I take it, have been diminishing ?

Mr. STEDMAN. Yes; they have been steadily diminishing.

Mr. GESELL. Have your equipment trusts been increasing or diminishing?

Mr. STEDMAN. They fluctuate a good deal. Unfortunately, I don't think I have them separated from the railroad figures except in your tabulation here, if I can find it.

Mr. GESELL. That is all right. What about the utility bonds? Have they been increasing or diminishing?

Mr. STEDMAN. The equipment trusts have increased in probably the last 4 years, but they run off every year, a large volume being repayable serially, and it is hard to follow them.

Mr. GESELL. What about your utility bonds?

Mr. STEDMAN. Well, our expansion in utility bonds has been not nearly as great as that of some of the other companies in your tabulation. In fact, since 1929 or '30 the relative portion has run down from about 11½ percent to 11.3 percent. They were as high as 11¼ percent in 1935 and 11¾ percent in 1933.

Mr. GESELL. Now, with regard to the industrials, I take it they have been increasing?

Mr. STEDMAN. Yes; that has shown quite a——

Mr. GESELL (interposing). What has been the increase over the period?

Mr. STEDMAN. In 1929, 4⅓ percent; 8¼ percent at the end of 1938. That has fallen in '39 to about 7½ percent.

Mr. GESELL. Now, with regard to this whole portfolio, it looks to me

[1] See Hearings, Part 10–A, pp. 102–103.

as though Governments and municipalities, utilities and industrials are increasing, and the rails are decreasing.

Mr. STEDMAN. Yes. The utilities are not increasing, they are about steady or a little below.

Mr. GESELL. So that your big expansion is in the industrials and in the Governments, and municipals?

Mr. STEDMAN. Yes.

Mr. HENDERSON. Mr. Stedman, I missed the organization of your analysts. Do you have a public utility man?

Mr. STEDMAN. The bond department is divided into four divisions headed by engineers, graduates of technical schools with perhaps 20 years of training in their own chosen field, who were brought into the Prudential. They have their special point of view, and on that I have tried to graft an investment outlook and knowledge, so that they can be real advisers, and they are helped by two, three, or four statisticians.

Mr. HENDERSON. What are those four divisions?

Mr. STEDMAN. Railroad, public utilities, municipal, and industrial. Industrial includes miscellaneous.

M. HENDERSON. And you don't divide your Governments?

Mr. STEDMAN. Governments don't require any investigation or analysis. The municipal credit specialists follow Canadian provincial and Dominion credits, and in the United States the State, county, and municipal, but not the United States Government—then there are two managers and one second vice president, and one of the managers is particularly active in the buying and selling.

Mr. HENDERSON. On your preferred stock, mainly preferred stock of industrials?

Mr. STEDMAN. There is some preferred stock of industrials and some public utility, and some guaranteed stocks. Of course, they fall under their respective divisions.

Mr. HENDERSON. They are divided into divisions?

Mr. STEDMAN. But the buying and selling is not done by divisions; the divisions are only for investigation.

Mr. GESELL. That is an investment analysis?

Mr. STEDMAN. The buying and selling is really in charge of one of the managers of the department.

Mr. GESELL. How much does the company invest in a year in bonds, Mr. Stedman, in round figures? About how much do you get out a year?

Mr. STEDMAN. I can give you the exact figure if I can find it.

The gross investment, of course, is large.

Mr. GESELL. I was merely looking for the new money figure.

Mr. HENDERSON. I would like to know the gross.

Mr. STEDMAN. About $180,000,000 for 1939.

Mr. GESELL. The gross?

Mr. STEDMAN. That is the net.

Mr. GESELL. What is the gross figure?

Mr. STEDMAN. The gross figure is $354,000,000.

Mr. HENDERSON. About two to one.

Mr. GESELL. Is the company able to invest all the money which it wants to invest in bonds?

Mr. STEDMAN. No.

Mr. GESELL. How much do you want to get out, as a matter of general policy?

Mr. STEDMAN. Of course, it deponds upon the relation between the supply of mortgage loans and bonds.

Mr. GESELL. Your bonds represent 54 percent?

Mr. STEDMAN. Yes.

Mr. GESELL. Of the portfolio?

Mr. STEDMAN. Only 33 percent of total securities is in bonds other than Governments.

Mr. GESELL. What percentage would you like the portfolio to be other than Governments?

Mr. STEDMAN. I suppose an ideal size for the bond department would be attained if there were only a small differential between mortgage loan rates an bond yields. There usually is at least half of 1 percent. If that were reduced, say, to a quarter, I think it would be quite desirable to have it 50–50.

Mr. GESELL. About half in bonds other than Governments and half in mortgages?

Mr. STEDMAN. Of course I am talking of ideal size. I would like to see the Governments very materially reduced, as they used to be.

Mr. GESELL. Would it be fair to say, do you think, that other things being equal, if there were an adequate supply of the right type of investment for you to take you would like to invest twice as much money in bonds as you are now investing?

Mr. STEDMAN. By bonds do you mean other than Governments?

Mr. GESELL. Other than Governments.

Mr. STEDMAN. Yes; I think that might be.

Mr. GESELL. In other words, you like to get out how much?

Mr. STEDMAN. Well, I should think at least $300,000,000 net.

Mr. GESELL. Three hundred million net?

Mr. STEDMAN. Yes.

Mr. GESELL. The net figure of $190,000,000 was minus Governments or including Governments?

Mr. STEDMAN. Including Governments.

Mr. GESELL. So that it is really twice as much.

Mr. STEDMAN. Well, of course I would like to see the day when we wouldn't have to buy low-yield Governments.

Mr. GESELL. Would you say that your Governments at the present time represent to some extent your inability to invest in other channels?

Mr. STEDMAN. Yes.

Mr. GESELL. I notice from table 106 that your cash in this 10-year period has risen from approximately $11,000,000 to $95,000,000 [1] and that your Governments as shown by table 113 have increased from $47,000,000 to $802,000,000.[2] How much of that cash account, first of all, would you say represents money which under favorable conditions you would like to have invested?

Mr. STEDMAN. Well, from the $95,000,000 under normal conditions I should suppose could be subtracted $50,000,000.

Mr. GESELL. So let's say $40,000,000 in the cash account which under normal conditions, favorable conditions, you would want to have out.

---

[1] See Hearings, Part 10–A, p. 106.
[2] Ibid., p. 113.

In the Government account of $802,000,000 of United States Governments, how much of that under normal conditions would you like to have out in bonds other than Governments or in mortgage loans?

(The Vice Chairman, Representative Sumners, assumed the chair.)

Mr. STEDMAN. Gross investment in Governments last year was $171,000,000. Our net investment was $119,300,000. I should hope that we could cut our net investment in Governments down very materially, to perhaps not more than $25,000,000.

Mr. GESELL. Not more than $25,000,000?

Mr. STEDMAN. Yes.

Mr. GESELL. That would be your total investment or yearly investment?

Mr. STEDMAN. Yearly.

Mr. GESELL. So that——

Mr. STEDMAN (interposing). Of course, this is so theoretical.

Mr. GESELL. It is not entirely theoretical, Mr. Stedman. I am trying to find out how much, what difficulties you are having in investing your money. This seems to be one way to get at it. I realize that it won't be possible to get such money out, but under the type of portfolio you would really like to have, how much are you overstocked in Governments, is the problem. Would you say there are probably $500,000,000 Governments that should be elsewhere—taking rough figures?

Mr. STEDMAN. Instead of having the Government portfolio amount to approximately 23 percent of our total admitted assets, it would be preferable to have it not exceed 10 percent.

Mr. GESELL. So that there would be probably about $400,000,000 in Governments?

Mr. STEDMAN. Yes.

Mr. GESELL. Which you would like to put elsewhere?

Mr. STEDMAN. Yes. It is more than that today.

Mr. GESELL. More than that today. At least we have about half a billion dollars, do we not, in cash and in Governments, which under normal conditions you would want to have elsewhere?

Mr. STEDMAN. Yes.

Mr. HENDERSON. Could I ask a question?

Mr. GESELL. Yes.

Mr. HENDERSON. If you had Government bonds on income property, such as toll bridges, toll roads, things which were self-liquidating, would that affect your judgment as to how much you would want in Governments?

Mr. STEDMAN. You mean by Governments, Federal Governments?

Mr. HENDERSON. Yes.

Mr. STEDMAN. Of course, we have port authorities and such things that are secured by tolls.

Mr. HENDERSON. I might put it another way. Does your preference for other than Governments run to the source of the income?

Mr. STEDMAN. It is always well to have a debt sustained by earning power.

Mr. HENDERSON. That is one factor you have in mind?

Mr. STEDMAN. That is certainly a factor in the relatively large volume of purchases of municipal revenue bonds in the last 3 or 4 years. It is true there is a lower yield in the general obligations, but we thought where revenue issues were soundly set up they were desirable investments.

Now, until the credit of the Federal Government is impaired, I don't see that it makes the slightest difference whether the bonds are secured or sustained by earning power.

Mr. GESELL. I take it, if there is some half a billion dollars worth of money which you would like to put elsewhere, that there is an inadequacy of supply, that you are not able to find the type of investment that you want at the present time?

Mr. STEDMAN. There is an inadequacy of supply of bonds that yield what we call a fair return.

Mr. GESELL. Bonds that meet the standards you feel are necessary in the fulfillment of your obligation to the policyholder.

Now, I want to ask you about what standards you apply in your investments in a moment, but, first of all, let me ask you this: Do you have some plan, at the beginning of the year, as to how much money you are going to put into utility, how much into rails, how much into Governments, how much into these other classifications? In other words, do you determine a working program at the beginning of some period, and then try to put that into effect by your purchases as the year runs out?

Mr. STEDMAN. No; we do not have a program at the beginning of the year.

Mr. GESELL. May I ask why?

Mr. STEDMAN. Well, it would be quite theoretical. We wouldn't be able to properly fill up our requirements in one category. We might run over in another, and yet another form of investment might be highly desirable. We are really subjected, in large part, to the economic currents, and, of course, the factors of supply and demand.

Mr. GESELL. In other words, at the present time it is pretty much a matter of getting all you can. Is that right?

Mr. STEDMAN. It is at the present time.

Mr. GESELL. What about before 1929? Did you have a plan before 1929, a planned portfolio you would set up and be able to follow, within broad ranges, at the end of the year?

Mr. STEDMAN. No; we had no plan. Our finance committee always kept in touch with the supply of offerings, either in mortgage loans or bonds or preferred stocks. Periodically, at least once a month, the bond department reported to the finance committee its activities during the prior month, and compared it to the same month the previous year. As I say, periodically, the finance committee inquired what was coming into the market, and about what yield, and it inquired at the same time about the mortgage-loan field, and if some offering was thought to be particularly desirable, though it might be obtainable at a yield perhaps a half or even 1 percent below sound mortgage loans, an exception might be made in that case.

Representative REECE. Would it interfere for me to ask a question?

Mr. GESELL. Not at all.

Representative REECE. What considerations influence the amount of Governments which you require?

Mr. STEDMAN. Well, the finance committee has adopted the policy of keeping about $100,000,000 in cash on hand in these rather uncertain times. We try to invest all the investible funds, except that

$100,000,000 of cash, and if we can't find desirable investments that are sound, that yield as much as Governments, we return to the Government market.

Mr. GESELL. In other words, using a phrase that I have used before, it is to some extent just the measure of your inability to invest in Government accounts.

The VICE CHAIRMAN. May I ask a question, please? Of course, primarily you try to get a bond that is safe and will bring the highest revenue you can get?

Mr. STEDMAN. That is our desire.

The VICE CHAIRMAN. That is almost anybody else's desire that has a little money and wants to buy something.

Mr. STEDMAN. The highest return consistent with sound security.

The VICE CHAIRMAN. Then you try, of course, to scatter your investments more or less in that field where it is safe and you get the best revenues?

Mr. STEDMAN. That is right.

The VICE CHAIRMAN. Now, you build up a large holding of Government bonds, as I understand your testimony; that is the place where you put your money where it is just a choice in the main between carrying money that is bringing in no revenue and money that is bringing some revenue, that you can get out quickly if you can find a place to put it that will bring you more revenue, is that right?

Mr. STEDMAN. That is correct; yes.

The VICE CHAIRMAN. I am trying to boil this down, you know, and get it where we common folks can use the information that you are giving. What you have in one portfolio or put in another portfolio I imagine is a good deal like a man out on a farm who has a chance to buy all sorts of livestock; normally he would scatter it all around, but if there was a particularly good investment in sheep then he would buy more sheep, when otherwise he would have bought hogs had they been a good price. That is about the way it sizes up when you get away from all these maps and charts and schedules and figures.

Now, you spoke a moment ago with regard to the solvency of the Federal Government if its credit is impaired. Isn't there another thing that enters into that picture? Suppose the credit of the Federal Government should not become impaired but that it should become more profitable for the person whose money is invested in a Federal obligation to take that money out of that investment and put it into some—I suppose you would call it a productive enterprise; he wants to open up a factory or any other thing. If a great many people want to do that thing, then there naturally would come to be a great deal of these Federal obligations on the market.

Mr. STEDMAN. Yes.

The VICE CHAIRMAN. If a man had $5,000 in these bonds and he drew that money out and invested it where he could get 5 percent, he would want to get rid probably of these bonds. What is the picture, if you want to discuss it—and I think we would be interested in it—what would be the situation if we should have a general condition in the country where industry would revive and confidence would revive and people would begin to want to do the things which people heretofore have normally done with their money? What would happen to these bonds and what would happen to the institutions that have these enormous quantities of bonds in their portfolios? I don't know whether I ought really to ask you that question, or whether you want to answer it.

Mr. STEDMAN. I will be glad to try to answer it.

The VICE CHAIRMAN. As I tell you, I am not quite sure whether I ought to ask it.

Mr. STEDMAN. Of course, Government bonds would be carried in our annual statement at the amortized value. The market might be below the amortized value, but we have been through some pretty serious times. The question of liquidity is not at all a serious one with a life-insurance company, and I think if that question were to ever arise we could discount our bonds with the Federal Reserve bank to raise cash, but on our annual statement they would be carried at the amortized value.

If Government bonds declined——

The VICE CHAIRMAN (interposing). Now, what do you mean by "amortized value"?

Mr. STEDMAN. The premium at which they were bought, and the average price is above par, is extinguished over the term, a little each year. That is called amortization.

The VICE CHAIRMAN. After the World War, Federal bonds went down to 83 or 84; something like that.

Mr. STEDMAN. You mean the price? Yes, they did; and we bought them, and we would buy them again.

The VICE CHAIRMAN. But you couldn't make much money selling these 80,000,000 at that price, could you?

Mr. STEDMAN. We wouldn't need to sell.

The VICE CHAIRMAN. That is what I am trying to get at, because the time would come when you could hold those bonds and get your money out of them when the Government got ready to pay.

Mr. STEDMAN. After all, the eight-hundred-odd million of our Governments mature in from 2 to 25 years. They are running off gradually. They are not all long-term bonds, and whatever may happen in the next 5 or 10 years—I don't try to look ahead, but we would certainly have that amount reduced by maturing issues. Whether we shall go back into them depends on economic conditions, the supply of other investments, and the price at which Governments themselves are selling.

The VICE CHAIRMAN. And eventually you would get your money? I mean you would get the face value of your bonds?

Mr. STEDMAN. We would get par.

The VICE CHAIRMAN. And with that money, whatever it is, you could pay your obligations?

Mr. STEDMAN. Meet our contracts.

The VICE CHAIRMAN. So you couldn't break these insurance companies by reason of reduction in the price of bonds?

Mr. STEDMAN. No, sir.

The VICE CHAIRMAN. I think it is a pretty good idea to put that in the record.

Mr. GESELL. Judge Sumners, you might be interested in some statistics we have here.

The VICE CHAIRMAN. Not many of them.

Mr. GESELL. Table 140 will show you the maturities of the United States Government bonds owned by the Prudential,[1] which might be of some interest to you in view of your line of questioning.

The VICE CHAIRMAN. Thank you.

Mr. GESELL. Well now, so far we seem to have this picture, Mr. Stedman, that you are not able to invest as much money as you want to in bonds other than Governments; that the supply was not adequate, and in fact you had no particular plan of investment that you set at the beginning of the year because it was a question of getting what you could, which was of the quality you desired.

Now, the next question I would like to pose for discussion is what your standards are in the purchase of securities, and I think we might take some of these classifications shown on table 103 as a convenient starting point.[2] Let's take public utility bonds as an example. What kind of a public utility bond will you buy, what type of information must you have about it, what type of public utility must it be?

Mr. HENDERSON. In the first place, do you buy holding companies at all?

Mr. STEDMAN. We have some investments in holding companies.

Mr. HENDERSON. Do you buy them currently?

Mr. STEDMAN. Within a year, yes; we bought some bonds that, I think, run for 20 years, and will be retired by a sinking fund or serially within that term.

Mr. HENDERSON. Do you buy debentures, is that it?

Mr. STEDMAN. Yes.

The VICE CHAIRMAN. And eventually you would get

Mr. HENDERSON. You buy preferred stock of holding companies?

Mr. STEDMAN. No.

Mr. HENDERSON. Do you buy any common?

Mr. STEDMAN. No.

Mr. GESELL. You have my question in mind, have you, Mr. Stedman?

Mr. STEDMAN. May I tell you what we do when a public-utility investment is presented?

Mr. GESELL. Yes; that will cover it.

Mr. STEDMAN. Our public-utility engineer inspects and roughly appraises the property and reports on its condition and the efficiency of the management, the growth, and industrial diversity of the territory served.

Mr. HENDERSON. Just a minute. If you are buying a bond of a holding company, do you send your own engineer out over all the properties of the holding company?

Mr. STEDMAN. Yes; that is, he is familiar with the operating companies that are the backbone of the holding company.

Mr. HENDERSON. I just wanted to make sure that I understood.

Mr. STEDMAN. Oh, yes. The character and size of the load, particularly in relation to its generating capacity, the percent of power purchased.

Mr. HENDERSON. You are going a little too fast for me—I am very much interested in this. Can you start back there? Would you mind if I ask questions as we go along?

---

[1] See Hearings, Part 10-A, p. 140.
[2] Ibid., p. 103.

Mr. STEDMAN. He roughly appraises the property when he goes out to look at it.

Mr. HENDERSON. He undertakes to get a physical valuation?

Mr. STEDMAN. Yes; he sizes up the management' public relations, the company.

Mr. HENDERSON. You must keep, then, in public relations, a long-term file. You can't just go out on one day, for example, and get an idea of what the public point of view is concerning Associated Gas, for example, can you?

Mr. STEDMAN. We have no investment in Associated Gas.

Mr. HENDERSON. You say he appraises the management and the public relations?

Mr. STEDMAN. Chiefly he looks at the plant and sees what condition it is in, the maintenance policy of the company. Now, he makes inquiry in the principal communities of others than the management about how the company is regarded. He gets an idea of their public relations.

Mr. HENDERSON. You are talking mainly about a subsidiary now?

Mr. STEDMAN. I am talking really about an operating company. We have very few holding company investments. I think I am correct in saying the amount is three. There may be four.

Mr. HENDERSON. Suppose you found an operating company which locally had a reputation for good management and had good public relations with the community, its rates were fair, but still the top holding company did not have a reputation for good management and for good public relations. Would you, all other things being equal, buy the operating company bonds?

Mr. STEDMAN. It depends, I think, upon the degree of the efficiency of the management of the holding company.

Mr. HENDERSON. The efficiency of the holding company?

Mr. STEDMAN. Of the management, yes; their ideas as to the relations of the parent company with its subsidiaries.

Mr. HENDERSON. You undertake to find out, I suppose, whether they have management contracts, whether the holding company has operating contracts?

Mr. STEDMAN. Yes. We look at the dividend policy particularly, and, of course, we look at upstream loans.

Mr. HENDERSON. You do look carefully for upstream loans?

Mr. STEDMAN. Yes.

Mr. Commissioner, we might consider first-mortgage bonds of a utility that was a subsidiary of a holding company whose practices were not considered ideal. We wouldn't buy the debentures or the preferred stock, but we do look at the margin of safety of those bonds and we do look particularly at the rates charged in the territory served and compare those rates with rates charged by similar companies in similar locations.

Perhaps some of these points would be cleared up if I go on.

I was speaking about the inquiries made by our public-utility engineer. He inquires as to the likelihood of prevalence of public competition and finally the company's relation to and its relations with its parent company, if any. With this report, if favorable, is coupled a study of the balance sheet and income accounts for usually a 10-year period, our scrutiny being directed principally at maintenance, depreciation, and dividend policy. If this study shows that the return earned on a fair value of the property is reasonable, after adequate depreciation and maintenance, and is derived from rates charged consumers which are about the average or lower than the average for similar companies in similar locations, and that the balance available for interest has averaged over the 10-year period an amount equal to at least, say, 10 percent of the mortgage debt, I would rather express that margin in percent of debt than interest times earned because the rate of interest in 6 years has dropped at least 2 percent——

Mr. HENDERSON (interposing). Where do you get that 10 percent figure you want to see over the 10-year period?

Mr. STEDMAN. We want to see that the gross income, the amount available for the payment of interest, should average over the 10-year period at least 10 percent of the mortgage debt. Now, if there were 5-percent bonds that would be a 2 times coverage; 4-percent bonds, 2½ times coverage; 3 percent bonds, 3⅓; but the utility may have to go back some day to selling 4½-percent bonds and we don't want to see that margin too low at present.

We want to make sure that the margin over debt service is also large enough to absorb a shrinkage of gross revenues or an increase in expenses.

After all that, we then give consideration to the provisions and covenants in the indenture which do not in every case completely protect the mortgage debt against dilution.

Mr. HENDERSON. Will you say that again?

Mr. STEDMAN. We give consideration to the provisions and covenants in the indenture securing the bonds because not in every case does it completely protect the mortgage debt from dilution.

Mr. HENDERSON. You mean there might be an open end?

Mr. STEDMAN. No; I have reference more to the escrow provision which countenances the issuance of additional bonds up to, say, 70 percent of the net property additions instead of 70 percent of the difference between gross capital expenditures and depreciation accruals. That is an important provision. We would like to see that as strongly drawn as possible.

Would you be interested in an illustration?

Mr. HENDERSON. Yes; I certainly would.

Mr. STEDMAN. If we were to start with a $100,000,000 public-utility company capitalized 45,000,000 in bonds, 25,000,000 preferred stock, and the balance in common——

Mr. HENDERSON (interposing). You are not talking about an ideal, are you now?

Mr. STEDMAN. Well, this is a hypothetical case.

Mr. PIKE. Are there any actual ones anywhere near that, Mr. Stedman?

Mr. STEDMAN. I am not sure I couldn't find some.

Mr. PIKE. I am not sure, either, but I don't happen to remember any at the moment.

Mr. STEDMAN. I haven't one in mind, if that is what you mean.

Mr. PIKE. The Consolidated Gas might have something in that proportion. They haven't any preferred, though.

Mr. STEDMAN. Consolidated Gas of Baltimore?

Mr. PIKE. I mean Consolidated Edison of New York. They haven't any preferred.

Mr. STEDMAN. Oh, yes.

The VICE CHAIRMAN. Suppose you go ahead with an illustration. The horse may not be the same color but, let's see how it runs.

Mr. STEDMAN. If it were decided to depreciate that company at the rate of 3 percent per annum over a 10-year period, there would be $30,000,000 of depreciation accruals. Now, if the retirements of the property amounted to $1,000,000 a year, there would be $10,000,000——

The VICE CHAIRMAN (interposing). What do you mean by retirements?

Mr. STEDMAN. Property worn out or taken out of service.

The VICE CHAIRMAN. I know what that means. Go ahead.

Mr. STEDMAN. Now, if you can issue bonds——

Mr. HENDERSON (interposing). You say if you had a million retired each year?

Mr. STEDMAN. That would be $10,000,000, and the net addition to that property would be $20,000,000.

Mr. HENDERSON. That is, if they spent all the accrual?

Mr. STEDMAN. Yes; if they spent all the accrual.

Now, with an escrow provision that provided that 70 percent of the net property additions $20,000,000 could be put out in bonds, that would be $14,000,000 that could be put out in bonds and yet you have a property that is still, after depreciation, worth only $100,000,000 and yet you have added to the $45,000,000 of original debt $14,000,000 more. So that is a provision that we like to look at, and although it isn't always the way we want it, there are other factors, the territory served, the earning power, the margin of safety that govern our final selection.

Mr. HENDERSON. Do you undertake to get any certain amount of cushion—that is, ratio of preferred and common to the indebtedness?

Mr. STEDMAN. Mr. Henderson, I think we look at earning power very largely. We like of course a cushion of preferred-stock holders, if it is not too large, because preferred-stock holders ought to be given preferred consideration, and a company might strain its resources to continue its preferred dividends rather than let them go into arrears. So that perhaps too large a preferred issue is not so ideal from the bondholders' point of view.

Mr. HENDERSON. But do you undertake to capitalize earning power? Do you use any basis for capitalizing the earning power at all?

Mr. STEDMAN. No; we contrast earnings or earning power with what we think is the fair value of the property.

Mr. HENDERSON. You see, in the work we have on reorganization under the Chandler Act, when there is to be a reallocation of the assets——

Mr. STEDMAN (interposing). In reorganization, that is a different matter.

Mr. HENDERSON. I know, but I was wondering whether you had any formula for capitalization of earnings? You say you look more at earning power. You are looking mainly at the excess which is available for services.

Mr. STEDMAN. Of course, if you are considering a reorganization case, I think one should give the benefit of the doubt to the old security holders that have to take a licking, and hope that earnings may improve, and on that basis perhaps capitalize at a lower rate of interest rather than a higher.

The VICE CHAIRMAN. If there is too much earning power, isn't there danger of that earning power's attracting competitive activity? It would seem to me that largely would determine the desirability of the loan.

Mr. STEDMAN. There is not much competition in the public utility except from public ownership.

The VICE CHAIRMAN. Then that condition would be eliminated and you get back to the proposition of earning power to determine——

Mr. STEDMAN (interposing). When I say earning power, I am looking at the margin, the power to earn a margin over the interest requirement on the first mortgage debt. Too great earning power is likely to be taken away from the utility by a State commission—too great.

The VICE CHAIRMAN. I understand.

Mr. STEDMAN. So it is important to arrive at a fair value of the property.

The VICE CHAIRMAN. I got you the first time.

Mr. HENDERSON. Do you keep any record on the new issues of utilities that come out which would indicate how many of them would meet your standards?

Mr. STEDMAN. By now they are, of course, old issues. We are pretty familiar with each issue, and we follow each investment, and in those companies that meet our requirements we make investments, which are followed, the earnings are kept up to date and the changes in the property account and in the capitalization.

Mr. GESELL. I think what Mr. Henderson was trying to get at was, of the utility issues that are offered from year to year, what percentages can you take? I mean, what percentage would fall within these requirements that you have set up? It would be a very small percentage, would it not?

Mr. STEDMAN. No; I don't think so. I think it would be a fairly large percentage.

Mr. HENDERSON. Put it this way: If we applied the same test that you do before we would permit a bond to be issued, we would turn down many issues, would we not?

Mr. STEDMAN. I don't know.

Mr. HENDERSON. I know; I know very well.

Mr. STEDMAN. I can't tell you what percentage.

Mr. HENDERSON. There are a number of very definite things that you take into consideration that we can't. One of them is the character of management.

Mr. STEDMAN. We are trustees of the policyholders.

Mr. HENDERSON. We can't turn one down if it doesn't happen to suit us on a right ratio as between bonds, common and preferred.

Mr. STEDMAN. Well, I understood Mr. Gesell wanted an approximate yardstick. Those percentages are flexible. You have to weigh the pros and cons.

Mr. HENDERSON. How far up would you go on indebtedness on a property? Have you got any limit there at all as to what cushion you ask? Would you buy if there were 90 percent indebtedness?

Mr. STEDMAN. Ninety percent indebtedness?

Mr. HENDERSON. Yes.

Mr. Stedman. Of what we consider the fair value of the property?

Mr. Henderson. Yes.

Mr. Stedman. Oh, no.

Mr. Henderson. Eighty?

Mr. Stedman. No.

Mr. Henderson. Seventy? We're getting to the danger line?

Mr. Stedman. Very close to that, somewhere.

Mr. Henderson. In other words, you want somewhere around 30 percent of cushion?

Mr. Stedman. We want at least that.

Mr. Henderson. Do you care who owns that cushion? Does it make any difference to you whether it is owned by a number of divers holders or whether it is concentrated ownership such as you get with a holding company? Does it make any difference at all?

Mr. Stedman. It all depends on the character of the management of the holding company.

Mr. Henderson. Then it does make a difference?

Mr. Stedman. Yes.

Mr. Gesell. Have you completed the various definitions of this yardstick?

Mr. Stedman. Yes; I think I have covered that.

Mr. Gesell. Perhaps we might, if you have no further questions, turn to another type of investment.

Mr. Henderson. I have literally dozens of them, of course, but I will support counsel.

Mr. Gesell. We have quite a bit of ground to cover today. Let's take your industrial issues. Can you give us some kind of yardstick that you apply in the purchase of industrials?

Mr. Stedman. In the case of an industrial investment, the industrial engineer before inspecting the plant or plants talks with the management. Usually, he endeavors to size up the principal executive officers, and particularly their understudies, and to acquire as much preliminary information as possible regarding the efficiency of organization, the nature of the business, its competition, sources of raw material, the location of plants with respect to labor, access to raw material and to markets. We invariably require a detailed certified public accounting audit.

Mr. Gesell. For how many years?

Mr. Stedman. A 10-year period. Perhaps sometimes we want them to cover an entire business cycle in some particular industry.

Mr. Gesell. That, if I may pause on it, is a very interesting point. You want a 10-year certified balance sheet of an industrial, or perhaps longer, in order to get a test of the company's experience through a business cycle or over a representative number of years. That would seem to me to bar from the reservoir of capital which you have, many, many business ventures, especially new business ventures, would it not?

Mr. Stedman. New business ventures; yes.

The Vice Chairman. Right on that point, will you develop whether or not an indisposition to purchase the securities of a new business venture is controlling?

Mr. Stedman. It would not be in our judgment suitable for the funds of life insurance; in other words, it is not a trustees' investment.

The VICE CHAIRMAN. Would no other consideration balance against the absence of a 10-year record?

Mr. STEDMAN. I think when we look back over the past 10 years I have to say "No."

The VICE CHAIRMAN. I think that is one of the most interesting facts that has been brought out in this whole hearing.

Mr. GESELL. Perhaps I can develop it a little bit further, Judge. Let me ask you this: We hear a great deal these days about loans to small-business men. Have you tried to make loans to small-business men?

Mr. STEDMAN. Yes; we have.

Mr. GESELL. Can you tell us what you have done in that regard, and what success you have had?

Mr. STEDMAN. I spoke of our having stationed in Chicago nearly a year and a half ago a man whose function it was to find, if possible, small industrial loans. We didn't want to go much below one hundred thousand, possibly fifty, and considered small industrial loans to be limited by the figure of a million dollars. Our hope was that we might make the loan as a mortgage loan, secured by a first mortgage, and write the necessary covenants on the paper. The expense of a small issue providing for a corporate trustee could not be borne. It would not be economical. The rate would be too high for the borrower. In a word, we have had practically no success.

Mr. GESELL. How many such loans have you made, sir?

Mr. STEDMAN. We have made exactly two.

Mr. GESELL. How many was this man able to find that he brought to you that he thought would be worthy of your consideration?

Mr. STEDMAN. He brought us about 30 to 35 loans. He did consider himself about 30 more that he did not think suitable to bring to our attention.

Mr. GESELL. So that there were 65 loans, of which 30 or 35 came to you, and on only 2 of which you were willing to advance the money?

Mr. STEDMAN. That was his part. We did have applications for similar loans, for loans of similar size, directly to the home office.

Mr. GESELL. How many of those were there?

Mr. STEDMAN. About 68.

Mr. GESELL. None of those was satisfactory, or did you make some?

Mr. STEDMAN. One of the two loans we made directly, but used our man in Chicago to cover a great deal of inspection on the ground, talks with the management, the negotiations; but it originated, really, before he had gotten under way.

Mr. GESELL. So that of the approximately 120 propositions that came to you, you were able to take two?

Mr. STEDMAN. We were able to take only two from the point of view of a trustee.

Mr. GESELL. That is what I was next going to ask. That was because you felt that in handling the funds that you held in trust for the policyholders, you would be entering into some kind of risk, or taking some kind of a chance which wouldn't be warranted?

Mr. STEDMAN. Very few of the loans were for increasing any working capital. Many of the loans were simply to retire high-rate preferred stock or high-rate debt. They just wanted to get a low rate, a rate much too low to be commensurate with the risk. Sometimes we couldn't get the necessary audits.

Mr. HENDERSON. Did you keep any record as to the rates being paid by some of these businesses for the money they wanted to refund? Another section, the Investment Banking Section of the S. E. C., looked into whole cities and got as much information as we could. Sometimes we would find money costs running from 11 to 20 percent, even for businesses that were borrowing $100,000 to $250,000. Did you keep any record at all of these interest charges?

Mr. STEDMAN. No; I don't think we can tell you what businesses of that nature would be charged.

Mr. HENDERSON. You would be striking merely the rate for which the existing contract called and not all the expenses, the sideline arrangements and special bonuses that the company had to pay in order to get the loan?

Mr. STEDMAN. Yes.

Mr. GESELL. I interrupted you, I think, when you were acquainting the committee with your industrial yardstick.

Mr. STEDMAN. Yes.——

The VICE CHAIRMAN (interposing). While you are interrupted, if I may be permitted, did anybody in your organization, during the time or as a result of that experience, formulate any notion with reference to any sort of organization by which the credit requirements of those small activities could be serviced safely?

I appreciate that this is aside from this inquiry and I wouldn't expect you, unless you just happened to know, to be able to answer that question.

Mr. STEDMAN. No; we did not. I am afraid I can't help you on that. Certainly a large percentage of the capital these borrowers wanted should be venture capital and supplied by the sale of stock.

Mr. PIKE. Is that the typical thing you found in going through these small loan applications, that they wanted what was really venture capital on mortgage terms?

Mr. STEDMAN. Not perhaps typical, but a sizeable percent.

Mr. GESELL. Now, will you continue with your discussion of what you looked at in taking these industrial issues?

Mr. STEDMAN. I was saying that we did require a certified public accountant's audit for a 10-year period. We like those audits that the auditors give to the chief executives and the board of directors, not merely certificates as to balance sheets and income accounts.

Mr. GESELL. You want detailed operating figures.

Mr. HENDERSON. It is an interesting point you made there, Mr. Stedman, because I don't know whether you are familiar with the requirements of what we call the '33 act, the Registration Securities Act. We are not entitled to ask that the prospectus contain anything except the certified balance sheet. In other words, an investor who is investing in a security of a registered company gets the formal certified statement. In your position, you are not satisfied with that. You want to know the real audit detailed to the chief executive officers, as I understand.

Mr. STEDMAN. We want it. We don't always get it.

Mr. HENDERSON. No; but it would be a nice thing if everybody could get it, wouldn't it? Isn't there something lacking in the auditing practice that you hit on here as far as investors are concerned? You get really an audit of management practice, if you can, don't you?

Mr. STEDMAN. If we can; yes. Of course, we don't succeed except when we buy at private placement, as a rule.

Mr. GESELL. In direct negotiation of the issue?

Mr. STEDMAN. Yes.

Mr. HENDERSON. In small loans, to get audits of that kind in the last 10 years would have put you to considerable expense, would it not? Many of them seem to have them, but, of course, some did not.

Mr. GESELL. Will you continue, Mr. Stedman?

Mr. STEDMAN. Now, these audits, our industrial engineer—I am talking more particularly about the direct negotiations by private placement—goes over with the treasurer of the company, in order to learn how the company has weathered the depression, and notes the changes in the balance sheet and such important items as cash, which we like to see over the period not allowed to run off to a dangerously low picture; inventories, which should not represent undue proportion of current assets; notes payable, which we feel should be, except in a few wholly seasonal industries, liquidating loans, and which should not be outstanding too many years if we are not to infer an insufficiency of working capital; net working capital, which, if consistently maintained, would indicate the business was a going concern and would constitute the best security for our loan; capital expenditures and retirements by years, which reveal the extent of modernization; funded debt, which, of course, we like to see decreasing rather than increasing.

Now, in analyzing the income account, we would not naturally prefer too wide fluctuations in net sales, and we would prefer the ratio of operating cost to net sales to be fairly steady and not to consistently decline over the period. Depreciation should remain reasonably constant through the lean as well as the fat years. Gross income, the balance available for interest, should average over the 10-year period in an amount expressed as a percentage of the proposed loan, equal to between 12 and 15 percent, or at least three times interest coverage.

If there are deficits in this period, they should be confined to a figure less or equal to the accrual for depreciation and not occur in more than 2 or possibly 3 years of the 10 when other similar industries were depressed.

Because earning power is the basic security for our loan, able management ranks ahead of physical security. By the same token, a serial or amortized loan, payable over 10 or 15 years, though unsecured, if protected by the promises of management, embodied as covenants in an indenture, is as acceptable to us as a first-mortgage bond, provided, of course, the company covenants not to mortgage its property at a later date without at least allowing us to share in the lien. That is rather detailed, but those are the requirements we look for. Then, of course, they are rather ideal. As I said before, we weigh the pros and cons.

Mr. GESELL. It does result in your taking only the cream of the industrial issues, does it not?

Mr. STEDMAN. Yes.

Mr. GESELL. And it leaves those in the lower brackets of quality looking elsewhere for capital?

Mr. STEDMAN. Yes.

The VICE CHAIRMAN. I was going to ask, What do you mean by sharing in the new issue? Do you have in your covenant any agreement as to your percentage of proportionate sharing in the new issues?

Mr. STEDMAN. Share ratable.

The VICE CHAIRMAN. I beg your pardon?

Mr. STEDMAN. We share with the holders of the first mortgage that has been put on the property. The holders of the unsecured loan that we make will share with them ratably in that security.

Mr. GESELL. Now let me ask you this: What rate of return do you have to earn on your investments, looking at the company as a whole?

Mr. STEDMAN. Looking at the company as a whole, you mean all our investments?

Mr. GESELL. Yes; what must you earn?

Mr. STEDMAN. You mean mortgage loans?

Mr. GESELL. Taking all your investments, what must the company earn to meet its contract requirements?

Mr. STEDMAN. Well, our vice president and actuary is here. He has been sworn. I would much prefer to have him answer that question.

Mr. GESELL. What is the figure, Mr. Howell?

Mr. V. HOWELL (vice president and actuary of Prudential Insurance Co.). I assume that you mean, what rate must be earned to meet our contracts provided policy dividends are completely eliminated. Is that your thought? That is very important.

Mr. GESELL. You have to meet a rate of return from year to year, do you not? You promise your policyholders.

Mr. HOWELL. Yes; we have no set rate, but the lower the return, the lower the dividends to the policyholders.

Mr. GESELL. Assuming your present dividend schedule, what do you have to earn?

Mr. HOWELL. We have to earn our percent.

Mr. GESELL. What is that, taking all your policies as a group?

Mr. HOWELL. In a general way it is about 3½ percent.

Mr. GESELL. That is the figure I want.

Mr. HOWELL. I might point out that the effect of earning the lower rate would simply be the lower dividends in the future.

Mr. GESELL. That is right. You give less back to the policyholder. Now, Mr. Stedman, what rate of return do you try to earn on the bonds you purchase, excluding Governments, of course.

Mr. STEDMAN. I will tell you the rate we earned for 1939. Answering your question, I would have to say that we must get the highest rate consistent with sound security.

Mr. GESELL. What did you earn in '39?

Mr. STEDMAN. Three point three. I think, to be exact, 3.29.

Mr. PIKE. Is that on new purchases or total bonds?

Mr. STEDMAN. Total.

Mr. PIKE. What is the average rate of yield for those you bought in 1939, have you got that?

Mr. STEDMAN. It is an approximation, but it is a little under 2.70.

Mr. PIKE. That is the industrial utilities?

Mr. STEDMAN. Yes; of course, it includes the Government purchases, which were very extensive.

Mr. PIKE. I meant to eliminate those if we could.

Mr. STEDMAN. By classes, utility purchases were 3.32%. Our industrial, miscellaneous, because of the serial nature and the short-term, average term, about 2.70%.

Mr. GESELL. You bought some rails, didn't you, sir?

Mr. STEDMAN. Yes; the railroad return is the composite return on railroad bonds and equipment trust certificates. We bought very, very few bonds and the equipment trust certificates that had an average term of perhaps 5 years or 6, 6 or 7, so that yield is low, and is 2.91%.

Mr. GESELL. What about municipals?

Mr. STEDMAN. Two point eight four percent.

Mr. GESELL. Let me ask you a few questions about this question of diversification. What is the maximum amount of money that your company will invest in any one issue of bonds?

Mr. STEDMAN. When you ask about diversification, do you refer to the diversification as among types or classes, or as among individual companies?

Mr. GESELL. I would take it there are at least four types of diversification, as to size of issue, as to companies, as to type of issue, and as to place or locality where the money eventually goes.

First of all, with respect to the problem of any one issue, I take it you don't want to have too much money in one issue of bonds, and my question was, What is the largest amount that your company is willing to invest in the issues of any one company? We will come to the other matters in a second.

Mr. STEDMAN. That would depend entirely on the credit of the company. If the debt was relatively low and the earnings had been steadily increasing and the equity had been increasing in the property, we would not consider it imprudent to take the entire loan offered by the company representing its entire outstanding debt. But, of course, we could reach a point where that might weaken the diversity of the portfolio.

Mr. GESELL. Perhaps this would help. Have there been examples where you have been offered an opportunity to invest in a particular issue, and felt that because of your holdings in that issue, or because of the size of that issue, you didn't want to take all that was offered to you?

Mr. STEDMAN. Yes.

Mr. GESELL. Will you tell us some of those cases, so that we may get an idea?

Senator KING. Do you think that you ought to identify them?

Mr. STEDMAN. You don't want them by name, do you?

Mr. GESELL. Yes.

Mr. STEDMAN. I didn't suppose that you would want that in the public record.

The VICE CHAIRMAN. If there would be any embarrassment to you to do it I don't see any reason for doing it. Do you have a reason for having the names of these companies put in the record?

Mr. STEDMAN. We like to protect the names of our borrowers.

The VICE CHAIRMAN. Do you have any reason for it?

Mr. GESELL. No; I don't even know what his testimony, the testimony of this gentleman, is going to be.

The VICE CHAIRMAN. I can appreciate what his testimony would be, that there are some concerns whose issues he didn't take.

Mr. GESELL. I was asking him about companies, part of whose issues he did take. I stand on the committee's desire.

Senator KING. You are not seeking to develop an inference in that question that because they didn't take it all, we must infer that he doubted the strength——

Mr. GESELL (interposing). Not at all.

Senator KING. Because that would be unfair, it seems to me.

Mr. GESELL. That was not in my mind.

The VICE CHAIRMAN. The witness has already testified that they did take some, and some he hasn't taken, and unless counsel has some special reason, it seems to me that we shouldn't put in the record the names of concerns whose entire issues he didn't take.

Mr. GESELL. Very well. Then you just tell us examples, Mr. Stedman, without giving the names of the companies, if that is possible.

Mr. STEDMAN. You mean, giving amounts?

Mr. GESELL. Yes; I want some idea of places where you were offered an investment and turned down a portion of it because you felt you would be putting too many of your eggs in one basket, and it doesn't go to the credit of the company at all.

Mr. STEDMAN. I don't know that I am prepared to give you figures. I don't believe I remember the size of the total issue that was offered. I am thinking more particularly of those that were offered at private sale. I do know that of some large issues, running perhaps to 75 or 100 million, we have limited our purchases to, say, 25 million.

Mr. GESELL. That is, where you had an opportunity to take 75 million, you limited your participation to 25 and someone else took the other 50?

Mr. STEDMAN. No. As a matter of fact we did not have the opportunity to buy as much as that. I don't think we have ever had the opportunity of buying more than 30 or possibly 40 million. I was thinking of issues that were brought to us; we were asked to participate with others and we were asked to name the amount that we would like, and we have named the amount, sometimes, of 25 million, and it would be cut down to 15. Generally we haven't gone over 25 million, but those are not issues that are offered to us alone.

Mr. GESELL. But where you have had some flexibility——

Mr. STEDMAN (interposing). We have had smaller issues offered to us solely, and we haven't hesitated to take the entire issue.

Mr. GESELL. What is the smallest single issue that you buy? Will you go down as low as $100,000?

Mr. STEDMAN. We have bought, in the year 1939, from 329 vendors, and we have bought as low as $2,000 in our effort to replace bonds that had been redeemed. Those were cases of issues, registered issues offered publicly by bankers, and we have combed the country to try and replace, and we have bought as low, as I say, as two bonds. If you refer to how low would we go on a registered issue, a new issue, I doubt if we would want to go much below half a million dollars. We very frequently buy bonds over the counter, or on the New York Stock Exchange, in amounts as low as 10, 15, 25, or 30.

Senator KING. Thousand?

Mr. STEDMAN. Thousand dollars.

Mr. GESELL. That gives us some idea of the range of your investments. Within the particular classifications of utilities, rails, and industrials and the other classifications we have been considering, do you try to place your investment in as many companies as possible where you can get an investment that will meet your requirements? In other words, do you like it spread over the industry?

Mr. STEDMAN. Oh, yes; we do.

Mr. GESELL. And as to locality, let's take public utilities as an example. Do you try to invest as best you can in utilities located in all sections of the country?

Mr. STEDMAN. Well, we consider it our secondary duty to policyholders, when possible, to return their money to them, but I think in the case of public utilities we buy everything that meets our standard that comes along.

Mr. GESELL. And don't have much consideration of locality because of the limited nature of the supply?

Mr. STEDMAN. Well, we look at the security, the credit of the company, first.

Mr. GESELL. You see a contrast——

Mr. STEDMAN (interposing). We have bought recently bonds in the Southwest, and bought other bonds in Ohio and wherever they come out.

Mr. GESELL. Your Mr. Rogers, when he was on the stand, for example, talking about the handling of his farm mortgage account, talked pretty specifically about trying to place money in as many States as possible and attempting to diversify that investment, and I take it because of the limited supply in the bond field you are unable to be as conscious of that particular phase of diversification as you might be in the investment of money in mortgages?

Mr. STEDMAN. Yes; I think it is true that our investments are well scattered, that in relation to our business written we have much more in the West and South, Northwest, than we have in the Eastern States.

Mr. GESELL. What about considerations of marketability and maturity in the purchase of issues? Do you take those considerations into account?

Mr. STEDMAN. I would like to be rather precise in answering that question. I have reduced some of my ideas to writing.

Marketability to insure liquidity in coping with economic crises has been proved by experience to be unnecessary. The situation that developed toward the end of 1932 and culminated in the March 1933 bank holiday was a test that is hardly likely to recur. At the end of 1932, the amount of cash subject to call by our policyholders was probably about one billion four hundred million, yet the large increase that year in policy loans plus the surrendered policies was only 278 million, and yet our assets increased by more than the increase in policy loans for that year. I think we even invested 31 million in bonds, net investment.

Owing to the severe restrictions imposed by the New York State Department, the outgo in 1933 was a little less than in the year before.

Without the restrictions it undoubtedly would have been larger, but not in my opinion so large that we could not have coped with it.

The point I would make is that if the economic dislocation were to be in the future even more severe, the crisis will be met by emergency legislation permitting borrowing from the Federal Reserve bank on high-grade securities as well as on Governments.

(Senator King assumed the chair.)

Mr. HENDERSON. In addition to the moratorial legislation? You can meet the crisis by the moratorial legislation and the ability to borrow from the Federal Reserve; isn't that right?

Mr. STEDMAN. Yes.

Mr. HENDERSON. The two things taken together would mean that you don't have to place emphasis on instant marketability?

Mr. STEDMAN. Not on liquidity. Marketability for the purpose of enabling us to dispose of investments, about the future value of which we have doubts, is an attribute of some value. Although about 63 percent of our holdings are listed on the New York Stock Exchange and over 20 percent have an over-the-counter market, it must be recognized that large blocks of bonds can be sold only in rising markets, and that in the past few years, markets for other than the highest grade issues have been very thin indeed. When confidence in the business outlook returns, speculation will revive and markets for the lower-grade issues, such as our defaulted railroad bonds or the new securities received therefor, will be then created.

As to the 17 percent of our holdings which have no quoted market, this fraction is made up almost entirely of high-grade bonds bought at private sale, both utility and industrial issues, the latter largely repayable serially or through sinking fund from 5 to 15 years, and so well safeguarded by indenture provisions and covenants that they would today demand a ready market at very much higher prices than their cost, did we have to part with them under present conditions.

The effect of the fact of this matter of marketability is that when the Prudential might wish to sell a large part of its assets, many if not all other insurance companies, and perhaps the savings banks and commercial banks of the country, would undoubtedly also be sellers. Then, of course, the market gives ground and breaks and finally the bottom drops out and resort has to be made to legislation, or discounting of high-grade bonds at the Federal Reserve bank.

Mr. GESELL. I take it from what you say that marketability isn't much of a factor in the case of your company, at least in its purchasing of bonds from year to year. It is not one of the prime considerations that you have in mind when you take an issue; you are looking more for security?

Mr. STEDMAN. We are.

Mr. GESELL. And for the reason that you have indicated you don't anticipate that in the future, even, there is going to be much of a necessity for your having a marketable portfolio?

Mr. STEDMAN. That is our judgment.

Mr. GESELL. And I suppose you would feel that, holding such large blocks of bonds as you do, even if you had looked for marketability when you purchased them, the necessity of disposal at one time which would throw other sellers as well as yourselves on the market would result in probably destroying the market in any event and the marketability factor would disappear?

Mr. STEDMAN. Yes; I think you have described it perfectly.

Mr. GESELL. With respect to maturity, Mr. Stedman, how much of a factor is that?

Acting Chairman KING. Do you mean the difference between long and short?

Mr. GESELL. That is right, whether you try to stagger the maturity of your issues and want long terms or short terms.

Acting Chairman KING. I suppose that would involve whether you preferred long or short, and what your experience was, whether you purchased more long or more short, and if there was any advantage or disadvantage in either.

Mr. STEDMAN. In periods of low money rates we would ordinarily prefer short-term loans. At the present time the supply of capital far exceeds the demand, the yield is forced so low on short-term loans by bank competition that we select instead intermediate maturities, usually in the industrial field, ranging between 10 to 15 years. We can't get intermediate maturities in the public-utility field except in rare instances. Occasionally we even go to 20 years in the industrial field. That is in the expectation that conditions will so change that we can reinvest at a much higher yield, thereby averaging for the longer term of 20 to 40 years a yield of perhaps 1 to 2 percent above that prevalent today. We are really long-term lenders, but in a situation like this, when all yields are low, we prefer, as I said, the intermediate maturities.

Mr. GESELL. So that you can get out of them and into something with a higher interest rate which you hope will be coming in the future?

Mr. STEDMAN. We hope we may have that opportunity.

Mr. GESELL. With respect to the whole question of the outlet of your funds, it is true that the outlet for your funds is diminishing, is it not, from year to year? As we saw, there is less debt, taking industry as a whole; you are not investing in the railroad field, you are not increasing your public utilities, you are having difficulty with your industrials, and you are not investing in rails. That suggests, it seems to me, another topic we might consider for a moment, namely, whether there are new outlets for your funds which will offset this shrinkage and whether or not you feel the present investment laws might be changed or liberalized in any way which would give you new avenues in which to invest.

Mr. STEDMAN. I am not an economist.

The VICE CHAIRMAN. Then maybe you can tell us something about it. [Laughter.]

Mr. STEDMAN. I can't see, of course, for a few years certainly, much of a prospect that one would call bright for the lenders of long-term capital. As to legislation, I think we are satisfied with what we have. We would like it to have as much latitude as is reasonable and leave it to the discretion and ability of the finance committees and investment officers to pick and choose and not be confined by straight-jackets, particularly when the difficulties are so great.

Mr. GESELL. You would feel, then, that the present investment laws under which you operate, namely, the laws of New Jersey, are sufficiently liberal for your purposes, and even if they were removed you would probably be still investing in the same fiield in which you are now investing?

Mr. STEDMAN. I think that is correct.

Mr. GESELL. You don't purchase common stocks, do you?

Mr. STEDMAN. We do not.

Mr. GESELL. What about that as a field in which you might put some of your funds? Would you feel that it is a possible field for investment or would you rather feel it is a venture of capital speculative in nature and therefore not advisable for a trustee to put money in?

Mr. STEDMAN. We are very substantial collective creditors in the country's economy. I think we are inclined to shy away from responsibilities of becoming collective partners in enterprise.

I can see that there would be perhaps some very small chance of loss if we were to put a few eggs in that basket, but I think perhaps it might be difficult for the actuaries to carry on their calculations if our surpluses were to gyrate up and down too extensively.

Mr. GESELL. Maybe the actuaries have gotten you into your trouble, Mr. Stedman, by having you sell so many of these investment contracts with guaranteed rates of interest on them which you have obligated yourselves to pay from year to year quite without regard to whether or not you are going to be able to do it.

Mr. STEDMAN. I think you have to look at the long-range picture and the average return over a 10- or 15-year period, and today I think we must certainly hope that before perhaps another 5 or 7 years have elapsed there may be opportunities to invest at higher rates.

Mr. GESELL. Where are those opportunities going to arise?

Mr. STEDMAN. As I said, I am not an economist, but I believe I could conceive of the outcome of the war in Europe being on such a basis that capital from this country might flow out to Europe and other countries in very large volume. That would perhaps be venture capital, but it would leave a void and we would be only too glad to rush in and fill that void.

Mr. GESELL. Well, what about the home scene?

Mr. STEDMAN. I am afraid you are getting beyond my depth.

Mr. PIKE. Isn't that a pretty serious problem, Mr. Stedman? Roughly, over the last 10 years up to and including '38 you had an increase in admitted assets of just under $1,600,000,000; you had an increase in Government bonds of about $750,000,000, or something under $800,000,000; you had an increase in real estate owned of $100,000,000 or thereabouts, a substantial increase in cash. That makes up well over your total net increase in admitted assets during the period, not one of which pays its board. In the 10-year period you have not been able to invest half of your net increase on a paying basis.

Mr. GESELL. You mean, I take it, a basis which would meet the contract requirements?

Mr. PIKE. That is roughly what I mean. I say "paying its board,"—2¼ on the Government bonds roughly, say 1 to 2 percent on the real estate, nothing or practically nothing on the cash.

(The vice chairman resumed the chair.)

Mr. V. HOWELL (vice president and actuary, Prudential Insurance Co. of America). Would it be permissible for me to interpolate?

Mr. GESELL. Certainly, Mr. Howell. I suppose you want to tell us again about the fact that you could continue very easily by reducing your dividends?

Mr. HOWELL. Yes; I think your remark was in order to meet contract requirements. If you just modify that to say "and continue to pay dividends on the present scale."

Mr. GESELL. I accept that as a very helpful suggestion.

Mr. PIKE. That is why I said "pay its board." You are paying your board at a given rate and your income, the increase in cash, over half of it is less than that going rate—this is not an isolated instance, but over a 10-year period.

Mr. HENDERSON. To put it another way, are we dependent upon an increase in the future of interest rates for a continuance of the existing practices of insurance companies in respect to their commitments?

Mr. HOWELL. May I answer that?

Mr. HENDERSON. Certainly.

The VICE CHAIRMAN. I suggest, gentlemen, that with regard both to the questions and answers we ought to be very cautious right where we are now.

Mr. HOWELL. If I understand your question correctly it is: Are we dependent upon an improvement in future conditions to maintain our present structure?

Mr. HENDERSON. That is correct.

Mr. HOWELL. I would say——

Mr. HENDERSON (interposing). Mr. Stedman has been talking about the prospect at some time in the future of getting up to 4½ percent money again. I was just trying to get at an assessment of how much we are dependent upon that expectancy.

Mr. HOWELL. I should say we are not in the least dependent upon it to continue our structure of life insurance. If the present interest rates continue indefinitely there will be an increase in the net cost of insurance in participating companies, but still the company is fundamentally quite sound.

The VICE CHAIRMAN. People will have to pay more premiums if you can't earn on the money you have got. Why isn't that the answer?

Mr. HOWELL. It is, essentially, except they will have to pay either more premiums, or they will get less dividends back.

The VICE CHAIRMAN. If the dividends don't meet it and they want to carry insurance and you people who are handling their money can't make any money on what you have got, people who want insurance have just got to pay higher policies.

Mr. HOWELL. That is right as far as new insurance is concerned. As far as existing insurance is concerned they will get less back in the way of dividends.

Mr. GESELL. To take it another way, you would have to take more money from the policyholders in order to meet your commitments to the policyholders.

Mr. HOWELL. That is it.

The VICE CHAIRMAN. Why, of course. You can bring all the actuaries in the world in and you can't beat that, that is all there is to it. [Laughter.]

Mr. GESELL. Mr. Howell is an actuary.

The VICE CHAIRMAN. You can't get around that. Either he has got to make the money on the money for which he is trustee, he has got to pay people less on their dividends or charge more for his insurance. You gentlemen can get in a huddle from now to doomsday, and you can't beat that conclusion.

Mr. HENDERSON. What I was getting at, Mr. Chairman, and I think it was addressed to Mr. Gesell's question, is: How tangible is this hope that we will get a higher interest rate? What is it dependent on? Mr. Stedman pointed out that if the war in Europe ever got settled we might loan quite a bit of money. quite a bit of venture capital might go there, and that would maybe create a void for trustee funds which they would be glad to supply and could supply. I would regard that as a rather shaky possibility. I would hate to put my risk of the future on the proposition that we were going to make some more bum loans to Europe. That is about the size of it. I just was wondering whether he saw anything developing really with this mortgage on American industry, utilities, rails, farms, and so forth, concerning the prospects for investment in the future.

Mr. STEDMAN. Mr. Commissioner, I did not refer to Government loans to Europe, but the lending of private capital to European and other countries and industries. There would be a tremendous demand for the rebuilding, perhaps, of the world, and there are capitalists who certainly would be tempted by the high money rates that would have to be paid. That would create a void here. That was only one possibility. I do think I am not so discouraged with the business outlook as to believe that we won't have a very material increase in prosperity. When it will come it is hard to say. I hope it will come within 5 years. I think there is room for very great expansion in production.

Mr. HENDERSON. Let me put it this way: Does this staff that you have, which is appraising management, doing investment analysis, also attempt to make a guess as to what the future outlooks for capital are likely to be? Do they undertake to estimate what the public utilities would need, given a rise in net income? Do you undertake to do any business forecast or national expansion forecast?

Mr. STEDMAN. In the utility field I think we have a rather good idea what might be done. In the railroad field there are many problems still to be settled there. In the industrial field I don't believe that can be gaged. The bond department does not include an economist. We do consult them, but we don't make perhaps the studies that Congress can make in the department itself.

Senator KING. Have not some of our troubles been the result of bad advice by economists? That is my view. I would rather have a good practical man, Henry Ford and those who have built up our industries, than many of these economists.

Mr. HENDERSON. You are going to have to have economists.

Dr. LUBIN. Mr. Chairman, no economist has ever been responsible for throwing 50,000 people out on the street.

Mr. GESELL. There is one other topic to be considered before we conclude with Mr. Stedman, and that is the problem of the sale of bonds. Turning to table 136, Mr. Stedman, I notice that your company in this period from '32 to '38 has sold many more bonds than any other company.[1] In fact, as I make a rough calculation on this schedule, it would indicate that 20 percent of the bonds sold by these 26 companies were sold by the Prudential Life Insurance Co. in the period from 1932 to 1938, and that suggests to me that you have a pretty definite philosophy with respect to the desirability of cleaning out a portfolio and selling bonds, and I want to know what you had to say about it?

Mr. STEDMAN. We are given greater credit than we deserve in that table because I think there have been included some exchanges that were not perhaps bona fide sales, but we do, of course, fellow our investments very closely. I think that it wouldn't be strictly correct to say that we sell securities when the outlook for the obligor becomes unsatisfactory due to conditions or causes which we think may be only temporary. On the other hand, if we do not feel reasonably sure the situation will improve, the bond department after making sure that the market has not already discounted the future as we foresee it, recommends to the finance committee that the bonds in question be sold. And when we have made up our minds, we do not hesitate to sell, even at a loss.

Mr. GESELL. Well now, let me see if I can point it up a little. Do you believe that a cleaning out of the portfolio is essential to the maintenance of a good portfolio?

Mr. STEDMAN. You don't mean a total cleaning out?

Mr. GESELL. No; I mean a weeding out of inferior issues.

Mr. STEDMAN. Well, constant supervision, after all, constant vigilance, is the price of security. Constant supervision will result in a weeding-out process.

Senator KING. A temporary sickness of a corporation might not induce you to weed out the securities of that corporation but if it is a persistent illness, and indicates it is lasting in the category, you would be rather alert in disposing of that security at as good a rate as you could obtain?

Mr. STEDMAN. Yes; unless the market, we think, has gone lower than what the level of the industry might be revived at, or the salvage value that we might obtain. Sometimes markets fade very rapidly.

Senator KING. It is a little difficult to generalize with respect to the securities of a large number of corporations. Some business activities respond very quickly to economic changes, others do not, and some become sick temporarily, and others become sick permanently; so a wise, prudent manager, the holder of investments, has to watch the market carefully, to watch the rise and fall in the economic situation and the business situation, and then determine, using his best judgment, whether he should clean out, weed out some of these inferior securities, or whether he should retain them, hoping for a rise in the future.

Mr. GESELL. Well——

Mr. STEDMAN (interposing). Let me subscribe to those views.

Mr. GESELL. Let me elaborate, Mr. Stedman, a little on that. Do you sell bonds to make a profit?

Mr. STEDMAN. No; we never sell bonds to make a profit.

Mr. GESELL. You never sell bonds to make a profit. When do you sell?

---

[1] See Hearings, Part 10–A, p. 136.

Mr. STEDMAN. We sell when we are convinced that the security has been impaired.

Mr. GESELL. Well, now——

Mr. STEDMAN (interposing). Permanently.

Mr. GESELL. Let's say a bond is down to 90. I take it you usually won't sell.

Mr. STEDMAN. Oh, yes; we might sell at 90. If we thought the salvage value was only 30 or 40 or 60, we wouldn't hesitate to sell.

Mr. GESELL. Are you able to sell all the bonds you want to sell?

Mr. STEDMAN. As I have said, markets have been pretty thin. It is pretty hard to sell large amounts except on a rising market.

Mr. GESELL. That is one of the difficulties, is it not, with a portfolio the size of yours, that when you do come to a situation where you feel you want to sell, to really dispose of what you hold will wreck the market that the bond may have?

Mr. STEDMAN. That is something we have to reckon with.

Mr. GESELL. Now, do you sometimes dispose of bonds by getting together a group or going to an investment banker and having him distribute them to the public?

Mr. STEDMAN. We have never sold to a group. We have sold to a single firm, to a banker, a dealer, but we have never had occasion to sell to a group.

Mr. GESELL. What about the question of your book value; does that enter into your selling program? In other words, are you always in a position to take the losses that you will have to take if you sell a bond when you believe it should be sold?

Mr. STEDMAN. I think that has been true thus far.

The VICE CHAIRMAN. May I ask a question without interrupting?

Mr. GESELL. Certainly.

The VICE CHAIRMAN. You said a moment ago that you wouldn't sell a bond for a profit. Would that be true if, in the judgment of your expert, some particular situation had developed that would have normally increased the price of that bond?

Mr. STEDMAN. I think I should have qualified my statement by just that, that some factor might run up the price of one issue. But at the present time, if I may continue, unless we can find an outlet for the money, we might continue to hold the bond, though it was out of line.

Senator KING. If the best judgment of your organization was to the effect that that bond, which you had purchased at a reasonable price and that had advanced in value, and that you could sell at a profit, might decline by reason of conditions affecting the peculiar corporation which had issued the security, would you not sell then?

Mr. STEDMAN. I think only if we could reinvest in a security, say, of like quality, like term, at a reasonable yield.

Senator KING. Well, if a reasonable appraisal of the immediate future or not too remote future indicated that that bond would materially decline in value so that you would sustain a loss instead of a profit?

Mr. STEDMAN. Oh, that is very different.

Senator KING. Then you would sell, I assume. Is that right?

Mr. STEDMAN. Yes.

Mr. GESELL. I have just one further question. It really involves a little review of everything we have discussed. You do not find an adequate supply for your funds, you have difficulty sometimes in selling because you hold such large blocks that they will adversely affect the market. Supposing I were to ask you this question: Would your investment problem be as difficult if you were half as large? What kind of an answer could you give us?

Mr. STEDMAN. If you mean if the Prudential were to be split into two companies, I think the problem would still confront the two companies.

Mr. GESELL. You mean because there would be just as much money being invested, and you would be competing with your better half, so to speak?

Mr. STEDMAN. Yes.

Mr. GESELL. But what if your company was just half as large, and you didn't split your company, and had two companies of the smaller size? Let's suppose you were a smaller company.

Mr. STEDMAN. Under present conditions?

Mr. GESELL. Yes.

Mr. STEDMAN. There are advantages in our size that I think out weigh the disadvantages that we have mentioned with regard to selling. On the other hand, we can, as a large buyer, participate in private sales to advantage.

Mr. GESELL. So you would feel——

Mr. STEDMAN (interposing). Which much more than offsets any disadvantage.

Senator KING. Could I ask a question here? Do the smaller companies, from your acquaintance with them, experience difficulties analogous to those you experience—I am assuming you do experience difficulties. Probably I ought not to base my question on that assumption, but at any rate do the smaller companies meet the same problems in greater or less degree than the larger companies?

Mr. STEDMAN. You are referring more particularly, Senator, to selling?

Senator KING. No; all the problems incident to carrying on the investigation.

Mr. GESELL. Investment problems?

Senator KING. Investment problems.

Mr. STEDMAN. Small companies I don't think can afford to spend so much money on analysis, research, and investigation. The cost per bond invested in any 1 year would be considerably more than in the larger company. That I think is perhaps a factor to consider. I think otherwise we pretty much share the difficulties and the advantages.

Mr. GESELL. How much do you invest a day, a working day?

Mr. STEDMAN. I have that figure.

Senator KING. Do you mean now, or over a long period?

Mr. GESELL. Yes.

Mr. PIKE. Is it a fair commentary, while he is looking that up, to ask, or perhaps make the statement, that as long as there is no need for liquidity, which Mr. Stedman has said, the principal handicap on size pretty well disappears from the investment point of view. In other words, when you don't need, when you don't have to look forward to, forced selling, the handicap we would ordinarily think of pretty well is gone.

Mr. STEDMAN. Yes.

Mr. GESELL. How much do you invest a day, a little over a million dollars a day?

Mr. STEDMAN. It is about a million, six hundred thousand a day—that is, a working day.

Mr. GESELL. Now, do I understand you to say——

Mr. STEDMAN (interposing). Sundays and holidays excluded.

Mr. GESELL. Do I understand you to say that if you had only to invest $800,000 a working day, that your problem would be still as it is, it won't be any less?

Mr. STEDMAN. If there was another reservoir of capital competing with us, I think that problem would be as great.

Mr. GESELL. And if there was not?

Mr. STEDMAN. It would be, under present conditions, easier, if you reduce the demand by so much.

Mr. PIKE. You could get 6 percent on everything, then.

Mr. GESELL. I have no further questions of this witness.

Senator KING. I want to ask one question, if I may. It may not be germane to the investigation. What effect, if any, if you care to express the opinion, has the large indebtedness—I don't say that by way of criticism—of the Federal Government and the low rate of interest which its securities command had upon the investment of your company as well as other insurance companies?

Mr. STEDMAN. The effect? Of course, the Federal Government is faced with the refunding of maturing obligations. It is interested, therefore, in keeping money rates low. I think that capital is entitled to a fair return, just as labor is. I don't think that at the present time that return is fair.

Senator KING. I didn't hear that last.

Mr. STEDMAN. I don't think at the present time the return on capital is fair. It is not commensurate with the risks.

Senator KING. I was referring more particularly to Government issues—the effect of these large Government issues and the recurring refinancing of maturing obligations on the investment market, whether it caused it to fluctuate, whether it made the securities of corporations less desirable in the market. Have you any information that leads you to prefer the validity, if I may use that expression, of the Federal securities, to securities of corporations or individuals, and to that extent I am inquiring as to what effect the large amount of Federal securities has had on the investment market, or does have?

Mr. STEDMAN. It is the scarcity of the demand for capital as it has existed for some time that has kept the rates low, and the Government has been very much the beneficiary, as they have been very much the largest borrower. Now, if the Government were to meet with competition it would have to pay a higher rate.

Senator KING. That is to say, if there were a large capital investment for the development of industries, new industries or expansion of those already in existence, then there would be competition in the market, and for that reason it might make the borrowings of the Government cost the Government more?

Mr. STEDMAN. That would be so.

The VICE CHAIRMAN. Any further questions?

Dr. Lubin. I was very much interested, Mr. Stedman, in your statement relative to the return to capital, in view of the risks that are involved. I take it from going over this record of the Securities and Exchange Commission that as far as your company is concerned, the losses that you have had to take on investments that you have made, let's say, since 1934, when the interest rate started really dropping, were almost insignificant, were they not?

Mr. Stedman. We took some pretty large losses in 1935, '36, and '37, when we sold 20 million of railroad bonds.

Dr. Lubin. But they were prior investments, investments you had made before 1929?

Mr. Stedman. Yes.

Dr. Lubin. In terms of the investments you have made since, at these low rates of interest, apparently the losses were insignificant?

Mr. Stedman. The losses; yes.

Dr. Lubin. Even in terms of your comparison between your book value and your market value, the difference is relatively insignificant, is it not?

Mr. Stedman. That would be so, certainly as regards market value, and at a time of very low money rates.

Dr. Lubin. The same, of course, was true prior to 1930, wasn't it, of most of your investments?

I mean, the losses you took over a period of 20 years preceding 1929 were insignificant as compared to all of your investments?

Mr. Stedman. Yes; I think that is true until, of course, we met with the adversity that has affected the railroad section of the portfolio.

Dr. Lubin. So that fundamentally, in terms of your whole portfolio, your risk is pretty insignificant, is it not? Let me put it this way: If you take your investment portfolio for the last 30 years, the total losses to your company, even after the write-downs in the early thirties, were a very small fraction of your total investments, were they not?

Mr. Stedman. I suppose that is so. I can tell you that we have written down, taken losses in, railroad securities amounting to over 82 million, or write-downs. Now, much of that may be recovered if the industry is rehabilitated and stabilized.

Dr. Lubin. But in terms of your total assets and the investments you have made over a period of 30 years, that 82 millions is a relatively small fraction, is it not?

Mr. Stedman. That I can't give you in percent. I should think you were correct.

Dr. Lubin. So that in terms of the experience of your company, your risk has been very small, at least the way it has worked out, has it not?

Mr. Stedman. I think that is true.

Dr. Lubin. So the question then is whether 3 percent or 2.7 percent is a sufficient return to capital where the risks, at least those you have had to take over a period of two generations, have been very small.

Mr. Stedman. That is the question; yes.

Dr. Lubin. And as compared to other types of investment, you still feel that the return on these gilt-edged investments is not sufficient?

Mr. STEDMAN. Yes; I do.

Dr. LUBIN. Mr. Chairman, there is just one final question I would like to ask Mr. Stedman. I was very much interested in your analysis of the factors that you take into consideration in making these intermediate loans. You listed a whole series of things like cash position, sales, inventories, and so forth. In making a loan of that sort, and I ask this question because of my personal interest, do you ever take into consideration the status of labor relations in the organization to which you are going to make your loan? In other words, the attitude of employer and employee, whether or not it is a peaceful relationship or whether there is possibility of a strike or difficulties arising which may interfere with the ability of the corporation to meet its liabilities.

Mr. STEDMAN. I doubt if we have given that consideration.

Dr. LUBIN. Thank you.

The VICE CHAIRMAN. I believe you have stated that the average of your risk is less than the average risk of the person engaged in industrial activity or handling securities, the usual run of securities, in this country. You take the gilt edge or the cream that is offered, as far as you can judge it?

Mr. STEDMAN. I haven't any figures to give you, but I think that is so.

The VICE CHAIRMAN. No further questions.

Mr. STEDMAN. Mr. Chairman, I might add, in further answer to Mr. Lubin, that the labor situations, we hoped, were a temporary matter, and we have looked at the industry for its rather permanent long-range prospects.

The VICE CHAIRMAN. You mean any particular labor dispute you regard as a temporary matter?

Mr. STEDMAN. We hope it will be a temporary matter, buying as we do, senior securities. If we were buying common stocks, it might decidedly have something to do with it, but in buying senior securities, we have not given any thought but that it is a temporary situation that will be ironed out.

The VICE CHAIRMAN. We are very much obliged to you, sir.

We will stand in recess until 2:30.

(Whereupon, at 12:25 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:35 p. m., on the expiration of the recess.

The CHAIRMAN. The committee will please come to order.

Mr. GESELL. Mr. Beebe is the witness this afternoon.

The CHAIRMAN. Has he been sworn?

Mr. GESELL. He has not.

The CHAIRMAN. Do you solemnly swear the evidence you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BEEBE. I do.

The CHAIRMAN. You may be seated, Mr. Beebe.

TESTIMONY OF DWIGHT S. BEEBE, VICE PRESIDENT AND FINANCIAL MANAGER, MUTUAL LIFE INSURANCE CO. OF NEW YORK, NEW YORK, N. Y.

Mr. GESELL. Will you state your full name and your position for the record, please, sir?

Mr. BEEBE. Dwight S. Beebe. I am vice president and financial manager of the Mutual Life Insurance Company of New York.

Mr. GESELL. How long have you occupied that position, Mr. Beebe?

Mr. BEEBE. Since August 1, 1928.

Mr. GESELL. Are you in charge of the bond portfolio of the company?

Mr. BEEBE. Yes.

Mr. GESELL. Under the supervision of the finance committee?

Mr. BEEBE. Of the finance committee.

Mr. GESELL. Do you have charge over the mortgage investments?

Mr. BEEBE. Not at all.

Mr. GESELL. Simply the bond portfolio?

Mr. BEEBE. Solely the bond portfolio and the stocks.

Mr. GESELL. I wanted to review several matters with you this afternoon, Mr. Beebe. First of all, I wondered if you might tell the committee something about the work which was done by insurance companies in handling the receivership of the Rock Island Railroad, which I understand was a road in which many insurance companies had an investment, in order that the committee might get some idea of what is done in the case of a security which goes into default, which is held by life insurance companies.

Mr. BEEBE. In June of 1933 the Rock Island filed a petition in bankruptcy and shortly thereafter I invited the senior financial officers of 11 of the life-insurance companies which were the largest institutional investors in the obligations of the Rock Island, to meet informally with me in order to discuss what we should do in order to protect our interests.

At that meeting it was decided that it was important for these institutions to sponsor committees, committees which would be constituted by investors. The first committee formed was the First and Refunding and Secured 4½-percent committee, and I was elected chairman of that committee.

Mr. GESELL. Were those the senior obligations?

Mr. BEEBE. They were not the senior obligations on the road, but they represented the largest creditor interest, 144 millions.

Mr. GESELL. Was that the security in which the insurance companies had invested the heaviest?

Mr. BEEBE. I believe the insurance companies' investments were more or less equally divided between the First and Refunding issue and the general mortgage, and the General Mortgage committee was also formed, and started at that informal meeting which I called, and the chairmanship was taken by the Equitable Life, and likewise the New York Life withdrew and stated that they would sponsor a committee for the Burlington, Cedar Rapids & Northern. In other words, there were three committees sponsored or initiated at that meeting, to be under the leadership of life insurance companies.

Following that meeting, as far as our committee was concerned, the First and Refunding committee, we approached the savings banks and asked them to designate a representative to sit on the committee, to represent all the savings banks' interests, and then we sought investor representatives for the individual bondholders, and we invited Speyer & Co. to designate a member, because that investment firm had been responsible for selling more bonds of the particular issue we represented than any other investment house in the years gone by.

In order to have a representative for the individuals who left their bonds with trust companies, we canvassed the holdings of the large trust companies in New York City and also in Chicago, and decided that we should invite the Guaranty Trust Co. to designate a representative on our committee, and that was the way we formed and made up the membership of our committee. There were four life insurance company representatives and one from the savings banks, and two representing the individual bondholders.

Following that decision of the membership of that committee, I myself made a report to Commissioner Mahaffie and Director Sweet of our intention to form a committee, and we received no objection from the Commission at all.

Upon my return I then made a call on Mr. Hayden, who was chairman of the board of the Rock Island, and informed him that we proposed to form a committee not only for the Refunding issue but other interests intended to form committees for the General Mortgage and the B. C. R. & N.

Mr. Hayden informed me that under the Bankruptcy Act he did not believe that committees were necessary, and during the conversation inquired when we proposed to announce the formation of these committees. I said in the very near future.

Mr. Gesell. That is Mr. Charles Hayden, of Hayden, Stone?

Mr. Beebe. Mr. Charles Hayden, now deceased. About 3 days after that conference with Mr. Hayden there appeared a notice in the newspapers, much to our surprise, that reorganization managers had been appointed for the Rock Island, consisting of Hayden, Stone; Chase Securities; and Dillon, Read, and made the announcement that protective committees would not be necessary. Following that announcement we moved very rapidly with the formal announcement of the formation of our committees, and solicited deposits of bonds.

In our committee, of which I am chairman, the issue represented amounts to $144,000,000, and we received deposits representing slightly over 50 percent of that amount from over 5,000 depositors scattered throughout the United States, and some in Europe.

This was the first phase of the work that we had to undertake in connection with this Rock Island affair.

Our next problem occurred when, after the formation of the committees, we wanted to investigate the condition of the road, and what was its problem. We sought information. The information which we sought filtered through Mr. Hayden's office. It was very slow, it was very meager. Consequently, we felt that we could not be effective unless we had access to the railroad's or the debtor's records and ample and sufficient information. We then decided to take steps to go to the court and ask for the appointment of railroad trustees. All the committees joined in this application to the court to have railroad trustees appointed, to be impartial, and represent all the interests of the creditors and the debtor. The court did appoint three railroad trustees, the president of the railroad, Governor Lowden, and Mr. Fleming.

That I should describe as the first phase of our work. That occupied the period during 1933 and 1934. The trustees were appointed November 1933.

Mr. PIKE. That was before the maturity of the Refunding?

Mr. BEEBE. That was before the maturity of the Refunding, but there was a default on the Refundings.

In the second phase of our work we ran into a problem which I had never experienced before. Our committee reached the conclusion that the operating results of the Rock Island indicated that the management must be strengthened. We never realized that problem faced us in the first instance, but the operating results were so out of line with other carriers in that region that we were convinced we had a serious problem, and that was to strengthen the management.

Our committee was not alone in reaching this decision, and it was rather a unanimous opinion that developed gradually in all the committees that something must be done to improve operating results of the Rock Island. We felt that possibly the management question was the important one.

A very interesting development followed that. The chairmen of all the other creditor groups met at my request to consider what should be done, and appointed a committee of three, of which I constituted one of the members. Mr. Fisher, of the Equitable, was one member; the chairman of the General Mortgage Committee, and Mr. Benson, chairman of the Equipment Committee, was the third member.

Mr. HENDERSON. Mr. Benson represented the savings banks?

Mr. BEEBE. He was then acting as chairman of the Equipment Committee. He is president of the Dime Savings Bank.

Mr. PIKE. The equipment trusts on the road?

Mr. BEEBE. The equipment trusts on the road. They were in default.

This committee, or the special committee of three, then had a meeting with the trustees of the railroad, and we discussed this problem, and they shared our feelings at that meeting that something should be done, and the question then was how to proceed, because not any one of the special members on this subcommittee, nor the railroad trustees themselves, had ever been confronted with the problem or task of selecting a president of a railroad. We decided at this meeting on a program which fortunately worked out splendidly. We decided that the trustees should appoint one member of another special committee and that the chairmen of all the creditor groups should be requested to select another member, and those two would canvass the field to report upon a candidate whom they felt would qualify as an operating executive of this Rock Island system.

I happened to be selected by the creditor interests to represent them on this special committee of two.

This committee of two, consisting of Mr. Fleming, the Rock Island trustee who was designated by the other two, and myself, then requested each committee to submit a list of names that they thought should be considered. We even requested Mr. Gorman, president of the railroad, to submit a list, and this list of names amounted, I believe, to 19 or 20 of the senior operating officers on western roads who might be familiar with the operating conditions on the Rock Island.

Then Mr. Fleming and I were faced with the task of how to determine the best qualified, suitable executive from this list to recommend to all the creditor interests. We decided upon a panel or jury to make the test, and on this panel we had Mr. Hale Holden of the Southern Pacific, Mr. Ralph Budd of the Burlington, Mr. Lawrence Downs of the Illinois Central, Mr. Fred Williamson of the New York Central (but he had been on the Burlington and was familiar with that region), and two bank presidents, Mr. E. E. Brown, president of the First National in Chicago, and Mr. Jackson Reynolds, president of the First National, New York.

Then Mr. Fleming and I called on each one of these members of this jury and asked them to select from that list the first three men they felt best qualified to handle this job on the Rock Island, and also to indicate to us the reasons why the other names were not suitable, in their opinion. After calling upon each one of these members of the so-called jury panel, we summed up the results and Mr. Durham, Mr. E. M. Durham, Jr., was the first choice.

The next question was to secure the approval of the R. F. C., because they had veto power in the appointment of anyone with a salary of anything over $4,800, and so the trustees met Mr. Jones in New York and submitted the name of Mr. Durham, and Mr. Jones took hold of that problem and called up Washington, talked with his staff here, talked with one or two railroad executives he knew, and then turned to the trustees and said, "Gentlemen, you have made a fine selection, I will go along with you 100 percent."

With that approval and endorsement, the trustees went to the court and asked for the appointment of Mr. Durham.

Mr. Gesell. Do I understand that this suggestion was being made against the opposition of the existing management? In other words, you were attempting to replace the management, were you not?

Mr. Beebe. Yes; we were trying to strengthen the management. Mr. Gorman was the president of the railroad and the chief operating head. He was over 70 years of age; he was probably one of the best liked men in the railroad industry. Through his good will he had built up a great deal of business for the Rock Island, and the creditor interests did not want to injure Mr. Gorman one bit, and he realized and favored this appointment when it was decided upon.

But we did not consult the debtor when we made our selection. We informed him of our choice and what we proposed to do.

Mr. Gesell. That is the point I wanted to bring out.

Mr. Pike. The debtor is what person?

Mr. Gesell. I take it you mean Mr. Hayden?

Mr. Beebe. He was the principal representative of the equity.

Mr. Pike. Yes; the so-called equity.

Mr. Beebe. That is right.

Mr. Gesell. Then what happened after that?

Mr. BEEBE. Another part of the second phase; we were faced with the equipment problem. The road was short of cash and it had been unable to pay off its maturing installments of principal and it was important to get that matter cleared up as soon as possible, and so I worked as representative of my committee with Mr. Benson, chairman of the Equipment Committee, trying to work out a plan whereby we could refund all the equipment issues and clean up the past due principal installments and set up a refunding issue that would lower the interest rate, which on the old issues averaged about 4.6% and if I recall correctly that particular refunding issue reduced the interest to about 3½ percent—3½ percent from 4.6. That was accomplished, and the next important part of the second phase that I recall were discussions with our new chief operating officer as to what was the future for the Rock Island, what did it need in the way of rehabilitation, what abandonments should be considered.

We wanted to know that before we could determine upon a plan of reorganization, and we were just as anxious to have a plan as soon as possible as was the Commission or any other party.

Mr. Durham had been on the road for about a year before I saw him and met with him and his entire staff to discuss the whole problem of the future of the Rock Island system, and I pointed out the question of the rehabilitation and the question of abandonments. And during this second phase, as I call it, of our work, there was pressure, of course, from the Commission, to have a plan filed, and from the court. The court finally stated that a plan had to be filed by some interest in '36 (this was in '36) or else the trustees must file. Well, there was not sufficient information available for any of us to make up a sound, equitable and fair plan, but it was much better to have some other party rather than the trustees, it seemed to us at that time, file a plan, and the debtor did file a plan in order to comply with the court's order, which plan, I might say, was not acceptable to any creditor interest. But it did meet the requirements of the court, and hearings were held on that plan before the Commission and every party objected at those hearings.

The third phase, is the last phase, which leads up to the plan which our committee sponsored and supported before the Commission in July of '38. This third phase covers the period from '38 to '39. The new management had been able to show results in the operations that were perfectly amazing. Mr. Durham, after a year, brought in Mr. Farrington from the Burlington. He is chief operating man under him. He got McPartland from the Western Pacific, superintendent of motive power. He got Brown as general manager, and throughout the whole organization he brought in a live staff that revivified the entire property.

Mr. GESELL. In effect, you were running a railroad, through men of your selection?

Mr. BEEBE. We had a man who was running a railroad.

Mr. GESELL. And he was checking with you on matters of policy?

Mr. BEEBE. No; with his railroad trustees on matters of policy.

Mr. GESELL. He wasn't consulting you on matters of policy?

Mr. BEEBE. Not on matters of policy. I should say that if he wanted to borrow money, he informed us that he wanted to borrow money, and then we had our day in court.

Mr. GESELL. You talked about going down and consulting with the operating men of the railroad concerning what lines should be abandoned, what rehabilitation should be done. That suggested to me the question of whether or not you were not being consulted on matters of operating policy.

Mr. BEEBE. No; not exactly on such matters. I wasn't trying to dictate or represent for my committee specific policies regarding the operations of that road. I was trying to point out the problems which we thought had to be solved before we could file a plan and we wanted Mr. Durham to hasten as rapidly as possible in covering these principal points which we needed to have answered before we could sponsor a plan. Is that clear?

Mr. GESELL. Yes. I think it is just a matter of terminology. Probably we shouldn't use the word "policy."

Mr. BEEBE. Now, in this latter phase, we had to develop a formula for the segregation of earnings by mortgage districts and a formula which was called the——

The CHAIRMAN (interposing). May I interrupt you? I was going to ask whether in your conferences with the new manager you discussed, or any of your associates from time to time discussed, ways and means of increasing the receipts of the railroad or of decreasing its expenditures?

Mr. BEEBE. Our discussion centered upon decreasing expenditures.

The CHAIRMAN. You did discuss ways and means of operating a road in such a manner as to decrease expenditures?

Mr. BEEBE. Yes.

The CHAIRMAN. I think that is what Mr. Gesell had in mind when he was talking about your forming policies.

Mr. BEEBE. I think I can illustrate exactly what I have in mind when I say abandonments. We felt there were a great many miles of very light traffic lines that were siphoning away the cash of the system, and if possible, we felt the management should endeavor to see whether abandonments could not be pushed which might eliminate some of the operating deficits on these small branch lines.

Mr. PIKE. Small as traffic producers. Some are pretty long as far as rails are concerned.

Mr. BEEBE. Some of them are pretty long. The number of miles abandoned, I think, are around 300 or 400 miles. We had questioned whether abandonments might not run up to as many as 1,500 miles.

Mr. GESELL. You were down on the operation side of this a little, weren't you? I think I remember your telling how you rode in railroad cabs down miles of track and checked railroad tallies and operating results.

Mr. BEEBE. Oh, yes. I have been over the Rock Island in the cab of one of their new Diesel locomotives. I covered, last October, 2,400 miles by day. We have a rehabilitation program or improvement program in our plan, amounting to $22,000,000. We want to see how that money is being spent on grade revision work, on strengthening their bridges, and in making up deferred maintenance on the cars and alterations to stations. We also want to get the feel of the territory and scan the station receipts, which we do on those trips, and get close to the management. If you live with the problem, you can see their problem and understand the points they bring up in their discussions, why they need money for this purpose and that purpose, and there is a big problem on the Rock Island today as to whether we should not spend $16,000,000 to build a new short-cut between Muscatine and Trenton which will give us a grade of five-tenths of 1 percent east-bound. Now, the old grade was up to 1.3% with curves running 3 or 4 degrees. The savings on this new line will amount to $2,000,000 a year. You spend $16,000,000 and the operating men tell us they can save $2,000,000 a year. We see such problems on the ground, and it is important that we should.

They have need for a new bridge at Kansas City that they ought to build for a million and a quarter.

The CHAIRMAN. Do you have any study of the effect of the Interstate Commerce Act upon the business of the road?

Mr. BEEBE. Not from the traffic end, Senator; no.

The CHAIRMAN. From what end?

Mr. BEEBE. Well, I do not think that I am qualified to judge the effect of the rulings and regulations of the commission.

The CHAIRMAN. Of course, there are a great many matters of legislation that are suggested from time to time with respect to the amendment of the Interstate Commerce Act, and there are several bills, as a matter of fact, now pending before Congress. I wondered whether your interest in the railroad took you so far as to lead to the formation of an opinion with respect to the virtues or lack of virtue in pending legislation? Apparently, you haven't dealt with that at all.

Mr. BEEBE. We haven't tried to lend any weight to legislative changes in the powers of the I. C. C. We have discussed with the managements their problems under the rules and regulations, trying to get both sides of the question. We have taken no active part.

Mr. GESELL. I think, Mr. Beebe, we have a pretty good idea of what the problem was and how it was met. If you could complete, as rapidly as possible, how the final result came, of what was done, we will proceed to the rest of the examination.

Mr. BEEBE. In this third phase we had to get a formula for segregation of earnings. We had to have a traffic study which would give us an idea of what the reasonable prospects were in future for gross revenues from which we could make an estimate of future net earnings and determine the size and character of the capitalization.

Then we had also to go into the preparation or have the management prepare for us cash receipts, and disbursements estimated for the next 4 years.

Mr. PIKE. Including the rehabilitation?

Mr. BEEBE. Including the improvement program, how that was to be financed. That gave us the measuring rod for the amount of new capital that had to be raised for the reorganization. With these facts assembled we constructed a plan, and that plan with all the supporting documents was filed in July—July 20, '38—and then I and my staff had to take the stand before the Commission and support our plan. The plan was filed, as I say, in July of '38. The examiner's report came out about a year later. We had to file then, briefs on exceptions and answering briefs and then the Commission, the full Commission—I think it is the only instance in which the full Commission sat—heard the argument, and the hearings were closed. That was last December. We are now waiting for a report from the Commission.

Mr. PIKE. The plan there was filed. Possibly it has been modified since, but where do you end up as a life-insurance company holding the group of securities you do? What sort of securities do you come out with at the other end of the horn?

Mr. BEEBE. There will be first-mortgage bonds for a small part income-mortgage bonds for a second part, preferred stock and common stock.

Mr. PIKE. Following that, what would be your position in regard to those securities other than the first-mortgage bonds with the New York State Insurance Department? Would you have 5 years to get rid of those as you would if you had foreclosed real estate?

Mr. BEEBE. We will have time to dispose of them. The commissioner has always given us time to unload after reorganization when we are forced to take securities which were not of the character we would select if we had our own choice.

Mr. PIKE. I hadn't seen that come out.

Mr. BEEBE. I expect we would want to dispose of our equities when the earning power of the road brings the market price up.

Mr. GESELL. Mr. Beebe, getting back to the question of the bond portfolio, I have about six points I want to cover with you. First of all, can you tell us how much the company invests in bonds each year, new money?

Mr. BEEBE. It would run between 50 and 70 million dollars for the last 2 years.

Mr. GESELL. That gives me an idea. Is that as much money as you want to invest?

Mr. BEEBE. No.

Mr. GESELL. How much would you like to invest?

Mr. BEEBE. At this time we would like to be able to find suitable investments to employ all of our available cash down to say about $30,000,000.

Mr. GESELL. How much cash will that involve?

Mr. BEEBE. We have been carrying about $30,000,000 of excess cash.

Mr. GESELL. Your table would indicate that you had $61,000,000 in cash as of December 31, 1938.[1] You say that about thirty of that is excess?

Mr. BEEBE. About $30,000,000, at the present time, I would consider as excess cash. In 1929 our cash balances normally ran between three and four millions. The situation has changed today. We have demand obligations today that we did not have in 1929.

Mr. GESELL. I take it that you have Governments which you would wish to put elsewhere?

Mr. BEEBE. Our short-term Government position we would rather have invested in long-terms.

Mr. GESELL. How much?

Mr. BEEBE. About $102,000,000.

Mr. GESELL. About one hundred two million in Governments would like to get out into other bonds?

Mr. BEEBE. That is correct.

---

[1] See Hearings, Part 10-A, p. 100.

Mr. GESELL. You have about 30 million in cash which you would like to have out in bonds?

Mr. BEEBE. Yes; or real estate mortgages.

Mr. GESELL. Now, may I ask whether your bond account is the percentage you wish it to be of the total portfolio? Table 102 indicates as of December 31, 1938, your total bonds were 60 percent—60.46 percent of the total admitted assets.[1] Do you wish to increase your bond account in relation to total admitted assets or not?

Mr. BEEBE. We would not object to an increase in the proportion of our admitted assets in bonds, if we could employ the funds in sound investments at a satisfactory rate. Experience has shown that the percentage of admitted assets invested in bonds as compared with the percent invested in real estate mortgages varies during the economic cycles. Take back in the easy money period, 1898 to 1904, our cash balances were running about the same percentage of our admitted assets that they are today. At that time, apparently bonds were not favored on account of the low rates and we invested more in real estate mortgages for short-terms. We also had call loans at that time which were largely to brokers.

When you come to the period 1914–17 when the Government was financing, you will find our bond account increases and our real estate investments decrease, or real estate mortgages decrease. It varies with the market conditions and where you can find investment outlets.

Mr. GESELL. What do you do to find out about bonds that you might purchase? What sort of a system do you have of locating possible bond investments? Do you wait for them to come to you or do you seek them?

Mr. BEEBE. The principal source of bonds is from new issues or private placements. We are not purchasing bonds over the counter.

Mr. GESELL. I take it, then, that if you buy principally from the issuer or from the bankers, that you wait for the issuers or the bankers to come to you, is that correct?

Mr. BEEBE. Yes; they come to us.

Mr. GESELL. And you have confidence, I presume, that they will come to you because of the size of the amount of the money you have, and they know you are always ready to invest, is that correct?

Mr. BEEBE. Well, prior to the release of a registered issue, we contact the members of the selling group and tell them, provided the price is satisfactory, we will be interested in an offering. On the morning of the offering date, we will handle over 200 calls in an hour from dealers all over the United States.

Mr. GESELL. Wanting to sell you?

Mr. BEEBE. Wanting to sell us small lots, unfortunately, and not large lots.

Mr. GESELL. What about loans to small business enterprises? Do you seek those at all?

Mr. BEEBE. We have had very few requests for small business loans and we have not sought them because we have considered that they were not suitable for an institution handling trust funds.

Mr. GESELL. Have you made any such loans?

Mr. BEEBE. Not to my knowledge.

Mr. GESELL. What is the lowest amount of a loan you would make, usually?

Mr. BEEBE. I beg your pardon.

Mr. GESELL. What is the smallest block of bonds you will buy, usually, other than, of course, those that you may pick up here and there in the market?

Mr. BEEBE. Two hundred and fifty thousand is about the approximate minimum amount for a corporate issue. In some of the municipal issues we have started an investment with a smaller amount than that. Our largest purchase of any one issue has been 10 million. We usually register our appetite for an issue by an amount equivalent to 1 to 5 percent of the debt of the obligor.

Mr. GESELL. In municipals, do you pick them up from dealers?

Mr. BEEBE. No, it is not feasible usually for us to do so because the dealers with odd lots have not the supporting papers or a full transcript of the proceedings which we require before we are willing—and the papers must be passed upon by our general counsel—before we will accept delivery of the purchase of municipal bonds.

Mr. GESELL. Do you buy them then from a banker or do you buy them at public bidding?

Mr. BEEBE. We buy them usually through a banking group.

Mr. GESELL. Why don't you bid for them?

Mr. BEEBE. We would rather have the banking group stand the market risk, and we like to have the option to be able to turn the bonds back if we find anything wrong with the legal papers.

Mr. GESELL. And it is for those reasons that you haven't bid publicly when the municipals are offered directly from the municipality?

Mr. BEEBE. That is right.

Mr. KADES. Aren't you able to bid subject to legality?

Mr. BEEBE. There may be cases where they have permitted that, but I am frank to say right now that I do not think so.

Mr. KADES. Is that the principal reason why you don't bid directly?

Mr. BEEBE. That is the primary reason. It may be that the issue larger than we want in its entirety or it may be too small. To find an issue offered for sale which by its quality is the right size for us to buy, there are very few cases, I think, as I recall it now.

Mr. KADES. Those cases which there are usually are cases in which the opinion of bond counsel of recognized standing accompanies the issue, isn't that so?

Mr. BEEBE. Yes.

Mr. KADES. So that the legality doesn't concern you so much in the cases of the larger issues, or the issues of the larger municipalities?

Mr. BEEBE. There must be a legal opinion with each issue, but we go behind that legal opinion and recheck the opinion of counsel which is furnished with the bonds.

Mr. KADES. There isn't any inclination on your part not to compete with the banking syndicates in the purchase of bonds?

Mr. BEEBE. Oh, no; we have bid directly on equipment trust issues. There we usually submit a bid through an agent and allow him an eighth or a quarter, and he runs the risk of having the bonds turned down by our general counsel.

Mr. GESELL. Now, do you have a plan at the beginning of the year as to how much money you are going to invest in bonds and what type of bonds you are going to buy within these different classifications?

Mr. BEEBE. Yes. We do have a system which has been of great value to us during the past 4 years. It is in the form of a tentative investment program which we discuss with the finance committee as soon as possible after the turn of the year.

In this program we indicate the amount of cash which we may expect from maturities and redemptions and sales which we have in mind recommending during the year. We also indicate the amount of cash which we will receive from payments on account of mortgages, maturities and amortization payments, plus an estimate of the net operations from the insurance business after taking care of policy loans. By this we arrive at a total cash figure which gives us an approximate idea of what our problem is for the year, and then we endeavor to measure the extent to which we will be able to reinvest that amount of money in municipal obligations, in railroad equipments, in public utilities, and industrials. And then we also submit a budget, showing the cash position which we had at the beginning of the year, will have at the end of the year, and the amount which we cannot invest in corporates or municipals, we have to allocate to new Governments.

Now, it is important—very important—both to the finance committee and especially to my staff, to have a clear understanding at the beginning of the year as to the size of our investment problem and especially if we have to buy a sizable amount of United States Government bonds to keep our cash employed, we cannot expect to purchase any substantial amount of them on subscriptions when new issues are tendered, because we are limited in our subscriptions, so that we will have to work during the year in the market. It is very helpful to have some idea as to how many Governments will have to be purchased during the year so that you can schedule out the purchasing program throughout the entire year and get the benefit of the swings in the market.

Mr. GESELL. Mr. Stedman, when he was on this morning, testified, as I recall, that there was such an inadequacy of supply that it was rather difficult to plan any program in advance and it was fairly necessary to take such good investments as came along, in the hope that you would be able to get the money out. I take it even with a plan such as you discuss you still have that problem, do you not?

Mr. BEEBE. We have that problem. Of course, we keep track of our budget against the actual experience on a cumulative basis monthly, so that if opportunities are presented for investment not anticipated, that means we can lighten our Government purchases. It all comes down to that, if you can get the yield in quality some place else. Our position in Governments today is large. We are doing our share there.

Mr. PIKE. Of course you can always peddle your Governments if an unexpected opportunity does come up.

Mr. BEEBE. That is right.

Mr. PIKE. There is a good market there certainly.

Mr. BEEBE. An excellent market there, especially in the short terms. I might point out, in connection with the budget, that to me it is one of the most important jobs or tasks of the financial department, because I think that in order to get the best advice and keep your finance committee fully informed of what your problem is, you should have a good review each year of what progress has been made during the past year and what the problem looks like for the coming year. Now, in this budget and the schedules appended to it, we have the earnings on each class of admitted assets, and their trends.

We also have our liquid position, and we show the change in the classes of securities over a period of years to find out whether we are getting the diversification that is awfully essential in order to have a sound portfolio, and also bring up to the attention of the committee at that time the securities which I have earmarked for careful consideration during the year, because I think that I may want to recommend that they be transferred from the amortizable to the non-amortizable classification at the end of the year.

Mr. PIKE. You think they may be going a little sour?

Mr. BEEBE. I am not sure. I have got them earmarked; they are right on the margin. I want them to know what I am thinking about. My staff is concentrating on special studies to reach conclusions upon which we can make recommendations at the end of the year. It keeps your finance committee keenly alive to the whole problem.

Mr. GESELL. Perhaps we can elaborate on this by asking you to describe a little the type of standards which you apply in investing in certain classifications of securities. We discussed with Mr. Stedman this morning standards in the purchase of utilities and industrials. Could you give us some idea of what your standards are in those two fields, what type of security you will take, what type of company it must be?

Mr. BEEBE. In the light and power industry? I think Mr. Stedman when he was discussing the utilities was discussing electric light and power. Utilities have a different yardstick, whether you are discussing a water-company bond, whether you are discussing a telephone-company bond, whether you are discussing an artificial gas-company bond or a natural gas-company bond, or electric light.

Mr. GESELL. Working in the Commission, I get to think of utilities in terms of electricity. Will you tell us about light and power?

Mr. BEEBE. Light and power. I think it would be most helpful—which is what I want to try to be—if I discussed these standards along the lines that I present them to the finance committee to give you the picture. You have first to consider one element, of course, the price and quality, terms, maturity of the bond, whether there are amortization provisions, whether they are adequate in your opinion. I mean by amortization provisions that I am talking about a true sinking fund, not a purchase fund or an improvement fund, but a true sinking fund. The capitalization in our opinion is a very important element to consider in the utility investment or any other investment, a properly balanced structure. In other words, we do not consider sound a preponderance of debt.

Mr. PIKE. What would you call a preponderance, anything over 50 percent?

Mr. BEEBE. No. In light and power if over 60 percent we are getting on the heavy side definitely. The ideal in equity would be all common. We can't have the ideal, but we do not want an abundance of preferred in relation to the common. I think Mr. Stedman's statement was excellent—the constitution of the equity position, how it should be divided.

Our yardsticks show that our best companies, with good capitalizations which we have in the light and power, are 50 percent debt and 50 percent in the equity, and our fair ones, of which we have few, 60 percent debt, 40 percent in equity. When you get beyond those limits you are getting into a quality which we may not consider we can purchase.

Mr. PIKE. On that point, Mr. Beebe, let's say here is a company with 60 percent debt and 40 percent equity but half of that 60 percent is made up of old divisional bonds so that you are in the rear 30 percent of the 60. That is frequently true in utilities.

Mr. BEEBE. That is true.

Mr. PIKE. Would you prefer probably not to be in that company?

Mr. BEEBE. Probably the divisional bonds that you refer to in a situation like that would have maturities coming due within 10 or 15 years if it was the junior issue that we had under consideration for the same company.

If we are satisfied with the credit standing of that company, the stability of its earning power, it would have without much question the ability to refund those underlying divisional bonds when they matured and their maturities were staggered I do not think we would hesitate buying the junior refunding or general mortgage.

Mr. GESELL. How long must the company have been in business? How many years do you require a certified balance sheet for? What kind of record must it have management-wise?

Mr. BEEBE. We like to look at a 10-year record of utilities. We will work with a 5-year record. On consolidations sometimes you cannot get a true picture back of 3 years, but you will study the reports of the constituent companies and if you are satisfied with that then you will accept the consolidated figures possibly for a 3-year period, but that is unusual.

Mr. GESELL. Do your men make field investigations of the properties, of its management, of its public relations, and matters of that sort?

Mr. BEEBE. Yes; that is most important, but not always in connection with a purchase. We are continually going over some properties in the field and we probably will have in connection with a refunding issue a report within 12 months or maybe 24 months, and that would be adequate in connection with the refunding issue, but in connection with an entirely new property in which we have never had an investment before, we do not feel that we can interpret the figures and feel satisfied that we know enough about it. We want to get on the property and see what those figures really mean.

Mr. GESELL. And I take it you want to get back at the operating figures and not the balance sheets that are released to the public?

Mr. BEEBE. That is right, we want detailed operating figures and we furnish a special questionnaire which they fill out in order that we can get the figures that we require and in the detail that we require.[1]

Mr. GESELL. Have you such a questionnaire with you?

Mr. BEEBE. I haven't one but I can furnish it.

Mr. GESELL. Is it a lengthy document?

Mr. BEEBE. It is a different type for each different type of utility company.

Mr. GESELL. Might we have a sample one for the record? [1]

Mr. BEEBE. You certainly may, sir.

Mr. GESELL. What other standards do you apply? I interrupted you, I am sorry.

Mr. BEEBE. Discussing the capitalization and the proper balance.

The CHAIRMAN. I am glad to note, Mr. Beebe, that the T. N. E. C. is not the only organization that issues questionnaires. (Laughter.)

Mr. GESELL. I appreciate those kind words.

Mr. BEEBE. We have found them very useful.

The CHAIRMAN. I think we will all agree on that.

Mr. GESELL. Did you mean you had found the ones you have issued useful or the ones we have issued?

The CHAIRMAN. There is usually a pretty good rule in law; never ask a question if you don't know what the answer is.

Mr. GESELL. I think I know the one this time.

The CHAIRMAN. Proceed.

Mr. BEEBE. Having considered that the capitalization is in balance, not out of line, we look at the terms of the indenture, the contract that we are considering purchasing. Mr. Stedman commented upon the escrow provisions. It is most important that they should be conservative, wisely constructed, and we do not favor an escrow provision which is at a higher ratio than 70 percent. I mean by that, they should not draw down bonds against net property additions for a larger percentage than 70 percent. We much prefer to see it around 66⅔. We analyze the sinking-fund provisions; whether we consider the amortization is adequate for the type of company. In the telephone companies issues there are no amortization. If you want to purchase or consider a bond where the debt is on the high side, it is well to have some amortization, and it seems especially true to me today that, when these utility companies, by and large, are taking advantage of the low interest costs to refund their indebtedness, that part of the saving in interest should go to the amortization of the debt rather than to be passed on to the consumers.

Mr. PIKE. Do you like this method of amortizing the debt that would be junior to you? Let's say you do 30 million in firsts, which you buy, and 15 million in debentures spread over, say, as many years, to be retired a million a year, so that the amortization would be junior to your position. That is fairly typical, isn't it?

Mr. BEEBE. If our mortgage debt is small enough—that is not amortization debt—of course, we have a preferential or senior position. If anything should happen to the property we would clamp right down on it with a small debt, I would assume, based upon your illustration.

Mr. PIKE. It is like the old custom in housing of amortizing a second mortgage before you touch the first.

Mr. BEEBE. I think that it is sound financing. There is a great deal of it going on at the present time.

---

[1] The sample forms requested were subsequently submitted and entered in the record as "Exhibits Nos. 2334 and 2334-A." See, infra, p. 15382, and appendix, pp. 15560-15562.

Mr. PIKE. Yes; that is what I meant.

Mr. BEEBE. That is where the banks are intruding or taking our investments from us. They want to get part of the present issue in 1-, 5- to 10-year serials and then sweeten our mortgage position by giving us a smaller mortgage and the same lien, but we have to take a low rate.

Mr. PIKE. I guess some complain that you are also taking investments away from banks and individuals where they don't get a chance to get in at all on refunding?

Mr. BEEBE. Well, you have a shifting of your investments when the supply is limited, going from one person to another, and not any of us are entirely satisfied.

Mr. GESELL. Are there other standards you find, Mr. Beebe, in these electric utilities?

Mr. BEEBE. A very important factor is to be sure you have a fair relation between your amount of debt and the fair value of your property. I can spend a great deal of time discussing that. We estimate our own values on the bare-bone-cost basis and the relation of debt, the amount of debt to that value of ours. The best companies range 50 percent and under, and the maximum we have gone up to is 65, but that means we are considering the necessity for amortization. We have to study carefully the character of the property, whether it is integrated, a wholesaler or distributor. When you get into a light and power company and you have only a wholesaler you have nothing but a power plant. The permanency of that investment, the question of obsolescence, is a factor you have to take into consideration. A thoroughly integrated company which is concentrated, seems to have most protection. The widespread distributor, the type that has municipal competition, is usually a high-rate company. It has to be. You get more stability, and I think sounder factors, out of your closely integrated unit.

Mr. PIKE. You would rather stay away from anything that is concentrated in either end—stay away from pure generation and pure distribution?

Mr. BEEBE. We like to have a balanced system because I think your factors will show that on a steam-base system, fully integrated—I mean it generates all the power which it sells and doesn't buy—you have a pretty good balance of 50–50 between your plant facilities and your distribution.

That means that if you are able to buy, for instance, from a Government development, power cheaper than you could generate it and you have a 50 percent debt against the value of your total plant, of which 50 percent is in your distribution system, you are 100 percent protected on your debt.

The CHAIRMAN. Do you insist on direct ownership of the plant?

Mr. BEEBE. Not in every case. Some of the properties are only distribution and have no plant facilities whatsoever, sir.

The CHAIRMAN. Do you insist on ownership or operation of the plant or, in other words, do you draw any distinction between operating companies and holding companies?

Mr. BEEBE. I am talking only about operating units.

Mr. GESELL. You will buy holding companies, won't you?

Mr. Beebe. We have maintained an investment in two holding companies which recently sold refunding issues, the North American Co. and the American Gas & Electric.

Mr. Gesell. By and large you stay away from them, I take it?

Mr. Beebe. By and large they do not offer us the quality of investment we would like to have. We may buy a few.

Mr. Pike. You picked pretty good ones for your two holding companies.

The Chairman. In other words, you find that the holding company doesn't meet the standards as readily as an operating company—these standards which you have been discussing?

Mr. Beebe. That is true, sir, and you are buying into a position which is the equity of the operating companies and the pool earnings of a lot of operating companies. You have no security. You have the amount of earnings which filter through in the form of dividends. You are buying, therefore, an interest in the form of an obligation, subject to all the senior debts these underlying properties may have or be forced to build up over a period of time.

The Chairman. You want the senior obligations, in other words, and you don't want bonds which are secured by equities?

Mr. Beebe. Yes, sir.

Mr. Pike. You may remember some years ago there was a bond issue out on the Pittsburgh utility, the Duquesne, which had preferred stock in the operating company, and its owner, the Philadelphia Co., took the common stock behind the preferred as collateral for the bond issue and the bond isue was sold at a considerably lower yield than the preferred stock, which was a jump ahead of it.

Mr. Beebe. Right. We bought the preferred stock. I remember that.

Mr. Gesell. Have you finished the standards, or are there some additional ones? I want to cover them all.

Mr. Beebe. Another factor that has to be considered is the franchise situation, whether you have adequate franchise protection for the life of the bonds, and that in a way gives you protection against municipal ownership—that is, in a way. We have got to be sure that this company is not subject to competition which may be detrimental to it.

Mr. Gesell. You mean that it is not around where the T. V. A. is, or something of that sort?

Mr. Beebe. I have in mind municipal ownership. Yes; a Government project that might destroy the value of an operating plant and in that way dilute your security. In other words, in the development of the power business you have had a lot of destruction of capital as the strong units and small plant systems have been hooked together. You build a large steam plant in another place and power is furnished from that source for the new system and the value of these small plants is washed out, or should be.

Mr. Pike. That happened all through the Middle West development, say during the 1920's.

Mr. Beebe. That is right.

Mr. Pike. They used to pick up little "midnight," 80-horsepower companies, 20 of them together, and put in a 10,000-horsepower unit, and the little plants were just no good from then on.

Mr. BEEBE. They had no value at all to the system when it was hooked up.

The rate structure we have to examine, and that is something we give great consideration to. We study the average rates by classes and compare them with utilities operating in the same territory, to see whether they are on the high side or the low side, and then judge the rate of return this company can earn on the fair value of its property based on its present rate scales. If we have a margin there that is conservative, then we feel we have possibly a pretty good set-up.

On the earnings record, we want to see a healthy growth, we want to see a reasonable diversification and stability and good expense control. It is most important, above all, as Mr. Stedman mentioned, to look at the gross dollar, to see that there is an adequate amount that goes back in to take care of maintenance and depreciation, and also the dividend record should be conservative enough to permit some surplus to be available for keeping up the property and mortgage debt sweetened.

Mr. GESELL. How many electrical utility issues that come out can meet these standards? There are great numbers that can't, are there not?

Mr. BEEBE. I should say the majority of them could. If you are speaking of size of issues, not number——

Mr. GESELL (interposing). I am talking about number of issues, because 1 good issue could offset 50 bad.

Mr. PIKE. You mean recent issues?

Mr. GESELL. Yes.

Mr. BEEBE. We have found—my experience has been—that a great many issues which, say, 5 years ago were not so good, did not meet these tests, upon refinancing have been able to improve their picture. In part, it has been due to the Public Utility Holding Act, I think, and it has made us feel that possibly unwise holding company management might be terminated and there would be more confidence in the operating units.

Mr. PIKE. Wouldn't you say for some reason or other—Mr. Henderson has gone—there haven't been very many poor utility issues put out in the last few years? There has been pretty good quality. The public hasn't really been interested in poor ones if you wanted to put them out, but there haven't been many poor ones. I can't remember one in the last 5 or 6 years that has been bad.

Mr. BEEBE. I think the companies that have sold refunding issues in the last few years have improved their capital set-ups.

Mr. GESELL. Then you might say, whether part of this development has been due to the S. E. C. or not, that there is an expanding field for insurance investment in the field of electrical utilities?

Mr. BEEBE. Some. It is not great. We have been able to add new units to our public utilities. Not many. We have added a few.

Mr. GESELL. With respect to the industrials——

Mr. PIKE (interposing). There is one more question I would like to ask, Mr. Gesell, if you don't mind. This whole question of what you are going to do with these funds now, say, that railroads and real estate are not as available as before, what new outlets you are going to seek, bothers me a good deal and Mr. Stedman testified this morning that he saw no particular place where he could recommend widening, let's say, of the Jersey laws, or saw no particular place where his company wasn't using about as fully as he thought it should the present leeway given it.

We have had a tremendous development in the last 10 or 12 years—and I might say there the quality of issues has rather improved—in another sort of semiutility, the natural gas system, the long transmission lines, and so on. Have you paid any attention to that type of thing which seems to be gaining in importance?

Mr. Beebe. That is one of the new types of utility bonds—we have gone into it. It required considerable study to gain the assurance that we had to have to feel that that type of utility obligation would be suitable. I, myself, went out into the gas fields, took rock pressures myself to see how it is done, and I watched the construction of the line by the Columbia G. & E. from its gas fields to Washington and up to Baltimore. And then I wanted to get into their accounting, because the question——

The Chairman (interposing). Did I understand you to say you watched the construction of the lines?

Mr. Beebe. I went over the line as it was being constructed, yes, sir.

The Chairman. That was a comparable activity to the one you have described a little while ago with respect to the railroads, the Rock Island?

Mr. Beebe. Yes, sir.

The Chairman. And how about with respect to other companies of which you hold the bonds?

Mr. Beebe. Yes, I have been down in the steel mills, gone through the steel mills, gone through the rubber companies. We have to get very close to municipal financing and State financing—it may not be myself, it may be a member of my staff who will cover these various industries.

The Chairman. In other words, you have on your staff experts, operating experts, in each of the businesses of which you hold securities?

Mr. Beebe. Specialists in those lines.

The Chairman. Or specialists who can easily acquire that knowledge?

Mr. Beebe. Yes, sir. Our department is divided into four divisions the same way that Mr. Stedman described his department this morning; that is, we have a public utility division headed by a utility analyst or specialist; we have an industrial division, municipal division, railroad division, and we have a civil and electrical engineer who can be transferred to the utility division or the industrial division, wherever he is needed. In the railroad division we have several experts, one who has had experience, a lot of practical experience—been as high as assistant to the president of one of the railroads in years past. I would call him the higher type of railroad statistician that a president would have available in the inner room, next door to his own office, to keep him posted on the railroad's operations.

The Chairman. Just as the company has a farm expert to manage farms, as in the case of the Metropolitan and Prudential, so here in the industrial field you have similar experts who would be competent, if called upon, to manage operations of the various companies the securities of which you hold?

Mr. BEEBE. I wouldn't say they are wholly competent to manage them. For instance, with our investments in the United States Steel Corporation, we haven't any man that would be competent to manage the Steel Corporation, but we have men who are competent to sit down with the management, discuss their problems, go over their properties and get a general idea as to the condition of maintenance, whether there are any bottlenecks—you get bottlenecks in the steel industry through your bloomer, you may not have the capacity—whether it is a thoroughly integrated industry.

The same way with a water system.

Mr. PIKE. They are qualified to appraise matters, at any rate.

Mr. BEEBE. They are qualified to appraise and inspect and give us a real report as to the fair value of a property and the quality of its management.

The CHAIRMAN. Do the managers ever indicate a feeling that your experts are not qualified to manage?

Mr. BEEBE. No, sir.

The CHAIRMAN. You wouldn't want to leave that impression when you say your experts are really not qualified to manage these properties?

Mr. BEEBE. No, we get most friendly cooperation.

The CHAIRMAN. Surely, I would expect that, naturally.

Mr. GESELL. I was about to ask you to give us some idea of the standards for industrial business. If you could just hit the high points for us and tell us——

Mr. BEEBE (interposing). Capitalization. I will just give you these points very briefly. It is a very limited field, by the way, in the industrial field, where you can find obligations to qualify under the laws and really rate as high-grade obligations. It is a very small field. I have very interesting figures on how small it is in issues of 2 million or more.

Mr. KADES. If you don't mind my interrupting you at that point, would you care to comment on whether the laws relative to investments in industrials ought to be liberalized?

Mr. BEEBE. I think that our law is liberal enough for us to purchase any sound, high-grade industrial bonds we would consider suitable for our investment purposes. You know that on January 1 of this year a new insurance code went into effect in New York State, and this new code does liberalize, in my opinion, the ability of the life companies to purchase industrial obligations. I think we ought to go very carefully in liberalizing laws and lowering standards.

It is not that I have fear of strong companies. It is the weak companies that would take advantage of liberality.

I don't believe you realize what a small field or what a limited supply, I should say, is available in high-grade industrials. It is very limited.

Mr. KADES. It is not the restrictive enactments of the legislature, then, but the restricted outlets for the investments that deters you from going to any great extent in the investments?

Mr. BEEBE. It is the supply. It is not there.

Mr. GESELL. You mean the supply that meets your standards?

Mr. BEEBE. Supply that meets our standards.

Mr. PIKE. Some types of companies have recently come into your standards. I will take, as an outstanding example, in the industrial establishments through the last few years, the oil companies. In the early thirties some companies who stand very well at the moment had their debts offered on the Exchange at 25 cents on the dollar. At that time I think the life companies hadn't paid much attention to oil accounting, and some of these oil companies almost bought themselves out of their own troubles from their depletion fund. Recently, since that experience, oil bonds have proven most attractive—let's say 2¾'s sells above par—and I think several of the large life companies have gone into the market perhaps more than any other type of industrial.

Mr. BEEBE. They represent the largest investment in our industrial list.

Mr. PIKE. The change in realization perhaps.

What I am getting at is, Aren't there some more of those things lying around where a close study would reveal that they are more suitable for insurance-company investments than the insurance companies have previously thought? There was a certain slowness in seeing that, and it was quite an obvious thing several years before they started buying them.

Mr. BEEBE. It seems to me that the oil industry has been one that in a period of depression they contract their debt and pay it off out of their large depletion and depreciation funds, and then in a period of expansion they come into the market and borrow. Now, in the amount of debt outstanding in the oil companies, I should think that it had not increased very much in the last few years, but you must bear this in mind, that a great many of the oil-company obligations were not legal for us.

Mr. PIKE. I expect that is true.

Mr. BEEBE. That kept us from buying more back during the early period of the depression, because under the law at that time the companies had to earn, when you are buying an unsecured obligation, at least 4 percent on their outstanding capital.

Mr. PIKE. Which was a sort of a rule that was a good general rule, but in some particular cases wasn't a very good rule, in this particular case, let's say, where you could show no earnings over a period of years and yet pay off every single obligation you had out of your depletion fund.

Mr. BEEBE. Another type of company that is similar, that we have gone into recently, and a type of industrial security which really helps the small borrower, are the obligations of the financing companies.

Mr. PIKE. That is another thing I wanted to mention.

Mr. BEEBE. I think that class of industrial security represents, or provides, investments for the life companies which in turn filter through to the individual who needs credit on his receivables, inventories and so forth. In other words, we do make small loans on a wholesale basis through the financing companies.

Mr. PIKE. The consumer credit thing has grown while these other avenues have been narrowing down, and you have availed yourself of that?

Mr. BEEBE. That is a new development where you will find that the life companies have put a great deal of money to work when it is required. But when there is not a demand for their money their debt immediately disappears, they pay it off, because the term of their commitments is about, I think, 12 months.

Mr. GESELL. We were discussing standards for the purchase of industrials.

Mr. BEEBE. Well, on capitalization, I say 40 percent bonds and 60 percent stock, and a general rule, in relation to plant, at least 50 percent, not more than that. Of course, there are some companies that have practically no plant, that fall in the industrial line. If you are dealing with steel obligations, obligations of steel corporations, that would apply.

Net working capital to funded debt: I want to see maintained a ratio of 1½ to 2 times. We would like to see a coverage for the interest over a 10-year period which will run around 3 times, on the average. The indenture provisions we consider most important for industrial bonds. We usually like to find a 100-percent amortization provision. Some of the oil companies have none; in others you will have a 60-percent range in amortization. The higher the grade of company, the less willing the corporations have been to grant favors to the creditors or grant protective provisions in their indentures.

Mr. GESELL. What kind of balance sheet do you require, Mr. Beebe?

Mr. BEEBE. We want, for industrials, always a detailed general balance sheet.

Mr. GESELL. For how many years?

Mr. BEEBE. For 10 years.

Mr. PIKE. You meant a consolidated balance sheet?

Mr. BEEBE. Consolidated general detailed balance sheet.

Mr. GESELL. For 10 years. I think I can see why you say the field is somewhat limited by your standards.

Mr. BEEBE. I would like to point out why I say the field is limited, and this was a report which I made to the finance committee covering the opportunities we had to make investments. I wanted them to know, I wanted to know myself, and this is a report I made to them on the seventeenth of January [reading]:

In December, 1939, there was a total of ninety-five issues of industrial bonds outstanding in the amount of $2,000,000 or more and rated B1t, or better by Standard Statistics. The principal amount outstanding of these ninety-five issues was $1,882,000,000. The break-down of these issues by ratings showed that those rated A1t, of eight companies, thirteen issues, $435,000,000; those rated A1, nine companies, twelve issues, in the principal amount $454,000,000; those rated A, sixteen companies, nineteen issues, principal amount $448,000,000; and those rated B1t, better forty-four companies, fifty-one issues, $543,000,000. That totalled $1,882,200,000.

Of the ninety-five issues totalling one billion eight hundred million-odd, only thirty-six issues with a principal amount of $486,000,000 were either selling below their redemption prices or non-callable, and therefore available for us to purchase,——

And this omits the consideration of the question of the legality of any of those issues that are included in that $486,000,000.

The ratings on the 36 available issues were as follows: Those rated A1t, which we could buy if we wanted to, possibly, were 3 companies, 4 issues,

$41,000,000. Those rated A1, 3 companies, 5 issues, $176,000,000. Those rated A, 2 companies, 3 issues, $40,000,000. Those rated B1t, 25 companies, 26 issues, $227,000,000.

Of the available bonds rated A or better, representing 8 companies, we already have investments in 5. Bonds of the other 3 companies are noncallable and selling at prices much too dear for us.

So I think you gather from that what a limited supply there is in the market now for us of bonds which are rated suitable by this service or according to our own judgment for us to buy. In the steel classification I think there is only one bond that is rated AA. They are all only rated A.

Mr. GESELL. This raises the question again, then, where are you going to put this money, Mr. Beebe?

Mr. BEEBE. I think that is rather a dangerous field for me to tread in, but we have the feeling very definitely that we are getting a lot of competition that would not normally be here. In other words, you mentioned venture capital, and I think there is venture capital competing with us in a great many ways.

Mr. PIKE. You mean because they can't find anything else to do with it?

Mr. BEEBE. It is seeking security at any price. It is the type of capital that will not assume risks unless reasonably certain of a fair profit.

Mr. PIKE. It is no longer venture capital?

Mr. BEEBE. It is seeking security at any price. I think it is in your Government "baby bonds." I think your venture——

Mr. PIKE (interposing). If you said "ex-venture" capital you would probably be right.

Mr. BEEBE. Potential. We have it in the insurance that if left with us—and the amounts under supplementary contracts represent some of that—money that, under a different environment I think would seek employment elsewhere, which in turn would expand our field and lessen our pressure.

Mr. GESELL. Well, now, of course, you mention supplementary contracts. That is money that you are, in effect, bringing to yourselves in part by the terms of the contracts you offer. Perhaps if it wasn't possible for that money to go to supplementary contracts it might find its way more into venture activities.

Mr. BEEBE. It is left with us through the choice of the policyholder. He has no use for it, or the beneficiaries of the policyholder.

Mr. GESELL. I suppose that is true, but it is simply a degree of emphasis on that type of program.

Mr. BEEBE. Of course, that is not a substantial amount. In the case of the Mutual I think our amount is about 80 millions.

Mr. KADES. Mr. Beebe, I understood you to say when you were discussing railroad experience, that there was a good deal of railroad equipment that was in need of repair and modernization, and that operating cost could be saved by reconstruction of that railroad equipment.

Now, you also stated that you were interested in purchasing equipment trusts and you had purchased equipment trusts. Can you account for the lack of volume in equipment trusts, in the light of the circumstances which you stated? Why aren't there more equipment trusts on the market than there are at the present time? They are not in any way affected by the defaults in the mortgage bonds or debentures.

Mr. BEEBE. I think it is a question of the need of new equipment. I think that is the answer to that question. As the railroads have increased their efficiency, they have been able to make greater use of the equipment they have, and therefore their requirements for new equipment have not been increasing as we should hope they would; but if they have, if the railroads enjoy a much larger volume, I think we will find more equipment issues in the market.

Mr. KADES. Well, Mr. Beebe, some testimony before the Senate Banking and Currency Committee last year developed the fact that over 40 percent of freight cars were over 30 years of age, and that 70 percent of steam locomotives were over 20 years of age, and figures of that sort, which would indicate there was a real lack of proper rolling stock.

Mr. BEEBE. Well, I think the railroads would be glad to buy new equipment to replace any equipment that they have today, but it isn't necessary. In the Rock Island case, with which I am more familiar than with some of the others, we have provided in our improvement program for $2,750,000 for freight power. However, we have found that by strengthening the bridges we could use some of our old power to run longer distances, carry greater loads, and make better time, and consequently we are not going to require that expenditure of $2,750,000. On the other hand, we have purchased a great many Diesel switching locomotives, which have been found to be a great saving, and the railroad has been maintaining its competitive position by placing in operation new streamline trains, and they have been financed by equipment trust issues.

In the Wabash, another road I am familiar with, they are borrowing $2,800,000 now from the R. F. C. to rebuild freight cars, but I have not had any of the chief executive officers of the railroads I have conferred with whom, indicate that they wanted to finance new equipment issues and couldn't do so. They just didn't need to do so at this time.

Dr. LUBIN. Mr. Beebe, I was very much interested in Mr. Gesell's question as to where you are going to invest your money. In view of the testimony that has been presented to this committee from leaders of various important industries, one got the pretty general conception that the last 10 years have witnessed a rather radical change in the method of financing them. In other words, through surplus accounts, and particularly through depreciation accounts, they have found themselves in a position—and some six or seven representatives of very important industries were here and testified to this effect—where they don't have to go into the market to borrow. They finance themselves. It was true of General Motors, and the tremendous expansion they had undertaken. In part it was true of the United States Steel, General Electric, and firms of that sort. They are the type of organization that would normally be considered gilt-edge organizations for the purpose of investment of insurance companies.

If that trend should develop or continue to develop at the present existing rate, where will the insurance companies turn for their investment?

Mr. Beebe. The type of institution or corporation you referred to have not had obligations outstanding at any time that I know of. They have always been able to finance themselves from their earnings and out of their depreciation funds. General Motors has never financed with debt that I know of.

Mr. Pike. In 1911, I think they did.

Mr. Beebe. 1911? I am sorry.

Dr. Lubin. Of course, the United States Steel did—a very large amount.

Mr. Beebe. The Steel Corporation financed at one time with debt, but wisely retired it before the depression. I think it is hard for me to realize that our basic national industries will be able to meet their cash capital requirements entirely out of their earnings and depreciation funds, if we are in a normal period of expansion.

Dr. Lubin. But even in the late twenties many of these corporations converted their fixed obligations to common stock. They sold common stock and then called a lot of their fixed obligations, did they not, or retired them when they became due? If that general tendency grows, namely to shift from fixed obligations to other types—and evidently that tendency has been under way now for almost a decade—aren't we going to find ourselves in the position where the pool upon which the insurance companies can draw for investments will be considerably curtailed as years go on?

Mr. Beebe. It already has been curtailed. I would say this, that we must not overlook the fact that we will have, I believe, other outlets for our funds through real-estate-mortgage loans, and you then have the F. H. A. and the housing developments, speaking of the entire insurance picture and not of any one company.

Dr. Lubin. In other words, does that mean we should look for less diversification as time goes on?

Mr. Beebe. Well, I think that I would like to go behind this theory that you have mentioned, and say that your theory must be premised, it seems to me, upon a more or less static condition for this country, and it is rather hard for me to believe that 130,000,000 people that we have here are satisfied with what they have in the way of homes, in the way of furnishings, in the way of railroads and automobiles.

Dr. Lubin. I think my theory is based upon the reverse assumption, namely, that you will have after a period of time a greater growth in the consumption of the things that you mentioned, but that as industry gets back into more complete operation, because of past experience, the trend will be to finance themselves through obligations which are less fixed than in the past. That trend is already evident. In other words, even if you take the new issues, the new investments of 1936 and 1937, you will find that relative to years of equal industrial production in preceding decades fewer new issues were put on the open market.

In other words, these people expanded their output through others, and even in the period of prosperity in the late twenties, many of these corporations, like the big copper companies—I know one in particular—took their sole common stock and used the common stock for fixed obligations. In other words, there is a growing feeling on the part of industry that the less your fixed indebtedness the more easily you can adjust yourself to fluctuations.

Mr. BEEBE. I think that is wise, too. Now you are talking about one small field in which we have invested, aren't you?

Dr. LUBIN. Yes.

Mr. BEEBE. You are talking about industrial securities, and they have never amounted to very much in the way of an investment field for life insurance companies.

Mr. PIKE. It is unfortunately true enough, Mr. Beebe, that the two largest fields in 1929, which were real-estate mortgages and railroad obligations, have decreased in total amount more substantially, and by and large, I think you might say decreased in desirability along with several of the railroad obligations, and have just gone out from legal possibilities, so that you must—while none of us can invent 1 panacea or 1 particular outlet that will suit—be looking pretty high if you can add up 20 little ones that will make up for that lessened outlet It is still pretty good. You have got to be searching. You know you have.

Mr. BEEBE. We are searching, and it is difficult today, but I think that if you get a change of environment—I mean throughout the whole world—that some of our troubles, our investment troubles, are going to disappear.

The CHAIRMAN. You don't assume, do you, Mr. Beebe, that the mere fact that members of the committee direct questions to you on this matter indicates an assumption on their part that the development of our economic system is static?

Mr. BEEBE. Oh, no.

The CHAIRMAN. Well, of course, that was the assumption you put in Dr. Lubin's mouth. It is an assumption that has been put, let me say, in the mind of this committee by some individuals who don't apprehend what the committee is trying to do.

Mr. BEEBE. I never intended that.

The CHAIRMAN. I know. I merely wanted to make it clear at this point, since this particular discussion was opened by that statement on your part. We have a very definite situation which is reflected by the figures presented here, figures which are not questioned, namely that the assets of all of these companies have been increasing at a tremendous rate, almost, I think it is estimated, over a billion dollars a year, since 1929, and yet obviously the difficulty of finding investments has become—I mean proper sources of investments—constantly greater and at the same time every expert from the companies will testify there is a minimum limit for your investment.

Mr. Buckner of the New York Life, for example, testified, in response to my questions, that a loan, an issue of less than $100,000 was not particularly attractive.

I don't know that I heard your minimum limit. What is the minimum limit of Mutual?

Mr. BEEBE. We buy $250,000 of an issue.

The CHAIRMAN. I see. Here you have a field of little businessmen throughout the country, who do not and cannot have access to these reservoirs of popular savings. Of course, it is perfectly obvious an insurance company, which is administering trust funds, cannot properly invest in what is called adventure issues. Naturally you must have security, but to those of us who are in Congress and who are receiving letters and demands and petitions of one kind and another from small-business men throughout the country, who find themselves unable to secure sources of capital loans, it is a very important question, and when we seek to obtain enlightenment upon it, it is not because we assume that things are static and must be regarded as being hemmed in; it is because we are trying to find a way to broaden the opportunity of the average person to get into business and to expand and to do the things which we recognize must be done if our continued upward march is to be maintained.

Do I make that clear?

Mr. BEEBE. Yes.

The CHAIRMAN. I didn't intend to go into a lecture here, but it is the point of view that at least is held by the chairman, and I know by every member of the committee with whom I have discussed the matter.

Mr. GESELL. Might I ask at this time, Mr. Chairman, how late you wish to sit today? This would be a convenient time to discontinue with Mr. Beebe. You will recall that we had hoped to call Mr. F. W. Ecker. Our schedule is very full for the rest of the week, and it means we have to excuse him, unfortunately, at this time, unless the committee wishes to sit late to hear him.

The CHAIRMAN. What would Mr. Ecker testify on?

Mr. GESELL. The topics would be in general those we covered with Mr. Stedman and Mr. Beebe, simply to get the point of view and observations of another company executive. There would be no new material.

The CHAIRMAN. Well, the chairman is under obligation to appear before the Finance Committee tomorrow morning at 10 o'clock on the reciprocal trade extension program, and I have got to do a little preparation for that this evening, so I don't think I want to stay any later. If you have no objections, I would suggest to the committee that perhaps we might excuse Mr. Ecker, if his testimony is merely accumulative.

Mr. GESELL. That will be satisfactory with us, Mr. Chairman.

The CHAIRMAN. I wonder if it would be satisfactory to Mr. Ecker. Mr. Ecker is present.

Mr. JOHN L. O'BRIAN (counsel, Metropolitan Life Insurance Co., New York). No; I think not, Mr. Chairman. I think Mr. Ecker would prefer to testify. He has been here all week and from the viewpoint of his company he should be given a hearing.

The CHAIRMAN. Inasmuch as Mr. Ecker wants to testify, we permit him to testify.

Mr. GESELL. Mr. Ecker has not been under subpoena; he has not had to be here. I have one or two more questions I will develop of Mr. Beebe and then call Mr. Ecker.

The CHAIRMAN. Very good.

Mr. GESELL. Mr. Beebe, what about the sale of bonds? Do you sell bonds for profit?

Mr. BEEBE. No.

Mr. GESELL. When will you sell them?

Mr. BEEBE. We sell bonds when we consider it advisable to do so, taking into consideration the price which we possibly can obtain, regardless of whether it is a loss or not and we are convinced in our own minds that it is to the best interests of our policyholders to take that loss in order to liquidate that investment.

I might say as to sales, one factor which a company like a life company must take into consideration is that a sale represents permanent loss, whereas the fact that a bond may depreciate in value, might even default, might in the future result in a greater recovery in a sale subsequent to default than prior to default.

Mr. PIKE. Do you find it perhaps frequently true that in companies in receivership, especially rails, bonds sell at a much lower times earnings rate than similar securities in companies which are still technically solvent, but which are in no better inherent position?

Mr. BEEBE. Yes; and the astonishing thing today is in connection with those rails which have defaulted—they sell at prices I think that average around 10 or 11, which is so much lower than they ever sold in past year when the bonds of the same roads were in default. The prices used to hold up around 50 or 60. Today they have vanished.

Mr. GESELL. Do you take the book value of your bonds into account in considering the question of whether or not you will sell them?

Mr. BEEBE. Do you mean do we measure our loss before we sell them?

Mr. GESELL. That is right.

Mr. BEEBE. It has been our policy generally not to consider it advisable to sell at a price less than 70.

Mr. GESELL. Less than what?

Mr. BEEBE. Less than 70. In other words we have to sell in a rising market in order to dispose of a volume of securities.

Mr. GESELL. That is a very interesting point. You mean that you have usually such a quantity of bonds that if you attempt to dispose of them when the market is on the down-grade you will simply depress the price more and find yourself taking losses greater than you anticipate or even think necessary considering the character of the security?

Mr. BEEBE. No, I would rather say that in a rising market you have more buyers when you are a seller, and consequently you are enabled to dispose of bonds in volume. In a static market no volume sales could be made.

Mr. GESELL. And the problem is one created to some extent by the size of your holdings, is it not?

Mr. BEEBE. And the time element.

Mr. GESELL. Yes; I should think the greater amount of a particular issue you held, the more difficult it would be to dispose of it, and the stronger your market would have to be.

Mr. BEEBE. Yes; we need a stronger market for a longer period of time, that is true.

Mr. GESELL. Is it true that on some occasions the company will not sell a bond in which it has a loss and which it thinks is of poor quality because it does not wish to take that loss at the particular time?

Mr. BEEBE. I would like to explain this sales policy further which might bring that point out.

Mr. GESELL. All right, sir.

Mr. BEEBE. I said that our experience had been that if we can sell a bond we desire to dispose of it in a market of 70 or better. Between 70 and 50 we usually encounter a very thin market with only speculators operating. Our experience also shows in the past where a bond is worth 50 in the market, it is to our advantage to hold it even though it defaults and see it through reorganization, and the record is very interesting in that connection because in each case where we held a railroad bond which went through receivership and was reorganized, the company gained in the price, if you measured the price 2 years following reorganization as compared with the sale 2 years prior to default.

Mr. GESELL. I think that partially answers my question. I gather that there may be times when you feel that the market is so thin that an attempt to dispose of a security of questionable worth would result in a loss greater than you believe merited, therefore you would hold onto the security?

Mr. BEEBE. We would, definitely, sir.

Mr. GESELL. I have no further questions of this witness.

The CHAIRMAN. Does the committee have any other questions? If not, Mr. Beebe, we are very much indebted to you. Thank you so much for your ready responses.

(The witness, Mr. Beebe, was excused.)

Mr. GESELL. Mr. F. W. Ecker.

TESTIMONY OF F. W. ECKER, VICE PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.

Mr. ECKER. When I was last on the stand it was my understanding that Mr. Gesell requested that I would appear again at a later date to answer any questions on our bond and stock operations, and I am prepared to go ahead and endeavor to answer any questions that the committee cares to ask.

The CHAIRMAN. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes; I am.

How much money does your company invest in a year in new money in bond issues, Mr. Ecker?

Mr. ECKER. Well, if you mean by that, Mr. Gesell, what new money goes into bond issues, in the neighborhood of $200,000,000.

Mr. GESELL. That is annually?

Mr. ECKER. Yes.

Mr. GESELL. Has that been more or less steady in recent years?

Mr. ECKER. More or less, I would say.

Mr. GESELL. Is it able to invest as much as it wishes?

Mr. ECKER. I would say not at the interest rate desired.

Mr. GESELL. Given proper interest rate how much would you wish to invest in bonds?

Mr. ECKER. Well, I would say under normal conditions, as I think I testified to before, under normal conditions we ordinarily put about 50 percent of our available funds in real estate mortgages and about 50 percent in bonds.

Mr. GESELL. How much investment would that mean for the bond account?

Mr. ECKER. If it were only the new money it would be about $100,000,000 in each, but you see what has been going on because of economic conditions is a tremendous refunding of outstanding issues. One of the tables, for example, illustrates that point.

I am looking for the amount invested in 1929 versus 1938.

Mr. GESELL. You mean the redemption?

Mr. ECKER. Table 93. The type of thing that I am speaking of is very well illustrated on this table.[1] For example, you see the foot of the right-hand column under 1929, which shows a total available for investment of $2,087,000,000, and in 1938 the similar figure is $4,315,000,000, indicating a doubling up of the amount available for investment. Now, the fact of the matter is that the Metropolitan's assets increased less in '37 '38 than they did in 1928 '29, and for these 26 companies, their assets in '28 '29 for example, or at least in the year '29, increased $1,283,000,000, and only 10 million more in the 1937–38 years.

The CHAIRMAN. Mr. Ecker, may I interrupt? It would appear from this table to which you have made reference that, as you say, the amount available for investment almost doubled, it increased from $2,087,914,000 in '29 to $4,315,590,000 in '38, and when we look at the Metropolitan, we find that this item increased from $478,645,000 in 1929 to $888,322,000 in 1938. That is correct, isn't it?[2]

Mr. ECKER. Yes.

The CHAIRMAN. We also find that the income over disbursements for the Metropolitan in 1929 was $305,361,000, whereas in 1938 that excess had fallen off to $209,498,000.[3]

Mr. ECKER. That is exactly the point I am making.

The CHAIRMAN. That is what I thought. Now, inasmuch as the excess of income over disbursements showed a decline during this period, what is the source from which the increase of the total available for investment came?

Mr. ECKER. It is due to economic conditions rather than the growth of these companies. It is bonds and stocks being refunded at lower interest rates, to a very sizable extent.

The CHAIRMAN. But the gross receipts from bonds and stocks in 1929 for the Metropolitan amounted to $62,358,000.

Mr. ECKER. And $441,000,000 in '38.

The CHAIRMAN. That is right, $441,809,000 in '38. Now, what is the explanation of that very substantial increase?

Mr. ECKER. Well, I say it is very largely the fact of refunding at lower interest rates because of the low interest money market that we are in. In addition to that, there is a maturity of short-term securities. And in like manner, you will notice in the next column, or the next two columns, if you will go over to real estate, in 1929 the investment in real estate was $5,000,000.[4] In 1938 the investment in real estate was $50,000,000. To a very sizeable extent——

The CHAIRMAN (interposing). Wait a minute, you say the investment in real estate?

Mr. ECKER. I should say the gross receipts from real estate; I am sorry.

The CHAIRMAN. Because these receipts, I assume, include not only income by way of interest but also whatever may be received by way of sale?

---

[1] See Hearings, Part 10–A, p. 93.
[2] Ibid., p. 92.
[3] Ibid., p. 11
[4] Ibid., p. 93.

Mr. ECKER. Yes.

The CHAIRMAN. Refunding, disposition in any way. Is that not correct?

Mr. ECKER. Gross receipts. If real estate, for instance, is sold, and the form of asset is converted into a purchase money mortgage, there is really no change of cash there at all. It is no investment problem.

The CHAIRMAN. Are we to attribute this very large increase in bonds and stocks to refunding—that is to say, to the receipt of principal sums which are not in turn reinvested?

Mr. ECKER. They are in turn reinvested, but it is due to economic conditions, not to growth of companies.

Mr. KADES. Mr. Ecker, on table 5 the figures show that Metropolitan, in 1929, had a little over $3,000,000,000 in admitted assets; in 1938, four billion nine.[1]

Mr. ECKER. Yes, sir.

Mr. KADES. So that the growth was a factor.

Mr. ECKER. Oh, yes.

Mr. KADES. Of some importance.

Mr. ECKER. Oh, yes. Now, look; all I am endeavoring to clear up here was, Mr. Gesell was asking the amount available for investment, or the amount invested, and I wanted to make clear just what that was.

Mr. GESELL. You must have misunderstood my question, Mr. Ecker, because I was trying rather to get not the amount available for investment but to get some measure of your inability to invest, what money you are putting into cash and Government bonds for example, which under other circumstances you would be putting out into straight bond investments, into mortgage investments, into other lines.

Mr. ECKER. Well, we would be putting out approximately the same amount that we have been putting out, Mr. Gesell, but we would have been putting it out, I hope under normal conditions, at a better rate of interest than we have been putting it out.

Mr. GESELL. In 1938 you had $108,000,000 in cash. How much of that cash did you need to run your business?

Mr. ECKER. We felt that $108,000,000 was approximately what we should have in cash under the circumstances and the conditions of the time.

Mr. GESELL. So, unlike other companies that we have been discussing, there is no lag there. That was all cash that you wanted to have in cash?

Mr. ECKER. Under these conditions; and I think most of the companies have testified to that same point.

The CHAIRMAN. What item are you referring to now?

Mr. GESELL. With respect to bonds, United States Government bonds, shown on table 113; United States Government bonds have grown from $35,000,000 to $868,000,000 in this period from 1929 to 1938.[2]

Mr. ECKER. Yes, sir.

---

[1] See Hearings, Part 10–A, p. 5.
[2] See Hearings, Part 10–A, p. 113.

Mr. GESELL. How much of that is a growth which has resulted from your desire to purchase United States Government bonds, and how much is it the result of your inability to put the funds elsewhere?

Mr. ECKER. It is hard to differentiate just what portion, Mr. Gesell. I would say both were factors. In this period of time, for example, one field, as far as our investment is concerned, has been pretty well closed, namely investment in bonds of cities and States and political subdivisions. Now, the reason has been that on the high-grade issue of that type, the interest rate has fallen to such a low rate because of their tax exemption that it is either at or below the rate on Government bonds, or approximately the same rate as on Government bonds. As far as our investments are concerned, we derive no more advantage from tax exemption on a State obligation or the obligation of a city than we do on the obligation of the United States Government, and consequently we naturally would prefer the Government obligations under those circumstances.

Mr. GESELL. Well, now, I assume that under better economic conditions, to use your phrase, you wouldn't want to continue to put your money in Government bonds to the extent you are, because they don't pay a satisfactory interest rate?

Mr. ECKER. That is correct.

Mr. GESELL. Now, the simple question, Mr. Ecker, is how much of this can you estimate as an amount which would have gone elsewhere were it not for the economic conditions to which you refer?

Mr. ECKER. Well, this is purely an offhand opinion, but I would think that under more normal conditions we might carry in the neighborhood of 10 percent of our assets in Government bonds, possibly somewhat less. We didn't formerly carry as much as that. It would depend.

Mr. GESELL. And your investment at the present time, according to table 102, in United States Governments, is 17.57 percent.[1]

Mr. ECKER. That is right.

Mr. PIKE. You would cut down from 800 million to 500 million.

Dr. LUBIN. Do you pay surtaxes to the Federal Government?

Mr. ECKER. We pay a tax, not surtaxes. It is a tax based on our income from interest, dividends, and rents, less certain deductions.

Dr. LUBIN. What difference would it make to you, then, whether you had a State bond which had tax exemption or a Federal bond, if the net yield was the same?

Mr. ECKER. It would not make any difference. That was my point.

Dr. LUBIN. Yet, you say that that avenue is not open to you?

Mr. ECKER. Yes; the avenue is not open because, at the same rate of return, we would prefer to have a Government obligation, and as a matter of fact, because of the tax-exempt privilege, the higher-grade State obligations and municipal obligations sell to yield even less than United States Government bonds.

Mr. GESELL. What Federal taxes do you pay, Mr. Ecker? I don't mean you as an individual, I mean your company. Do you pay a Federal income tax—your company?

Mr. ECKER. There is an income tax applicable to us.

Mr. GESELL. Do you pay any tax?

[1] Ibid., p. 102.

Mr. ECKER. That would depend on the particular year which you are referring to.

Mr. GESELL. What about recent years? Have you paid a Federal income tax?

Mr. ECKER. I think the deductions have offset the tax payable, but from your questionnaire you will see that we pay quite substantial taxes.

The CHAIRMAN. Of course, these deductions, Mr. Ecker, are specified in the law, and you are entitled to take deductions, so the question, of course, includes that. Now, I understand that for some years, because of the state of the law, you don't have Federal income taxes to pay—the Metropolitan?

Mr. ECKER. That is right.

The CHAIRMAN. Was that true in 1938?

Mr. ECKER. I don't handle taxes myself, and I am not certain on that subject.

Mr. GESELL. Well, now, let me ask you this, Mr. Ecker, as the next point I wish to cover. Do you have at the beginning of the year some kind of plan with respect to how much money you want to put into utilities, how much into rails, and how much into these various classifications?

Mr. ECKER. No, sir; not in that form.

Mr. GESELL. How do you map out your investment program at the beginning of the year, if you do?

Mr. ECKER. We have general policies as to the type of investments which we would like to make, but our actual purchases must be in accordance with what is available, the available supply, and of course that changes from time to time.

Mr. GESELL. Your position, then, is somewhat similar to that of Mr. Stedman?

Mr. ECKER. I would say so; yes.

Mr. GESELL. What about loaning to small businesses? That is another point we have been considering.

Mr. ECKER. Yes; we have considered a great many of such loans. We have actually obtained very few. When you are speaking of loans to small business, just what do you mean by that? What are you inquiring about—two million, two and a half million down, or five hundred thousand down, or what?

Mr. GESELL. Let me get at it this way. What is the lowest amount that you will purchase other than bonds that you might pick up over the Exchange or in the market?

Mr. ECKER. Well, we haven't any definite low limit, but I would think——

Mr. GESELL (interposing). To use Mr. Beebe's phrase, what is your appetite? What is the range of your appetite?

Mr. ECKER. Well, I think the smallest one we have made is $150,000. We have considered some lower than that.

Mr. GESELL. Generally speaking are your loans from two million up? Would you say that was correct to say?

Mr. ECKER. Yes; I would say that this is what has been our experience. We have had quite a number, not a large number, of such applications, but a certain number of them, and we have really honestly looked at them in an effort to make the loans. We have found, I think I can give you three examples of the type of situation that we have run into. For instance, I remember one not so long ago, a fire brick company, a very good small company, and we were all set to make the loan, but we felt that to do that type of business we should have at least 4 percent interest and they could obtain the money from their local banks at 3½ percent interest, so we didn't get that loan.

The CHAIRMAN. Why did you feel that you would have to have 4 percent, whereas the local banks could make it at 3½?

Mr. ECKER. It was a small loan to start with, and we have, practically speaking, the same expenses of investigation in a small loan that we have in a large loan, and also in that whole category there is more risk involved in that type of loan, Senator.

Mr. PIKE. There is a continuous service expense in that type of loan, too, isn't there?

Mr. ECKER. Yes; I would say so. One must of necessity follow the operations pretty closely.

Mr. PIKE. You don't have the financial services sending you the earnings every month or every 6 months? You have to really keep on your own initiative in following that up?

Mr. ECKER. In all of this type of financing that we do we require the borrower to send to us their statements at quarterly or semiannual intervals, and then an audited report at least once a year.

Mr. PIKE. And in that case it wouldn't have been as expensive to the local banks.

Mr. ECKER. Oh, no, because they are right on the ground and they knew the background.

Just to continue——

The CHAIRMAN (interposing). May I, just a moment, interrupt? What impresses itself upon my mind in connection with this study of the opportunities of small business is this, that most of the insurance companies gather their premium incomes from persons who are taking out small policies—$5,000 policies, $2,500 policies, and under. Metropolitan, for example, has a lot of $1,000 policies. Isn't that a fact?

Mr. ECKER. Yes, sir; and less.

The CHAIRMAN. And less than that. A large proportion of the income of the insurance companies is therefore derived from persons of small means, but upon the other hand the businessman who wants a small loan, for reasons over which perhaps the insurance companies have no control, is unable to find a reservoir of capital with the insurance companies. Isn't that the fact?

Mr. ECKER. That is true as far as small loans are concerned of the type you are speaking of.

May I elaborate a little bit on that point?

The CHAIRMAN. I was going to ask you just one other question, and that is, how many loans do you suppose you have under, let us say $1,000,000?.

Mr. ECKER. My impression is about six or seven that were under that at the time made.

Now, just to get back to your point, of course, first when we invest we must invest for safety of principle first, and get the best return that the going market will give as a secondary consideration. In addition to that we do try to put our money back into sections of the country from which it has come, in a general way. Now, in our instance, with the exception of the Northeastern Seaboard States, where there is an ample supply of capital, apparently, our investments are generally speaking in excess of our reserves on business in force in the other sections of the country.

The CHAIRMAN. In making that computation do you take into consideration the investments which you have in railroads which go through those communities?

Mr. ECKER. Everything; that is true.

The CHAIRMAN. And you take into consideration, then, the industrial loans?

Mr. ECKER. Yes.

The CHAIRMAN. Of companies which served these various States in which you have your reserves. That naturally would follow.

Mr. ECKER. That is right. We don't feel it is practical, naturally, to loan back to the particular individuals, nor do we feel that it is possible to take any particular class of investment and see that that is segregated according to our policy reserves throughout the country.

The CHAIRMAN. But from the point of view of the State, in many instances one would find that the control of the fund which was invested, say, in the railroad, doesn't lie within the borders of the State, but lies elsewhere, as for example, in the State of Wyoming. If I remember correctly, the ratio of investment, or the reserve, to the premiums is about $1.47, and a substantial portion of that is due to the investment in the railroads which traverse the State, the Union Pacific Railroad and the Burlington, both of which, of course, are managed altogether outside of the State.

Mr. ECKER. That is true, of course, but you will also find that the State does benefit——

The CHAIRMAN (interposing). Oh, unquestionably.

Mr. ECKER. In fact, there are many sections of the country where the railroad taxes are the principal support of the schools, and so forth, in that location.

The CHAIRMAN. Yes, indeed.

Mr. ECKER. But as far as our investment goes for these small policyholders that you are speaking of, they want the investment safe, and that is where the difficulty comes. I think our better field in this economic structure, as far as making capital available to small industries is concerned, is not in the very small loans but in the loans, say, from one million and two million up to five million, some place in there, where we can save the expense of bond issues and public distribution, and even in that group the expenses involved relatively are high. I think that is a better field for us under all the circumstances than in the loans of, say, $200,000 on down.

Mr. GESELL. You had some other examples?

Mr. ECKER. I have a few here.

Mr. GESELL. How many of those small business loans do you have?

Mr. ECKER. I asked you the question first so that I would know just what you were speaking of.

Mr. GESELL. Loans below 2 million.

The CHAIRMAN. He said there were five or six below one million.

Mr. ECKER. This tabulation shows two below $500,000, that is

$150,000 and $185,000, and four between $900,000 and a million, and then there are eight in the next group between one million and two and a half million.

Mr. GESELL. Do you have the tabulation of how many you have in the range we were discussing a moment ago?

Mr. ECKER. No; I haven't that tabulation.

Mr. GESELL. I suppose it would be an amount considerably in excess of below two million?

Mr. ECKER. Yes; I think that is a better field, it would be a larger amount than indicated here, just how much I don't know.

Mr. GESELL. One matter that was mentioned in the course of your previous testimony that I wanted to come to was the question of your investment in Rockefeller Center. That is carried on your records as a bond investment?

Mr. ECKER. Yes, that is right.

M. GESELL. Do I understand the situation correctly, namely, that the land on which the building is built is leased to Rockefeller Center by Columbia University on a very long-term lease?

Mr. ECKER. A portion of it is; yes; a substantial portion of it.

Mr. PIKE. Is it the major portion?

Mr. ECKER. Yes.

Mr. GESELL. And that Rockefeller Center, Inc., is a corporation which has as its asset the lease and the buildings?

Mr. ECKER. Yes, and certain other assets, I believe.

Mr. GESELL. And they have issued bonds against the lease, is that correct, which you hold?

Mr. ECKER. They have issued a bond issue which is secured by mortgage of the buildings and all their interest in that situation, yes.

Mr. PIKE. And a mortgage on the leasehold?

Mr. ECKER. And a mortgage on the leasehold, yes.

Mr. GESELL. Who owns the building?

Mr. ECKER. Rockefeller Center Corporation.

Mr. GESELL. Are they security for your investment?

Mr. ECKER. Yes; they are on the bond.

Mr. GESSELL. In other words, if you foreclose on the bond, you have the buildings?

Mr. ECKER. Yes.

Mr. GESELL. That investment has been satisfactory from your point of view, has it not?

Mr. ECKER. Oh, extremely. We have been receiving 5 percent interest in a period when it was very difficult to put money out at as good a rate of interest, and I think our peak investment in it was 43 millions, and that has been reduced now about 10 millions, I think.

The CHAIRMAN. Do I understand that your loan to Rockefeller Center is secured by the real estate?

Mr. ECKER. Oh, yes.

The CHAIRMAN. Just as your loan on the Empire State Building is secured by that building?

Mr. ECKER. Not quite the same.

The CHAIRMAN. What is the difference between the two?

Mr. ECKER. That is a mortgage issue while this is a mortgage on the building, it is not a mortgage on the fee because they didn't own the fee. It is a mortgage on the building and the leasehold.

The CHAIRMAN. You mean the Rockefeller Center is a mortgage on the building and on the leasehold?

Mr. ECKER. That is right.

The CHAIRMAN. Because the land is held under lease and the fee is not held by the company which owns the building?

Mr. ECKER. That is correct.

The CHAIRMAN. But you do have complete security in the building?

Mr. ECKER. Yes.

The CHAIRMAN. Now, the company which erected the building is one of the Rockefeller companies, is it not?

Mr. ECKER. Well, as to the ownership of the common stock of that, you mean?

The CHAIRMAN. Yes.

Mr. ECKER. I have always assumed it was owned by Mr. Rockefeller or one of his interests. Frankly, I don't know just where the ownership is.

The CHAIRMAN. Do you know who owns the fee?

Mr. ECKER. Yes, the fee, as testified to, is owned by Columbia University, largely. A portion of the fee is in the Rockefeller Center group and comes under our lien.

The CHAIRMAN. Did you testify as to the amount of this mortgage?

Mr. ECKER. Yes; I testified that the peak we had outstanding was in the neighborhood of 43 millions, and that has been reduced approximately 10 millions.

The CHAIRMAN. So that at the present time, this loan on the Rockefeller Center is about 33 million dollars?

Mr. ECKER. That is right, yes, sir.

The CHAIRMAN. You see, the picture that shapes——

Mr. FREDERICK H. ECKER (interposing), Thirty-five million.

Mr. F. W. ECKER. I am sorry. I was speaking from memory.

The CHAIRMAN. When we are in these big figures, 2 million one way or the other doesn't make much difference.

But here is $35,000,000 loaned by the Metropolitan to a Rockefeller institution. You were saying a moment ago that the little policyholders who by their premiums contribute this sum, want you to invest it carefully, and of course you do, and I can't imagine anything more safe and secure than a loan to the Rockefellers—but here we have policyholders who are paying the Metropolitan on policies of $1,000 and less contributing $35,000,000 which is loaned to the Rockefeller outfit.

Mr. FREDERICK H. ECKER. And get 5 percent interest.

The CHAIRMAN. That is true; it is a very good loan.

Mr. F. W. ECKER. I don't think our policyholders object to as good a loan as this, at 5 percent interest.

The CHAIRMAN. But it emphasizes the pictures which has been developing here throughout the inquiry, that the insurance companies, all of them, gather in the savings of the masses of the people and those savings, accumulated in great reservoirs, then become the sources of capital by the strongest industrials, by the strongest States by the wealthiest corporations in the country, and the Government itself.

Mr. F. W. ECKER. It is a way by which the smaller man throughout the country can invest his money, we like to believe, well.

The CHAIRMAN. If I weren't in danger of being misunderstood, I would say it was a very excellent illustration of collectivism.

Mr. F. W. ECKER. Yes; it is.

Mr. GESELL. Let me ask you this: Is Mr. John D. Rockefeller obligated on this mortgage, on the paper in any way?

Mr. F. W. ECKER. Indirectly. Is there any objection to my going into that?

Mr. FREDERICK H. ECKER. No, no objection.

Mr. GESELL. The reason I asked, and you can limit your answers so as to relate to this matter, the figures which we have indicate that Rockefeller Center has operated at a very substantial deficit as of December 31, 1938, running into some thirty-nine million. That money has been made up by contributions, I understand, from Mr. Rockefeller. Now, I wondered whether he was making those contributions out of the goodness of his heart, or whether he was bound under the terms of the agreement which your company has on this particular project.

Mr. F. W. ECKER. Undoubtedly the figures that you have in mind there are the total operating expenses in excess of the operating income over the life of the undertaking to date.

Mr. GESELL. Yes, the deficit from operations.

Mr. F. W. ECKER. In all undertakings of this sort, it is anticipated that there must be a period of time, and particularly one as large as this, before the operation will be on a profitable basis. The figures you have there will show either that it is there now, or practically there now—well, maybe you are not as up to date on the picture as I am, Mr. Gesell. But irrespective of that, you asked a particular point. Mr. Rockefeller's interest here is that he guarantees the taxes and the rental, and he does have a junior interest that he has to take care of.

Mr. GESELL. He is bound only to that extent, not to the extent of the contributions he has made to this project, is that not true?

Mr. PIKE. That means the rental to Columbia University?

Mr. ECKER. Yes.

Mr. FREDERICK H. ECKER. Being familiar with it, may I explain that, if I may, because I had to do with it from the beginning.

The CHAIRMAN. Certainly.

Mr. FREDERICK H. ECKER. Mr. Rockefeller, Jr., is obligated on the lease to Columbia University to pay the rental and the taxes, and our security, therefore, if that obligation is met, is better than it would be if we had only a mortgage on the ground. Then we would have to pay the taxes. Mr. Rockefeller's obligation is to pay the taxes on that property irrespective of the improvements there are on it, and under our arrangement that provision, under the lease of obligation to Columbia College, inures likewise to our benefit, and if Columbia College should say to him, "You needn't pay any rent to us," he would still have to pay the taxes and all those expenses that are agreed on should come before our mortgage.

Mr. GESELL. He has still made additional contributions, has he not, Mr. Ecker, in excess of the amount that has been necessary to cover rent and taxes?

Mr. FREDERICK H. ECKER. My understanding is the investment there is probably seventy-eight or eighty millions in excess of the thirty-five millions which we now have in the property.

Mr. GESELL. And thirty-nine of that has been loss?

Mr. FREDERICK H. ECKER. And they are anxious, if we would take the money, to pay it off tomorrow. I happen to know, from the inquiry that the S. E. C. people have made into that—a very proper inquiry into this transaction—that they were ready to show those making that inquiry the United States bonds which they have to pay off the mortgage if we would take it.

They are paying it off under its terms serially. It will all be paid off before the lease expires, and there is a right of renewal under the lease irrespective of that, and at the rate it is being paid off it will all be paid off before the lease on the property expires.

If we had to take the property today, if we would take it with all the improvements upon it, with no expense for taxes——

The CHAIRMAN (interposing). Ten million dollars has already been paid off, you say?

Mr. FREDERICK H. ECKER. Yes; approximately that.

The CHAIRMAN. During what period?

Mr. FREDERICK H. ECKER. Practically during the development of the operation. Our first loan was made—this is purely from recollection—about the year 1930, the first advance. We advanced under the bond issue on an agreed-upon schedule as the improvements were carried on. We have not advanced as much as we might have been called upon to advance because Mr. Rockefeller preferred to build the buildings without having any bonds issued.

Now, this isn't a bond issue that may be subsequently extended nor are those bonds that have not been issued sold. They are canceled. There can be no other bonds put on the property, either ahead of or ranking pari passu.

Mr. GESELL. There seemed to be some question as to who owned the buildings. I gathered you disagreed with Mr. F. W. Ecker in that regard?

Mr. FREDERICK H. ECKER. I don't think so. I said it was owned by the corporation that issued the bonds.

Mr. GESELL. Those buildings, are they security for your investment?

Mr. FREDERICK H. ECKER. The whole enterprise in which this investment is made is security for our investment, yes.

Mr. GESELL. That includes the buildings and the leasehold?

Mr. FREDERICK H. ECKER. Yes; and we have the advantage of the guaranty of the payment of the rent on the leasehold. We would not have to pay it if that guaranty is good.

Mr. PIKE. The leasehold free of tax and free of rental?

Mr. FREDERICK H. ECKER. Yes, sir.

Mr. PIKE. And that, as I remember it, was one of those typical New York 21 years, four renewals, things, was it?

Mr. FREDERICK H. ECKER. I only know that the term extends beyond the expiration of our mortgage securing the bonds.

Mr. GESELL. Now, with respect to the sale of bonds, Mr. Ecker, what is your policy in regard to sale?

Mr. F. W. ECKER. Generally speaking, our investments are made to hold for their life. We do at times dispose of securities when we feel that the obligor is, well, apt to run into real permanent difficulties. Of course, in consideration of sale we must also take into consideration the market. As I think Mr. Beebe testified to, there are situations where in sizing up the situation you say, well at this market level, I would prefer not to sell. I would prefer to ride through.

Mr. GESELL. Will you sell for a profit?

Mr. F. W. ECKER. Possibly on rare instances, but very, very rare.

Mr. GESELL. At about what price do you begin to consider sale below par? Do you sell at 90, 80, 70, or where do you begin?

Mr. F. W. ECKER. We would sell irrespective of price if we felt that it was a situation that was not apt to pay out.

Mr. GESELL. And if you felt, I take it, that the market was such as to absorb the sale when you tried to sell it?

Mr. F. W. ECKER. Yes, and if we felt that the market was above the intrinsic value of the security.

Mr. GESELL. Do you run into situations fairly frequently where you wish to sell securities but feel that the market won't absorb them at the price?

Mr. F. W. ECKER. Not a great many; some, yes.

Mr. GESELL. Have you ever sold through investment bankers—I mean taking the block of bonds and making an offering of it, disposing of it that way?

Mr. F. W. ECKER. I don't recall any situation quite like that. I do recall one a number of years ago where we sold to an investment banker a block of bonds that we had—and you are asking whether he then redistributed it?

Mr. GESELL. Yes.

Mr. F. W. ECKER. I assume he did.

Mr. GESELL. I was, of course, distinguishing between that and having him act as a broker for you and try to get rid of it piecemeal.

Mr. F. W. ECKER. Yes.

Mr. GESELL. I have no further questions of this witness.

Mr. PIKE. I have just one. It is getting monotonous now.

How do you feel, Mr. Ecker, about the possibilities of replacing to some extent those investment avenues that have not closed up, but narrowed more or less for you in the last 10 or 12 years? It seems to be very fundamental in this investment work with the assets of the companies as a whole having gone up 60 percent in the decade ending in 1938, the principal investment outlets have declined in their ability to take your funds. What is your feeling about that?

Mr. F. W. ECKER. Twofold. In the first place we are constantly looking for new avenues. You spoke of one which I think we were one of the first insurance companies to go into in recent years, that is the natural gas industry and natural gas pipe lines.

Mr. PIKE. One of the few things that has grown very much in the last few years.

Mr. F. W. ECKER. As you know, their history had been such that it didn't attract pure investments.

Mr. PIKE. There was a lot of wildcatting.

Mr. F. W. ECKER. A very careful study was made of the whole picture and we decided it was sound for us to go into, and from that time on we have made a number of such loans. There are other situations which a few years ago we wouldn't have thought were our type of investment and have shown up very well and that we are considering today.

But more important than all that, it seems to me, is the effect of economic conditions. Now, for example, in the 8 years prior to 1932, the figures given me which are from authoritative sources were in the neighborhood of new issues of corporate bonds and notes averaging around $3,600,000,000, as I remember it.

Mr. PIKE. That is as distinguished from refunding, Mr. Ecker?

Mr. F. W. ECKER. I am coming to that in just a moment.

Now, the new issues of that character have been less than half of that for this second period of 8 years. As to this other point which is most important, in the former period almost 80 percent was new capital and a little over 20 percent was refunding, and in this latter period, those ratios are almost reversed. That is the economic times through which we have been passing in the last 10 years. We just don't believe they are going to keep up.

Mr. PIKE. Yes; you are entitled to believe that.

Mr. F. W. ECKER. Might I cover one other point.

You were not here yesterday, Senator, but one of the letters read into the record in Mr. Saylor's testimony indicated—and if you would like me just to repeat it so you have the picture, it was this. The memorandum read into the record was [reading "Exhibit No. 2311-A"[1]]:

> Both Mr. Fackner and Mr. Ottley said they were satisfied with the result of their discussion. As I understand it, the Trust Company of Georgia had only one insurance connection—that of the Metropolitan Life—and the Atlanta Savings Bank had relations with the New York, Mutual and one or two smaller New England insurance companies. It was arranged that for the time being the Trust Company of Georgia and the Atlanta Savings Bank would not combine their operations. In other words, they could continue to represent as heretofore but should Mr. Ottley wish to merge the two companies, he will first call on Mr. Fackner and discuss the matter.

Mr. Fackner was one of our comptrollers and he had charge of our correspondent loans. The intimation might have been taken from the way this was read into the record that one of our officers would have something to say as to whether two banks merged or not. I wanted just to clear up that memorandum and explain the circumstances which surrounded it.

The Trust Company of Georgia had for some time been our mortgage loan correspondent and it was owned by one of these banks that was going into a merger. A similar company had acted as mortgage loan correspondent, or at least in a similar capacity, for the New York, the Mutual, and one or two other New England companies. Our comptroller, this man who is referred to, is dead now, but there can be no question from our investigation of this situation that what really took place was that he said to Mr. Ottley:

> Now, since this bank has been our sole mortgage loan correspondent, has operated for us and no other insurance companies, if you are going to merge such an institution with another which is serving other insurance companies at the same time, then we have to look at this situation and discuss it with you and decide whether for our protection we should take our account elsewhere or whether we feel that under those circumstances you could continue to give us the type of service that you have given to us heretofore.

Do you see? The memorandum is rather misleading.

Mr. GESELL. I think that is an extremely helpful explanation and is completely in line with any inferences drawn from the document.

Mr. F. W. ECKER. We just want to clear that on the record because other inferences might have been drawn.

---

[1] Supra, p. 15203.

The CHAIRMAN. You have heard the testimony of Mr. Beebe with respect to the degree of supervision over the operations of industrial companies to which loans had been made as undertaken by the Mutual. What have you to say about that?

Mr. F. W. ECKER. Well, which portion of his testimony? Do you mean as to the investigation?

The CHAIRMAN. The degree of supervision exercised by the insurance company to protect the bonds.

Mr. F. W. ECKER. Do you mean the investigation made prior to investment or during investment? I am afraid I didn't hear that portion of Mr. Beebe's testimony.

The CHAIRMAN. The testimony indicated, for example, with respect to the Rock Island, that quite a close watch was kept upon the operations of that road. Now, to what extent do you watch the operations of the industrial companies in which your funds are invested?

Mr. F. W. ECKER. We follow the situation very closely, as I explained. We receive quarterly statements generally——

The CHAIRMAN (interposing). That is financial. I mean do you have your expert engineers?

Mr. F. W. ECKER. Oh, yes; we have a similar organization to those that have been testified to.

The CHAIRMAN. I assumed that would be your answer.

Mr. F. W. ECKER. We do not direct the operations of the industrial corporations to whom we loan that money, of course.

The CHAIRMAN. You watch what is going on?

Mr. F. W. ECKER. Oh, decidedly, yes.

The CHAIRMAN. To what extent? That is what I am trying to get at.

Mr. F. W. ECKER. To what extent?

The CHAIRMAN. Yes.

Mr. F. W. ECKER. Constantly.

Mr. GESELL. You get, I assume, information periodically concerning the operations of the business and you check up to see whether there are any changes in management policy going on that may affect your investment and make it necessary for you to liquidate?

Mr. F. W. ECKER. We attempt to follow the properties in which we have invested, very closely, and we do send people out in the field to investigate.

Mr. GESELL. Do you get figures with respect to the businesses which are not generally available publicly? I mean do you get a chance to look at operating statements and matters of that sort?

Mr. F. W. ECKER. Well, yes; our engineers go over the whole picture.

The CHAIRMAN. What was the suggestion you wanted Mr. Ecker to make, Mr. O'Brian?

Mr. O'BRIAN. I was asking him if his supervision wasn't about the same as that testified to by Mr. Stedman.

Mr. F. W. ECKER. I would say it was.

Mr. O'BRIAN. He has substantially the same organization.

Mr. FREDERICK H. ECKER. Mr. Stedman testified at length to the organization he had to take care of investments, to consider them in the first place, and to follow them up after the investments were made, that eternal vigilance is the price of safety, and we have in our company about the same organization as that which he described.

The CHAIRMAN. Of course, it is common, it is a traditional saying with respect to investment that you watch the basket in which you put your eggs, and I just wanted to see to what extent you were watching these baskets of eggs.

Dr. LUBIN. Mr. Ecker, you made the statement, in reply to Mr. Pike's question, that it is your opinion that the outlets for these investments will increase as economic conditions change. Do you feel that the interest rate—well, let me put it this way; is your company operating on the thesis that interest rates will also rise?

Mr. F. W. ECKER. Over a period of time, yes. We believe that.

Dr. LUBIN. Are you operating on that theory?

Mr. F. W. ECKER. We are not relying on that for the safety of our contracts; no.

Dr. LUBIN. What leads you to come to the conclusion that the interest rates will rise?

Mr. F. W. ECKER. Well, they always have. These cycles of interest rates have gone up and down much like the waves of the ocean, over a good many years, and we think that history will in all probability repeat itself.

Dr. LUBIN. You don't feel there might have been some changes in the picture which might, in a sense, delay for a long period of time, let's say, a current rate of 5 or 6 percent?

Mr. F. W. ECKER. Oh, I am not attempting to give an idea as to just what the interest rates will be, specifically, but there was a good deal of talk in 1929 that we were in a new era, 1928 and 1929, that the old theories were all gone, that you could buy public utility stock at 40 or 50 times its annual earnings, and so forth, of course it wasn't worth it right then, but if you wanted to buy it you had to buy it then and the earnings would, within a reasonable period of time, catch up to the market. On paper you could demonstrate that was so. The gross revenues increased about 12 percent each year. The net considerably more, so that over a period of time, say in five years, the earnings would warrant the current market. In much the same way today——

The CHAIRMAN. I was remarking that the newspapermen were gathering at the exit. They don't want to miss anything, but they don't want to remain. [Laughter.]

Mr. O'BRIAN. Mr. Chairman, thank you for remaining after the hour and going to this inconvenience to accommodate us.

The CHAIRMAN. When do you want to meet in the morning?

Mr. GESELL. It is scheduled for 10:30.

The CHAIRMAN. The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 5:30 p. m., a recess was taken until Wednesday, February 28, 1940, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, FEBRUARY 28, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:50 a. m., pursuant to adjournment on Tuesday, February 27, 1940, in the Caucus Room, Senate Office Building, Mr. Sumner T. Pike, Department of Commerce, presiding.

Present: Mr. Pike (acting chairman), Senator O'Mahoney, chairman; Messrs. Lubin, Kades, Henderson, and Brackett.

Present also: James V. Hayes, Department of Justice; Gerhard A. Gesell, special counsel, and W. S. B. Lacy, financial economist, Securities and Exchange Commission.

Acting Chairman Pike. The committee will please come to order. Are you ready to proceed?

Mr. Gesell. Yes; I am, Mr. Pike.

Acting Chairman Pike. Call your first witness.

Mr. Gesell. Today we will hear testimony from life-insurance agents and general agents. Last November the committee will recall the committee sent a questionnaire on sales and agency practices to the 68 life-insurance companies having more than $100,000,000 of insurance in force. Replies to these questionnaires have been received, on the basis of which the Commission staff has prepared a few tabulations which I wish to offer for the record at this time as an aid to the testimony which is to follow. Most of the replies are incomplete, due to the fact that companies did not submit much of the information requested. The tabulations are, therefore, based on information from a smaller group of companies than that originally receiving the questionnaire. The material is as complete as the information submitted permits.

The first table which I wish to offer, which will be designated No. 2323, is entitled "Life Insurance Plans," and shows for a list of 61 companies the number of ordinary life-insurance plans offered, and then by classification, both in name and percentage, the 5 most popular plans sold by the companies during the year 1938.

Acting Chairman Pike. It may be received.

(The table referred to was marked "Exhibit No. 2323" and is included in the appendix on pp. 15547–15550.)

The second schedule which I wish to offer for the record is entitled "Whole Time Soliciting Agents, Contracts Made, Terminated and in Force." This table will be known as "Exhibit No. 2324." It shows for the years '34 to '38 inclusive the number of appointments made during the year, the total contract terminations during the year, and the number of contracts in force at the year end. This material is compiled from replies received by 45 companies and the names of the companies are listed on "Exhibit No. 2324–A" which I wish to offer at the same time.

Acting Chairman PIKE. They may be received.

(The schedules referred to were marked "Exhibits Nos. 2324 and 2324–A" and are included in the appendix on p. 15551.)

Mr. GESELL. The third table, to be known as "Exhibit No. 2325," is entitled "Cost of Selecting and Training Agents" and shows for a group of about 10 companies the training costs of those companies.

Acting Chairman PIKE. It may be received.

(The table referred to was marked "Exhibit No. 2325" and is included in the appendix on p. 15552.)

Mr. GESELL. I next have four tables all relating to the subject of agents' compensations, these tables to be known as "Exhibits Nos. 2326, 2327, 2327–A, and 2328," respectively. They are entitled "Compensation of Agents" and show both by amount of money and in a percentage basis, various amounts received in categories, together with the highest commissions paid (and a list of companies) to the whole-time and part-time agents.

I might say that these figures, particularly those contained in "Exhibit No. 2326" and "Exhibit No. 2327" show information for whole-time agents employed at any time during the year 1938. For that reason the compensation figures may appear to be somewhat lower than they would be if we showed figures for whole-time agents employed during the entire year. I do want to say, however, that the Commission requested information from the companies showing that compensation information for agents employed during the entire year, but that the companies were not in a position to give us that information.

Acting Chairman PIKE. They may be received.

(The tables referred to were marked "Exhibits Nos. 2326, 2327, 2327–A, and 2328" and are included in the appendix on pp. 15552–15555.)

Mr. GESELL. "Exhibit No. 2327–A" lists the 27 companies from which the compensation information has been obtained.

The first witness this morning is Mr. Zimmerman.

Acting Chairman PIKE. Do you solemnly swear that the evidence you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth?

Mr. ZIMMERMAN. I do.

TESTIMONY OF CHARLES J. ZIMMERMAN, PRESIDENT, NATIONAL ASSOCIATION OF LIFE UNDERWRITERS, CHICAGO, ILL.

Mr. GESELL. Will you state your full name and your address for the record, please, sir?

Mr. ZIMMERMAN. Charles J. Zimmerman, 1 North La Salle Street, Chicago, Ill.

Mr. GESELL. What is your official position in the National Association of Life Underwriters?

Mr. ZIMMERMAN. I am president of the association.

Mr. GESELL. My understanding is that a new president is appointed each year and you are the president for this year.

Mr. ZIMMERMAN. Yes; he is elected each year.

Mr. GESELL. How do you make your living?

Mr. ZIMMERMAN. By selling life insurance and managing an agency in Chicago.

Mr. GESELL. You are a general agent in Chicago?

Mr. ZIMMERMAN. Yes, sir.

Mr. GESELL. For what company?

Mr. ZIMMERMAN. Connecticut Mutual Life Insurance Co.

Mr. GESELL. How big an agency do you have?

Mr. ZIMMERMAN. The second largest in the company at the moment; it produces in excess of 5 million.

Mr. GESELL. How many agents do you have?

Mr. ZIMMERMAN. Twenty-one.

Mr. GESELL. Is it the biggest general agency in Chicago?

Mr. ZIMMERMAN. No, sir; not by any means.

Mr. GESELL. Tell us how long you have been selling insurance.

Mr. ZIMMERMAN. Since 1926.

Mr. GESELL. Did you start out as an agent and then become a general agent?

Mr. ZIMMERMAN. I started as an agent in New York and became a supervisor and then a general agent.

Mr. GESELL. What companies have you been with?

Mr. ZIMMERMAN. I have been with the same company all the way through.

Mr. GESELL. With the Connecticut Mutual?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. Will you tell us a little about the National Association of Life Underwriters, what kind of an organization it is, who its members are, how it functions, what its objectives are, information of that sort?

Mr. ZIMMERMAN. The national association is an organization made up of life-insurance salesmen, supervisors, and general agents representing legal reserve life-insurance companies. It is a field organization. It is about 50 years old; as a matter of fact, it will be 51 years old in September, I believe. It is composed of about 30,000 members, or somewhat over 30,000 members, dues-paying members. It is represented in 48 States, the District of Columbia, Hawaii, and it has 348 local associations, which compose the national association. In other words, membership in a local automatically makes you a member of the national association.

The objectives of the national association I think I might best describe by reading to you from the constitution and bylaws. They are very brief.

This is article II, section 1, part 1, of the bylaws [reading from "Exhibit No. 2329"]:

To support and maintain the principle of legal reserve life insurance.

To advance public knowledge of legal reserve life insurance and its uses.

To promote the adoption and application of higher standards of ethical conduct in the profession of life underwriting and the business of life insurance.

To increase the knowledge of agents concerning legal reserve life insurance, its uses and its sale.

To provide through local associations for rendering community service and for forming enduring friendships.

To create and maintain a sound public opinion, to promote cooperation and good will, and in all other ways to promote the best interest of legal reserve life insurance.

May I enter that?

Mr. GESELL. Yes. I would like to have that for the record.

Acting Chairman PIKE. It may be received.

(The booklet referred to was marked "Exhibit No. 2329" and is included in the appendix on pp. 15555–15556.)

Mr. ZIMMERMAN. We also have a code of ethics which I would like to enter in the record; I don't believe it is necessary to go into detail on that.

Mr. GESELL. I would like also to offer this code of ethics in the record.

Acting Chairman PIKE. It may be received.

(The card referred to was marked "Exhibit No. 2330" and is included in the appendix on p. 15556.)

Mr. ZIMMERMAN. I would also like to offer the objectives of the association for 1938.

Mr. GESELL. I will hold those out for a moment.[1] We will come to that in special discussion.

You say you have about 30,000 members. Are they both soliciting agents and general agents?

Mr. ZIMMERMAN. Yes; they are both soliciting and general agents. The great majority, I should say perhaps twenty-five to twenty-six thousand, are soliciting agents.

Mr. GESELL. What about home office employees of agency departments?

Mr. ZIMMERMAN. Home office employees are not eligible for what we call regular membership. They may be associate members. There is a very small group of those.

Mr. GESELL. Strictly an organization for the field men?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. Do you have members who sell industrial insurance as well as ordinary insurance?

Mr. ZIMMERMAN. Yes; we do.

Mr. GESELL. Is your membership by and large made up of men who sell ordinary insurance?

Mr. ZIMMERMAN. Yes; in the majority.

Mr. GESELL. As president of this organization you have traveled all over the country, haven't you?

Mr. ZIMMERMAN. Yes, sir.

Mr. GESELL. You have seen agents from different companies and in different cities, and have gotten some idea of what their problems are?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. Can you give us some idea of how closely you are in contact with the agents' problems?

Mr. ZIMMERMAN. I have visited in the last 4 months probably 60 or 75 local associations throughout the country. At those associations we have an opportunity to meet in each case with, first of all, the entire association membership. That is a formal meeting, usually with a talk; then we meet with the officers and directors of the association; that is an informal meeting at which we discuss field problems and association problems; and then a third meeting with the general

---

[1] Subsequently entered as "Exhibit No. 2333," infra, p. 15357. See appendix, p. 15559–15560.

agents and managers in which we discuss managerial problems which, of course, are also field problems, so we get a pretty good cross-section of what is going on throughout the country.

Mr. GESELL. I take it agents write you and you see them in your travels, have dinners with them, and things of that sort?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. First of all, I wanted to discuss with you a little what an agent has to do, what kind of knowledge he has to have before selling insurance, what kind of services he has to perform to service his policyholders, and matters of that sort.

Mr. ZIMMERMAN. Well, the job of the agent is quite complex. I would say that certainly one of his functions is to sell life insurance. His function is to sell life insurance intelligently, fitting the insurance to the particular problem of the prospect. In many cases it is necessary for the agent to show that there is such a problem existent, because the average man is pretty busy, and he doesn't take time to think about any such problems. Having shown that the problem is existent, it is necessary for him to show that there is a solution to the problem; if that happens to be a life-insurance solution, which it is in some instances, he naturally makes a recommendation that life insurance be purchased to solve that particular problem.

Then it is necessary for him, in many instances, to correlate that life insurance with the man's other real and personal property. For example, he may advise a man to have his will drawn or redrawn. He may advise him to set up a trust agreement in order to handle certain problems, he may advise that he set up a business-insurance agreement of some sort so that if he should die as a partner, for example, the surviving partner or partners can purchase his interest, and his estate get a fair return for it.

He has to be well versed, or should be, at least, in matters of taxation, if he is going to enter into large-income brackets. That is part of his job. Another part of it, having sold the business, is to conserve it from time to time.

Mr. HENDERSON. On the tax side, what do you mean, familiar with taxes?

Mr. ZIMMERMAN. In connection with taxes? Well, there is a great deal of misunderstanding, in regard to tax problems. A great many men do not know, for instance, that there are certain tax exemptions which they can legally take advantage of; for example, $40,000 of life insurance is exempt from Federal estate tax. He also has an exemption of forty thousand of real and personal property.

Now, the estate should be set up so the man may legally take advantage of the tax exemptions given him by the law.

In addition, there is a good deal of misunderstanding; many men think that life-insurance premiums paid by a corporation may be deducted from income tax. That is not true, so the agent's job is not only to point out the tax exemptions but to point out those items that are taxable under the law, both income and estate.

He is also required to be familiar with the inheritance taxes or estate taxes in the State in which he operates.

Mr. GESELL. Before we come to the question of the conservation of the business and the servicing of the policyholder, there has been increasing emphasis, has there not, on programming?

Mr. ZIMMERMAN. Yes; that has in the last 10 years, and particularly in the last 5 years, been emphasized to a very great extent. It seems to be a logical way of selling.

Mr. GESELL. As I understand programming in its simplest terms, it means, everything else being possible, the agent sits down soon after a child is born and works out his educational program and his protection program and his retirement program and helps him fix up his estate, and really takes him from the cradle until after he is dead.

Mr. ZIMMERMAN. Yes; that is true. You see, a great many people buy life insurance on a hit-or-miss basis. Now, a programming job is an endeavor on the part of the agent to tie all of those policies in various companies into one pattern in order to carry out the man's objectives. I could illustrate that with a recent example of programing. For example, here is an individual who had bought life insurance as a single man over a period of 10 years, then he became married and was expecting a youngster. The situation changed. A programing job then consisted of going to him and asking him what his objectives were. They vary for different individuals, naturally. In this particular instance, he felt, first of all, that he wanted to leave enough insurance in cash to pay what we call clean-up expenses. In other words, he can't pay his way into the world but he wants to pay it out of the world and leave a clean slate for the beneficiary to start with.

In the second place, he wanted to continue his full salary for a period of 3 years to his wife—we call that a readjustment fund—realizing she would have to readjust herself to a lower standard of living eventually, but he didn't want to have that happen overnight.

In the third place, he wanted to have his wife receive a minimum income in this instance of $150 a month while this youngster was growing up, feeling that was the minimum she could get along on.

Then he wanted to give this youngster a college education, so that required a plan for that particular purpose.

He wanted to pay the mortgage off on the home so his wife could live on the same side of the railroad tracks.

He also wanted to have an emergency fund, realizing that he was giving minimum figures all the time and should there be a serious illness or emergency of some other nature, she could have some fund to draw on to meet that.

And finally, he wanted to have a retirement fund for himself.

He gives you the picture and then you take the raw material of these policies and you come back and show him whether he has sufficient insurance to do that job or whether he is lacking.

Mr. GESELL. And what changes should be made?

Mr. ZIMMERMAN. And what changes should be made.

Mr. GESELL. And I suppose that work has become particularly complicated in recent years with the development of educational programs, retirement programs, annuities, and that type of coverage.

Mr. ZIMMERMAN. Yes; the field is continually expanding in its requirements of specialized knowledge.

Mr. GESELL. Do you find in cases similar to those that you have talked about, for example, that when you get to this policyholder, he may have one policy in one company and one in another, and his program may be particularly difficult to adjust because he hasn't been with just one agent but has been subject to the influence of many different sellers?

Mr. ZIMMERMAN. Yes; you usually find he has a variety of policies, and it then becomes a question of coordinating the policies in the various companies into that particular pattern.

Mr. GESELL. I suppose the agent must be familiar with all the different plans of insurance which are covered, must he not, by his company?

Mr. ZIMMERMAN. Yes; he should have an exact knowledge of those, and those of other companies as well.

Mr. GESELL. That must make quite a job, Mr. Zimmerman. I noticed on the exhibit we offered, for example, 102 different plans of insurance offered by the Lincoln National, 125 different plans of insurance offered by the Mutual Life, 92 plans offered by the American United—just pulling the figures out at random.[1]

Mr. ZIMMERMAN. It isn't as complicated as it would seem, Mr. Gesell, because after all there are only four basic policies, and I think an analysis of sales would show that perhaps 8 or 10 policies in the company's kit would be most generally used. Now, these other policies are inserted there to meet particular requirements in many cases.

Mr. GESELL. And your agent certainly must have to know those policy forms so that when he bumps into a policyholder who has those particular requirements, he says, "I remember, Form 2226, and here it is."

Mr. ZIMMERMAN. Yes. If he has a knowledge of the fundamentals, however, that becomes comparatively simple, I would say.

Mr. GESELL. Coming to the servicing side of this question, I interrupted when you were just saying that it is the agent's job to conserve the business.

Mr. ZIMMERMAN. Yes; the agent quite often has to reaffirm a man's good intentions, and sometimes he has to do that for various reasons—I mean, economic conditions have changed, or there has been the loss of a job, or simply the man has become unsold on what he bought. There are a number of things which make it necessary for the agent constantly to keep in touch with the policyholder to conserve the business which he and other agents have originally put on the books.

There are many other things which, of course, he has to give service on. For example, the policyholder makes a loan, or he wants a change of beneficiary, or to change his income agreement, or in some instances change the plan of insurance, or add features to his policy, such as family income, waiver of premium, double indemnity which he didn't have originally, perhaps didn't need; sometimes it is necessary to give advice as to when a policy lapses, whether to take paid-up or extended insurance. In some instances it is necessary to finance him.

Mr. GESELL. What was that?

Mr. ZIMMERMAN. That is off the record, I hope.

Mr. GESELL. You said in some instances it was necessary even to finance him—I suppose you mean help him get started with the program?

Mr. ZIMMERMAN. And help him keep it.

---

[1] "Exhibit No. 2323," appendix, pp. 15547–15550.

Mr. GESELL. I suppose the provision of settlement agreements are other things the agent must do?

Mr. ZIMMERMAN. Yes, because a man's picture continually changes. He goes through life, gets married and has youngsters, they grow up, and there is always a different situation.

Mr. GESELL. And the agent must give advice, must he not, as to how the policyholder will handle his dividends, whether he will put them back in paid-up additions, use them to reduce the premiums, or take them in cash, or some other way?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. And methods of premium payment I presume the policyholder needs advice on? He may start off on an annual basis and want to get on a quarterly basis.

Mr. ZIMMERMAN. That is right, or vice versa.

Mr. GESELL. And does the agent render any service in connection with the payment of claims?

Mr. ZIMMERMAN. Yes; in almost all cases he renders that service in taking the claim papers out to the beneficiary, the attending physician, getting the affidavits from the undertaker, whatever the requirements are, and he sees that the proper settlements are made and the claim check paid.

Mr. GESELL. You feel the agent is important to the company in the handling of claims, that it has to depend on the agent to get accurate facts and make sure there is rapid payment?

Mr. ZIMMERMAN. No; I don't believe that is necessary, but I do feel this, that many insurance policies are left in cash and the service of the agent in advising the beneficiary as to whether to take cash or take one of the income agreements is invaluable.

Mr. GESELL. Then, I suppose that the agents to some extent have to look after what we called the orphaned policyholders, policyholders who are sold by one agent and he has left the business and now the policyholder is agentless?

Mr. ZIMMERMAN. That is right, that is one of their functions.

Mr. GESELL. Is it the usual practice for the general agent to assign some agent in his office to service that particular policyholder?

Mr. ZIMMERMAN. Yes; that is the procedure. In our own organization, and I think this is true in most, we ask our agents to service these policyholders, orphaned policyholders. An agent has the right to decline that if he wishes to. Most of them, however, want to service those policyholders on the basis of, first of all, rendering a service to the individual and, secondly, as a possibility for future business.

Mr. GESELL. We get quite a few letters from agents telling us about the extra curricular work they have to do, standing in line for theater tickets and sending flowers and buying birthday presents. I suppose there is a lot of that?

Mr. ZIMMERMAN. Well, that depends on the method of operation. Some agents give a good deal of extra-curricular service and others tend strictly to their knitting and think it is up to the individual to get his own theater tickets.

Mr. GESELL. Now, coming down to a little more specific discussion, Mr. Zimmerman, we have come across in our work certain problems which appear to exist in the agency field, and I want to get your ideas on it. One of those problems is the problem of turn-over. For example, a table which was introduced, shows that after December 31, 1938, there were 43,452 agents in the 45 companies shown there, and during that year the companies took on over 15,000 and terminated over 16,000 agents.[1] And there seems to have been in the years prior to that, as shown on this schedule, an equal amount of turn-over of agents coming in and out, leaving the business all the time. Are we right in considering that one of the problems which is facing the agency side of the business?

Mr. Zimmerman. Yes; that is absolutely right. It is a serious problem.

Mr. Gesell. What are the causes of it, Mr. Zimmerman?

Mr. Zimmerman. Well, there are many causes of turn-over which apply, I should say, equally to all sales organizations. I speak now of the life insurance business because it is the only one with which I am familiar as regards sales. One cause of turn-over undoubtedly is lack of fitness for the business itself.

Mr. Gesell. You mean a man was poorly selected originally.

Mr. Zimmerman. That is right. Another cause of turn-over would be lack of earnings, proper earnings, which, of course, gets back to lack of fitness in many cases. In some instances, however, it gets back to the fact that the individual dislikes the business so he won't do the job adequately, he doesn't hit the ball hard enough.

Mr. Gesell. Inability to make a living?

Mr. Zimmerman. That is right. In some instances it gets back to the fact that the individual himself is perhaps temperamentally unsuited for sales work. He has never tried it before, thinks he would like it, and we think he would like it, but as he gets into it we find out he doesn't like it and is not fitted for it, again.

In some instances it is due to the fact, of course, that the man is dishonest—those are rare instances, but we run across them—or unethical. There again it calls for elimination of the man.

Mr. Gesell. I suppose those are like cases of smallpox or getting an inheritance, a very small percentage?

Mr. Zimmerman. They are rare; that is right.

Mr. Gesell. Most of it gets back to the selection and the ability of the man to fit himself into the business?

Mr. Zimmerman. That is right. The life-insurance business is not an easy sales business. As I have said in developing the things that the agent does, it requires, I think, a high degree of, oh, perhaps not only salesmanship, but I think a higher degree of trusteeship in many senses than other lines of business. It requires a greater degree of imagination because we are selling an intangible. So it is not an easy business.

Mr. Henderson. Mr. Zimmerman, as you perhaps know, I sent out a letter myself to a lot of agents and I asked them about this turn-over thing. I think I ought to say that I have been reading the answers to questionnaires for a good many years; in fact, it has been one of my jobs, and I don't know when I have gotten as much real thrill out of reading letters, or gotten as much real satisfaction from returns as I did from these questionnaires.

---

[1] See "Exhibit No. 2324," appendix, p. 15551.

One thing—I don't know how we are going to be able to use it, but one thing struck me. It runs along in two or three of the answers I have selected here. A fellow says he "believes the constant turn-over and entrance of new agents into the business hinders the sale of life insurance. It cheapens the profession."

That struck me this way; I wondered how it would strike you. It would cheapen the medical profession or the legal profession if there was a constant change of men. In other words, if 85 percent of the lawyers who started out in practice left the bar in less than 2 years, it would certainly be a blight on the legal profession. It would be the same thing if a retail dry-goods merchant had a constant change of personnel; it would certainly be a bad reflection on that type of work.

Is there any general prevalence of feeling about that?

Mr. ZIMMERMAN. Yes; there is a very definite feeling on the part of the better field men—and when I say the better field men I mean the men who have been in the business for a period of time, who are doing a better than average job, both from the standpoint of earnings and service—that turn-over is a serious problem, that it makes it a little more difficult for the good man to do his job.

Mr. HENDERSON. He is an insurance agent, and this fellow who has only been there a month is an insurance agent, both of them selling insurance, and the things which the neophyte does that draw, you might say, ridicule or opprobrium on him, reflect on the fellow who has made it a serious profession.

Mr. ZIMMERMAN. I don't think the problem is so much one of the induction of new men, because we are always going to have that—it is necessary for the growth and the strength of the business to replace normal lapsation through death and sickness and men leaving the business—as it is of letting men who are unfit hang on too long instead of getting them out of the business at a very early stage before they can do a good deal of damage. I think that is a more serious problem because after all we do have to have beginners and if they begin on the right level, in other words if a man new in the business doesn't try to do a taxation job or program job, he can render a real service to many smaller policyholders in the lower-income bracket.

I would like to add, that we recognize this as a serious problem to the extent that after a number of years of discussion, our association was, I think, perhaps primarily instrumental in having a great many companies subscribe to what is known as the Agency Practices Code, one of the features of which provides for the elimination of the unfit agent, and some definite progress is being made in that direction. You will notice from your chart here that, for example, the number of appointments made during the year are decreasing, and that the number of terminations are increasing,[1] which——

Acting Chairman PIKE (interposing). No; I don't see that, Mr. Zimmerman. I don't see that the number of terminations are increasing.

Mr. ZIMMERMAN. Pardon me, what I mean to say is that the number of terminations are greater than the number of appointments, so you end up with a smaller agency force each year, which means that you are first of all more careful in your selection, and in the

[1] See "Exhibit No. 2324," appendix, p. 15551.

second place you are becoming increasingly aware of the necessity of eliminating the unfit.

Acting Chairman PIKE. That is one interpretation you could put on the figures.

Mr. HENDERSON. That is what I was going to ask. Is the reduction due in part to the decline in the sale of new life contracts?

Mr. ZIMMERMAN. I should say not. I should say that primarily this is due to a very definite improvement in the selection of men, and a very definite consciousness, an increasing consciousness of the problem involved in turnover here.

Mr. GESELL. It must be a matter of degree, after all. If you are still taking in 15,000 and firing 16,000 a year, when you have your whole staff at 43,000, you have a long way to go.

Mr. ZIMMERMAN. That is true, we have a long way to go and no institution has reached perfection, no sales field has reached it, nor will it. I have here some figures which go back a little bit, but I took a look at them—a comparison of our turn-over in comparison with other sales lines. They are figures put out by the Dartnell Service. They list here 18 sales lines in which life insurance was seventh best in turn-over among the 18.

Acting Chairman PIKE. Are they all sales lines where the payment is made by commission?

Mr. ZIMMERMAN. Yes; these are all commission sales lines, that is right. Of course, the fact that the other fellow is not doing a good job and you can pat yourself and say, "We are better than he," is not a cause for satisfaction, but it is at least something we should realize. We are very introspective in the life-insurance business, self-analytical; we recognize these problems and are trying to solve them.

Mr. GESELL. It strikes me that sort of a comparison shows a lack of recognition of the problem, if I may say so. If you go around and sell somebody an icebox, or if you go around and place two or three Fuller brushes in the kitchen, you haven't initiated a contract or an arrangement which is going to have anywhere near the social consequences of placing a life-insurance policy in a house. There is no question about that, is there?

Mr. ZIMMERMAN. That is perfectly true.

Mr. GESELL. And wouldn't you say a life-insurance agent was a different kind of fellow than the fellow that sold Fuller brushes or sold magazines to work his way through college, or that sold commodities like that where it was a question of placing one commodity in a household as against the programming and servicing of a policyholder such as you have described here to us today?

Mr. ZIMMERMAN. Yes.

Mr. GESELL. It seems to me there is a vast difference.

Mr. ZIMMERMAN. I think our selling requires a greater knowledge, and it is on a higher plane than most other lines.

Mr. GESELL. Then the comparison is pretty faulty, isn't it? If you are not doing any better job than some of these lines that are putting on men to sell ice boxes or Fuller brushes, whatever you want to include in that line, you are not doing a job which is commensurate with the social responsibility involved.

Mr. ZIMMERMAN. Mr. Gesell, I would say this, that we certainly are not satisfied with the job we are doing. We have a long way to go in that direction. I do think, as a matter of fact, I know, that progress is being made. We are aware of the problem as an association; I believe the companies are aware of it. I believe we will never hit perfection, naturally, but I do believe we can solve this thing over a period of time.

Mr. GESELL. What are the disadvantages of turn-over in the life-insurance business? It leads to lapse, first of all.

Mr. ZIMMERMAN. Yes; in some cases, it leads to lapse and in some cases it leads to dissatisfaction on the part of the policyholder because perhaps he has been incorrectly sold, sold the wrong type of protection. It leads to expense, economic waste.

Mr. GESELL. Raises net cost, doesn't it?

Mr. ZIMMERMAN. Yes.

Mr. GESELL. It also means that the man like yourself running a general agency is spending all his time trying to break in a few fellows and make them fit into the organization, and spending very little time on the development of the good men who are in the organization.

Mr. ZIMMERMAN. That is apt to be a trend if you are not careful.

Mr. GESELL. We had a letter in the record here from Mr. Duff of the Equitable, who has a pretty big general agency, I believe, and he indicated that practically the majority of his time was spent with an insignificant portion of the men whom he was trying to get into the business.[1]

Mr. ZIMMERMAN. That is a very large agency, and perhaps that is Mr. Duff's exclusive function, the selection of men or the training of men. I wouldn't know the details of that. But I would say this, that there is a danger in the average agency of devoting too much time to the man who requires it because he is not as well fitted as certain other individuals.

Mr. GESELL. Do you think there are too many agents in the country, too many life-insurance agents?

Mr. ZIMMERMAN. No; I do not. I think there are not enough good agents. I think there are too many in toto, perhaps, too many who are not qualified for the business.

Mr. GESELL. I would say we received in response to the letter which we sent out probably a couple of thousand replies, and in almost every reply, the agent said he thought there were too many agents. I am rather surprised you disagree.

Mr. ZIMMERMAN. I think I qualified my remarks and said I didn't believe there were too many good agents in the business.

Mr. GESELL. I asked you whether you thought there were too many agents in the business.

Mr. ZIMMERMAN. That would be pretty hard to judge, Mr. Gesell. I don't think there is any way of judging it, as a matter of fact. For example, we are in an expanding market in the sense that we haven't begun to reach a saturation point. To me it would be quite conceivable that a group of agents—let's say there are approximately 135,000 full-time agents in the business today—that we could have 135,000 agents producing twice the volume of business that is being produced today, in which case all of them would be making a good living out of the business. In other words, I can't agree with

[1] See Hearings, Part 13, "Exhibit No. 1334," appendix, p. 6991.

the premise there are too many agents. I can agree with the fact that there are too many unfit agents in the business.

Mr. GESELL. I think that gets at it.

Mr. HENDERSON. Just a minute. You say you are in an expanding business. New business has been on the decline for quite some time.

Mr. ZIMMERMAN. The figures show that new business declined from 1930, which was the high light, I think, down to 1933 or '34, since which time there has been a gradual improvement, with 1937 or 1938 I believe again the high spot, followed by a slight falling off in '39. I say it is an expanding business, Mr. Henderson, on this basis, that there are many functions which life insurance performs where we have not scratched the market. I refer, for example, to pension trusts.

Mr. HENDERSON. What you mean is that it could expand?

Mr. ZIMMERMAN. That is right.

Mr. HENDERSON. There is the chart of the new business, and that is decidedly a downward trend.[1] I don't believe we are far apart, Mr. Zimmerman. What I am pointing out is that new business, as it is presently written, has been on the decline, and I think you are emphasizing what the president of Penn Mutual was talking about, potentiality, or the number of things for which security could be provided via the insurance method.

Mr. ZIMMERMAN. That is right.

Mr. HENDERSON. Maybe that emphasizes, too, that if you are really going to get that expansion, you probably won't get it with this kind of turn-over, and you won't get it with a retention of men who are qualified, you might say, to sell an ordinary life policy to somebody who was going to buy it sometime anyway.

Mr. ZIMMERMAN. I would say that that, of course, is in the realm of theory. We wouldn't know the answer. I would say it would be more difficult to get the expansion under present conditions with that set-up as it is than it would if we were able to eliminate that problem.

Mr. HENDERSON. While I am on the subject, I notice one of the things in these letters is the pride some of the men take in being a life underwriter and a chartered life underwriter, and the professional status that they seem to get. I read part of one letter where one agent said that this turn-over does interfere with its being considered a profession. I didn't get quite clear what your comment was on that. Do the men in the higher brackets particularly regard this as a profession?

Mr. ZIMMERMAN. Oh, absolutely.

Mr. HENDERSON. You don't regard it as a salesman's job, do you?

Mr. ZIMMERMAN. No; although selling is naturally one of the essentials of the job, but we regard it as a profession on the basis that the interests of the policyholder and clients are always put uppermost, with the selling end of it as a secondary matter.

Mr. HENDERSON. It isn't a get-your-foot-inside-the-door kind of selling, is it?

Mr. ZIMMERMAN. That is never necessary if you are doing the job intelligently.

---

[1] See Hearings, Part 10–A, p. 27.

Mr. HENDERSON. Isn't that emphasizing the desirability you have pointed out of a higher grade of person?

Mr. ZIMMERMAN. That is right.

Mr. HENDERSON. Maybe we have too many agents as such with the existing volume of business, maybe we don't have enough agents for the kind of service that you contemplate. Is that it?

Mr. ZIMMERMAN. I think that is an accurate statement. It is my opinion, at least, on the question, and I think the opinion of most field men.

Mr. HENDERSON. Since we are dealing with existing conditions I would like your comment on what kind of pressures are put on men in the low-income brackets under existing conditions to produce. There seems to be running all through these letters the feeling that there was a limitation. Most of them thought there was a saturation point on existing business.

Mr. ZIMMERMAN. Well, the economic pressure of course is the most drastic that is put on any individual in the low-income group who isn't earning sufficient money, let us say, to meet his requirements. Naturally that is the most important pressure that is put on the individual who is not doing a good job of selling life insurance, as it is true in any other line or profession.

Mr. GESELL. I think perhaps if we develop a little about selection and training before getting into compensation, Mr. Henderson, it will be a bit more easy to follow.

What should you do to properly train an agent, Mr. Zimmerman? Should he have a mandatory training course, first of all?

Mr. ZIMMERMAN. Well, absolutely, he should be required to study the fundamentals, the functions, the mathematical background, the actuarial background of life insurance; he should know something about the history of the business; he certainly should know about various types of policies, which needs they will fit. We call that a preliminary training course. He should know incidentally how to conduct himself before the public so that he makes a good impression; in other words, he has to know something about selling, which many men don't when they come into the business.

Mr. GESELL. How long should that take?

Mr. ZIMMERMAN. That is a matter of opinion. I think that should range anywhere from, let's say, 2 to 6 weeks, and it depends a good deal on the type of training. For example, it is a lot easier to train a man if you take him individually than it is if you take a group of six or eight men and train them. If you take six or eight you are going to have to devote more time to it and take a longer period.

Mr. GESELL. I assume there must be a lot of this lump training going on considering the number of men being taken on each year.

Mr. ZIMMERMAN. Surprisingly—I say surprisingly because the matter of training I think is greatly misunderstood—tremendous progress has been made in that direction, in the last 5 years particularly. I know of no company that does not have a training course.

Mr. GESELL. I can tell you that out of 57 companies answering our questionnaire 36 don't have a mandatory course. A minute ago you said you thought a mandatory course was essential.

Mr. ZIMMERMAN. I would say this, Mr. Gesell, that my own company has a training course. It is not mandatory for the simple reason that the company as a matter of common sense knows that the general agents will use that training course, or one equivalent to it and as good, in the training of new men. There be no compulsion on that basis.

Mr. GESELL. Then you wish to withdraw what you said with respect to a mandatory training course?

Mr. ZIMMERMAN. I should say it was mandatory on the basis of the general agent naturally training every man that came into the business, but the point is that it is only logical that he do it rather than that he be compelled to do it. There is no need for compulsion in that direction.

Mr. GESELL. Do you feel that all general agents, people you have seen around the countryside, are thoroughly qualified without direction or suggestion from the home office to adequately train an agent?

Mr. ZIMMERMAN. Well, there again I would say no.

Mr. GESELL. We have got quite a few answers which indicate the companies haven't any information or knowledge as to what type of training courses the general agents are giving and in fact in some cases even whether they are giving any training course. If the general agents aren't qualified to handle that in all cases, there again is perhaps a place where it needs strengthening. Is that not correct?

Mr. ZIMMERMAN. That would certainly be true. On the other hand, I do say here again we could go a lot further than we have gone, but tremendous progress has been made in that direction. I would like to add that in that case I have some very interesting figures on the basis of life-insurance men in addition to their own company training wanting to get even more advanced training. For example, in the last 2 years there have been over 32,000 life-insurance men who at their own expense have enrolled in courses sponsored by the Life Underwriters' Association so that they can have a more advanced type of training and perhaps get some slants which their own company training would not give them.

Mr. GESELL. That kind of training, though, is the kind of training where a man learns to program, learns about income, retirement, and so on, by and large?

Mr. ZIMMERMAN. Yes; it starts with fundamentals and goes into more advanced fields.

Mr. GESELL. Do you think a man ought to be turned loose with a rate book within 2 or 3 weeks after he has joined a company?

Mr. ZIMMERMAN. I would say this, speaking again of our own agency, that we think in 3 weeks we can teach a man enough about the fundamentals of the business so that with the average prospect whom he will call on he can do a pretty constructive job. He naturally is not an expert along any line. But in addition to that we will send someone out with him on joint work to see whether he is qualified or not. If he isn't, we bring him back for a little more training.

Mr. GESELL. You said that you thought one of the causes for turnover was the fact that men were inadequately or improperly selected and poorly trained. You now are telling us that you think the selection and training is of pretty high quality and yet we have still a very serious turn-over. I am somewhat caught on the horns of a dilemma trying to understand just what your position is.

Mr. ZIMMERMAN. Here again I would like to say, Mr. Gesell, that real progress has been made in the matter of training; as a matter of fact I think perhaps more has been made in that direction than any other. We are still a long way from perfection. On the matter of selection the same thing is true. We have made progress in the selection of agents. For example, we are today using—and have been doing it only for the last 3 years because the material has not been available—the Insurance Aptitude Index test, the Verne Steward test, an I. Q. test, and the Strong adaptability test in vocational guidance, and things of that nature. We are making progress. We are never going to reach a point, Mr. Gesell, in our business or any other where we can pick a man and say, "this fellow will succeed in business." We can do a better job than we are doing today and I think we are beginning to do a better job.

Mr. GESELL. What about the licensing provisions in various States? Do they help on this question of selection? Do you find you want to take on agents when time and time again the State insurance departments turn them down because they can't meet their requirements of a particular State?

Mr. ZIMMERMAN. No; we don't find that, and I don't think it is possible to do that, Mr. Gesell.

Mr. GESELL. What do those licensing laws do besides get taxes? Do they weed out anybody at all?

Mr. ZIMMERMAN. Yes. There are eight States, for example—I believe the number is eight now—which require an examination.

Mr. GESELL. Is that one of those examinations where you give an agent 20 questions and say you are going to ask him 10 and he looks over the questions and answers and goes in and takes the exam?

Mr. ZIMMERMAN. I personally have taken three of those examinations, four of them, I guess, and as an experienced life insurance man, because when I started in the business no examination was required, I still found it necessary to do some study in connection with them. You can never make an examination of that type, Mr. Gesell, difficult enough to eliminate a great many men.

Mr. GESELL. That is the point I am getting at.

Mr. ZIMMERMAN. No examination will do that. You can make them stricter but here again I think there are two factors to take into consideration. One is a fundamental knowledge of life insurance, and the other is the mental attitude of the individual toward the business.

Mr. GESELL. Well, it seems to me there are three. Those two I agree with you on, and it seems to me there is one other. What about this bringing in of an agent who hasn't any financial security whatsoever and before he is adequately trained turning him loose to sell insurance when he has to sell to live? Do you think that is a healthy thing?

Mr. ZIMMERMAN. Decidedly not.

Mr. GESELL. That is happening.

Mr. ZIMMERMAN. Yes.

Mr. GESELL. The States have no requirement as to the financial backing that an agent must have before he takes on the business of being a life-insurance agent, have they?

Mr. ZIMMERMAN. No; they have not.

Mr. GESELL. And companies have no such requirement, have they, generally speaking?

Mr. ZIMMERMAN. Well, companies are beginning to put in requirements, Mr. Gesell. For example, many companies now require an agent to fill out what we call a confidential information form, in addition to the fact that he has to take these tests. In many instances—I speak of my own company again—if he doesn't rate on the aptitude index test at least C, we can't put him under contract. In the same way, the company would call our attention to the fact, if we were foolish enough to submit an application of a man who was broke and we weren't going to finance him, that he should not enter the business.

Mr. GESELL. We have heard a great deal in these letters, almost a unanimous opinion from these thousands and hundreds of agents, that a guaranteed minimum salary for a few years, 2 or 3 years, when a man is getting started so he doesn't have to go out and beg, borrow, or steal, and kick open doors to sell insurance, would be a healthy thing, yet the companies report to us only one or two instances where there is such a thing as a guaranteed minimum salary in effect. What do you think about it?

Mr. ZIMMERMAN. I think the entire matter of compensation, Mr. Gesell, is a very complicated matter. Anything based on salaries would have to be in the experimental stage.

Mr. GESELL. Why is that?

Mr. ZIMMERMAN. Because there hasn't been enough experience with it as yet.

Mr. GESELL. We had a man here on the stand who told us how it had worked in his company for several years.[1]

Mr. ZIMMERMAN. I think I am familiar with that testimony, and I think it has worked for a couple of years, hasn't it?

Mr. GESELL. Yes.

Mr. ZIMMERMAN. I would say that isn't a very long period of time on which to judge an experiment. Personally I have some ideas on compensation, but any change in compensation, I think, would have to come slowly and gradually.

Mr. GESELL. What are your ideas? You are a well-informed agent, perhaps more informed right now than perhaps any agent in the country. What are your ideas?

Mr. ZIMMERMAN. I appreciate the compliment, but these are my ideas, Mr. Gesell, and there is a great deal of disagreement in the business as to certain things. For example, many men would oppose any permanent salary plan—in fact, I think most men would.

Mr. GESELL. Let's get our definition clear. I am not talking about a permanent salary plan. I am talking about some kind of a guaranteed minimum salary for a period of 1, 2, 3, not more than 5 years, which would give a man some degree of security while he was learning the business, in the interests of not improperly selling in order to make a living, and that is what I am talking about.

Mr. ZIMMERMAN. Might I say this, then, that these ideas are mine, not original with me, but mine as I hold them, and they don't reflect

---

[1] See testimony of Mr. Arthur Coburn, Hearings, Part 13, p. 6586, et seq.

the opinion of the association or of the field forces generally, necessarily. I think there is a definite feeling on the part of the field forces, first of all, that any change in compensation cannot come out of the policyholder's pocket, it cannot be at his expense; in the second place, that it cannot be at the expense of the older man in favor of the new man; and in the third place, that it must come within certain limitations as set out by law, for example. On that basis, one of the criticisms of our business is the fact that the man who does a good job in his first year in the business, for example, still receives a very small cash income. Perhaps he pays for 100,000, which is a good job, and receives $600 or $700 in cash. Well, that is not enough to live on. Perhaps he has a standard of living of $1,200 or $1,500, so somebody has to make up the difference. Either he makes it up, which often he can't do, or the general agent or manager makes it up, and sometimes he can't, so you have that problem. Then you have the problem, I think in many instances, of men who have come into the business and who have gone out of it and are still continuing to receive what we call a renewal commission for rendering service which obviously they can't render. That is an economic waste.

Mr. GESELL. I want to come to the renewal commission problem in a moment, but I want to keep on this question of some kind of a salary for new men.

Mr. ZIMMERMAN. I believe—again my own personal belief—that a salary plan for perhaps 3 years to 5 years at a maximum on a decreasing scale, a minimum salary plus commission, to give the added incentive to go out and hit the ball, would be a desirable thing for the business, on the basis that it would help this man—take the pressure off of him in many instances—to go out and do a job; the pressure would still be strong enough, the incentive for him to do the job, because of the fact that he could earn additional commission; and in the second place, it would enable us to get better men into the business.

Mr. GESELL Now, we are beginning to get down to something, I think. If you pay a man something so he can live when he first comes into the business, you are going to be able to offer your job to a different clientele, aren't you? You are going to be able to get more college graduates, for example. You are going to get more people who want to look at it as a profession, as a career.

Mr. ZIMMERMAN. That is right.

Mr. GESELL. And as a result you are going to have over a period of time a better trained, more professional, agency crowd. Isn't that right?

Mr. ZIMMERMAN. I think that is true.

Mr. GESELL. In addition you are going to have men who are not going to be under the serious economic compulsion of going out and placing a policy for the sake of bringing home some food at night.

Mr. ZIMMERMAN. That is right. It will take the pressure off.

Mr. GESELL. And you feel very definitely that pressure is there on the new men, do you not?

Mr. ZIMMERMAN. It is on some of them, yes; it is on too many of them, let's say.

Mr. GESELL. We are talking, I understand, about the pressure that is inherent in the situation, not the pressure that comes from some guy pounding the table in front of the agent.

Mr. ZIMMERMAN. That is right.

Mr. GESELL. And you would feel that if this was a minimum, just as the word indicates, and a man might go above that if he were a successful agent and were placing insurance through some commission arrangement, that that would be desirable in that it would keep a man alert and interested in improving his status.

Mr. ZIMMERMAN. Yes; that is my personal opinion.

Mr. GESELL. Why are you so hesitant to state the position of your association?

Mr. ZIMMERMAN. On that particular matter?

Mr. GESELL. Yes.

Mr. ZIMMERMAN. The entire matter is under study, Mr. Gesell. There is a committee which has been appointed known as the committee on agents' compensation, a very powerful committee. We, as an association, have made no recommendations. I, as an individual, have made recommendations. As a matter of fact, this is a very complicated subject.

Mr. GESELL. Why is that?

Mr. ZIMMERMAN. A great deal of information is lacking on it, and for that reason, I don't think our association should put itself on record as favoring 1, 2, 3, 4, 5. We can express opinions, and I think when I express my personal opinion that I am perhaps expressing the opinion of a majority of our members.

Mr. GESELL. I think you must be, from the type of replies we got in the returns. There is almost a unanimous opinion on that among not only new men who would naturally feel that way but among established agents.

Let's get into this compensation matter a little more. Generally speaking, how is an agent compensated?

Mr. ZIMMERMAN. He is compensated on a first-year commission plus a so-called renewal or service commission basis which usually runs for 9 years in addition to the first year.

Mr. GESELL. Does he get that renewal regardless of whether or not he stays with the company?

Mr. ZIMMERMAN. That depends on the company. In many instances he does.

Mr. GESELL. You mean after he leaves the company, he still gets the renewals?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. Even if he is working for another company?

Mr. ZIMMERMAN. Oh, yes.

Mr. GESELL. What is the renewal commission for?

Mr. ZIMMERMAN. There are two concepts of it. One concept is that this is deferred first-year commission. I think the sounder concept is the second, that it is a service commission.

Mr. GESELL. I think I would certainly agree with you there. How do you pay a service commission to a man who is no longer with the company? How is that justified?

Mr. ZIMMERMAN. You can pay it to a man no longer in the company because if he remains in the territory, even with another company, he will still service his own policies and his clients.

Mr. GESELL. Whom does he service them for, the company he happens to be with or the company he was with?

Mr. ZIMMERMAN. He will be ethical enough to service them for the interests of the policyholder.

Acting Chairman PIKE. That is quite a strain.

Mr. ZIMMERMAN. No; because he wants to give that service, and he knows only by giving that service will he continue to enjoy the good will of that policyholder for the getting of new business.

Acting Chairman PIKE. And the company he is with will recognize that?

Mr. ZIMMERMAN. Yes; I don't believe there is any problem there. I think perhaps the problem there would be for the man who gets out of the business, where he can't render the service and still receives a compensation.

Acting Chairman PIKE. There is a real problem there. I think I agree with Mr. Gesell that there is a distinct doubt as to whether that thing should stay with the agent who leaves, unless you take the first concept, that it is part of his first-year commission.

Mr. GESELL. I was wondering this, Mr. Zimmerman: You talked about the services a little while ago and you talked about revision of settlement agreements, dividends, assignments, changing situations, claims, matters of that sort. Those don't end at any given period, do they?

Mr. ZIMMERMAN. That is right, and we are continually serving the policyholders and policies of other companies.

Mr. GESELL. How big is the first-year commission, and how big is the renewal, generally speaking? I know there is wide variation.

Mr. ZIMMERMAN. There is wide variation. Usually there is a proportion of about 8 to 1 between the first-year commission, probably 9 to 1 between first-year and renewal commission.

Mr. GESELL. What would you think about paying an agent a little lower first-year commission and stretching his renewal commissions out over a longer period?

Mr. ZIMMERMAN. Well, personally I think that would be a good idea again. There would be some opposition to it, naturally, but I think there might very well be a reduction, let's say of 10 percent in first-year commissions, with the renewal commission or service commission paid as long as the policy is a premium-paying policy.

To me, there is no logic in the fact that when I get to the tenth year, my service commission stops, because quite often I have to do as much service in the twelfth or thirteenth year as I do in the sixth or seventh.

Mr. GESELL. There is no logic in it to me, either, Mr. Zimmerman. You think it would be a healthy thing to reduce the first-year commission and extend the renewal commission over a longer period?

Mr. ZIMMERMAN. I do.

Mr. GESELL. Do you feel that would affect the good agent? Would it raise his compensation or would it lessen it?

Mr. ZIMMERMAN. The good agent has had a problem, particularly in the last 10 years, the problem of servicing old policyholders, and undoubtedly it has affected the compensation of many of the best agents who have a large volume of business on the books, on the basis that so much time is required for service. You see, we have been going through this economic cycle where people have had to make loans, and so forth, and he has had to give a lot of time to service, so he could not devote the usual amount of time to getting new business. Therefore his income has suffered.

Mr. GESELL. Would you take a renewal commission away from a man when he went to another company?

Mr. ZIMMERMAN. No; I would not. I would perhaps decrease it.

Now, Mr. Pike, that is a question that you asked, too. I want to make this point clear: This is again my opinion.

Acting Chairman PIKE. I think perhaps Mr. Gesell meant if he went to another company and stayed in a territory where he physically could service the thing.

Mr. ZIMMERMAN. I would, Mr. Gesell, favor perhaps a considerable reduction, but I don't think life-insurance men as a whole ever want to give up their independent status and independence of action in moving. In other words, if you place too great a penalty on change, then you reach a point where you just lose your freedom of action.

Mr. GESELL. There has been a great development along just that line, such as the Nylic plan, to keep an agent from jumping around from one company to another.

Mr. ZIMMERMAN. Generally that is a good thing, but it can be carried to extremes, to a point where an agent can't express his own opinion in making a change when he so desires.

Mr. GESELL. On these renewals, what is the difference between a vested and a nonvested renewal?

Mr. ZIMMERMAN. A vested renewal is one which you continue to get, regardless of circumstances, and an unvested renewal is one which would stop under certain conditions.

Mr. GESELL. Is it true that there are companies where, when an agent leaves, those renewals continue but vest in the general agent and no longer pay to the agent?

Mr. ZIMMERMAN. Yes; that is true in certain instances.

Mr. GESELL. Isn't that a pretty difficult situation to contend with? If I were a general agent and needed a little cash, I think I would be inclined to bring in a lot of people to sell their uncles and families and in-laws, and then just as soon terminate them and have the advantage of the renewals that are vested.

Mr. ZIMMERMAN. There is a current danger there. Very frankly, I think those cases are the exception to the rule.

Mr. GESELL. You think they could exist, however?

Mr. ZIMMERMAN. They do exist. Usually even when the general agent gets these so-called forfeitures he would use them in the development of new men rather than swell his own income or something of that nature.

I would like to bring this point out in this connection again. If we take away a vested renewal and make it a true service renewal, as long as the policy is a true premium-paying policy, then you must substitute something for it, and the substitution must be a contributory pension plan for our field men, and there is a very vocal demand for it.

Mr. GESELL. That is an interesting point. I was in these letters quite interested to see that in the life-insurance business where social security and questions of pension are held pretty much uppermost in every respect, that there is no system for the agent which gives him any security. He is not under social security, is he?

Mr. ZIMMERMAN. In most instances, no.

Mr. GESELL. And there is very little development along the pension-line system for agents, isn't that right?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. And yet, by and large, the home offices have developed that to a great extent for the home-office employees.

Mr. ZIMMERMAN. Yes; most of them are under social security, and in many instances there are other provisions.

Mr. GESELL. I suppose that an agent who is a producing agent, an effective agent, and gives his life to the business, may find as he approaches old age that he has more difficulty in selling insurance, he has exhausted his circle of influence, or whatever you fellows call it, and his renewals begin to run out, and he has nothing to tie back to at all.

Mr. ZIMMERMAN. That is a real problem, and as you get older—selling requires physical strength among other things—you are bound to begin slipping, and so you must have, you should have, something to offset it. Theoretically, you may say, "take your own medicine"——

Mr. GESELL (interposing). Take some insurance.

Mr. ZIMMERMAN. That is right, and we do. On the other hand, these pension plans, contributory pension plans, have been very successful in industrial organizations, other organizations, and I think the field men of the country very, very strongly would desire a plan of that kind for themselves.

Mr. GESELL. Do you think that better men would come into the business if they had some kind of economic security to look forward to later on?

Mr. ZIMMERMAN. Yes, I do. It is quite surprising, in interviewing college graduates particularly—that is, seniors at college—to find out within the last 10 years the emphasis that is placed on security, almost to the extent of placing it above opportunity.

Acting Chairman PIKE. We have heard quite a lot about it in the last few years.

Mr. GESELL. You fellows have helped educate us.

Mr. ZIMMERMAN. That is right.

Mr. GESELL. How would this thing work? Would you feel that at a certain age an agent ought to have some kind of regular pension system, or would it be some basic change in the commission system as such in later years?

Mr. ZIMMERMAN. It would be, in my opinion, a contributory pension plan which was vested in the agent.

Mr. GESELL. Is it true that agents have to have a lot of out-of-pocket expense to carry on their business?

Mr. ZIMMERMAN. There is some expense; I should say, as a general rule, it would be about 10 percent of gross income. That is a guess.

Mr. GESELL. Is it the tendency of an agent, when he has a good year, to use the difference to build up new business?

Mr. ZIMMERMAN. If he is forward looking, yes; then he begins to invest in himself because he is in business for himself.

Mr. GESELL. I take it that would be one of the reasons why a lot of agents when they reach retirement age don't have an awful lot aside.

Mr. ZIMMERMAN. Yes; that is one reason for it, they have invested in the business heavily. There are other reasons—this matter of getting older and beginning to slip on that basis.

Mr. GESELL. What about, briefly, the compensation of the general agent? How is he usually compensated?

Mr. ZIMMERMAN. He is usually compensated on an overwriting commission basis.

Mr. GESELL. What do you mean by that? He gets a percentage commission on what his men sell?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. Then, I take it he gets a commission on what he sells himself?

Mr. ZIMMERMAN. Yes.

Mr. GESELL. Does he get also some kind of a minimum guaranteed salary?

Mr. ZIMMERMAN. In some instances in the early years.

Mr. GESELL. And he has, in some cases, the right to the renewals of men who leave his service?

Mr. ZIMMERMAN. Yes; in some instances that is true.

Mr. GESELL. Are there desirable changes in the method of compensation of the general agent?

Mr. ZIMMERMAN. I don't believe that you can go into the question of changing an agent's compensation without also getting into the question of changing the general agent's compensation. Perhaps they wouldn't have to be as drastic changes. I don't know.

Mr. GESELL. Have you some ideas in that regard?

Mr. ZIMMERMAN. I have very few, except I would like to have a contributory pension plan for general agents, naturally.

Mr. GESELL. On this compensation matter, the way it is working out now—we have talked about what ought to be done; we haven't perhaps talked as much about how it ought to be working out now—it is not working out very well, is it?

Mr. ZIMMERMAN. Mr. Gesell, the average earnings are below what we would like to see them.

Mr. GESELL. Our figures, which, of course, take into account the man who has not been with the company the entire year but who is a whole-time agent, indicate that 50.82 percent of the whole-time agents are making $250 or less.

Mr. ZIMMERMAN. Yes.

Mr. GESELL. And you get up here in the higher brackets and find only about 7 percent of the agents making over $3,000.

Acting Chairman PIKE. May I ask one question? Have you any indication in these replies, Mr. Gesell, as to the sizes of the communities where these agents work? I don't suppose that was in the questionnaire.

Mr. GESELL. No.

Acting Chairman PIKE. In my little town in Maine there is one agent for all the insurance written. He couldn't make a thousand

[1] See "Exhibit No. 2327," appendix, p. 15553.

dollars a year. It must be true of a lot of rural communities throughout the country.

Mr. GESELL. I think that is brought out pretty well. We had a letter from one fellow in some little town out in the Northwest who said he had the best year of his life when he made $765 and he was very satisfied, that was a very fine compensation and it met his needs in his locality.

You understand the companies do not even have figures which show compensation for agents who have been in a whole year, least of all figures which show them by territory.

Mr. ZIMMERMAN. May I say in connection with that study, Mr. Gesell, that whereas we would like naturally to improve the average earnings of the men in the business, that study, I think I should explain, counts, includes, all men who have come into the business. For example, it is a 1938 study. I would say that perhaps of the agents included in that study as much as 40 percent of that group would be first-year men.

Acting Chairman PIKE. You always have 30 to 40 percent first-year men?

Mr. ZIMMERMAN. It usually runs about 35 percent. That in itself, from the standpoint of earnings, brings that average way down.

Mr. GESELL. It is a continuing condition, Mr. Zimmerman, it is there every year.

Mr. ZIMMERMAN. Except that it isn't a fair comparison in my opinion, because here is a man who came into the business in December of 1938 he hasn't even come through his training course, yet he is included in that particular study. He has been put under contract, but he has had no opportunity to make an income. I should like to put into this a study made by my own company which excludes the first-year men.

Mr. GESELL. We would be glad to have something like that.

Acting Chairman PIKE. We would be glad to have something more illuminating.

Mr. GESELL. I thought I made it very clear that we asked specifically for the other figures by the companies.

Mr. ZIMMERMAN. This shows up the income on a much better basis than your own chart, and it is a fairer statement because you have to eliminate the first-year men. I read an article in the World-Telegram a couple of years ago that the average attorney earned less than $500 in his first year. That is a startlingly low figure.

Mr. GESELL. I think these figures more or less substantiate this chart, Mr. Zimmerman, rather than change it. Here we have got agents, whole-time agents 2 years or more, a total of 112 such agents, and their average earnings were $875. Those are 2-year men.

Mr. ZIMMERMAN. Yes; but that is a far cry from $250 a year.

Mr. GESELL. The first year is $237.

Mr. ZIMMERMAN. That is first-year men, that is right. I think the bottom table gives the second, third, fourth, fifth year and after earnings.

Mr. GESELL. Yes; the average for the third year is still below a thousand dollars. I would like to offer this schedule for the record.

Acting Chairman PIKE. It may be received.

(The table referred to was marked "Exhibit No. 2331" and is included in the appendix on pp. 15557–15558.)

Mr. ZIMMERMAN. I want to add these things in connection with earnings and compensation, that no one has ever made a complete study of this subject. I think it is something that should be done.

Mr. GESELL. Will you tell us how you are going to do it?

Mr. ZIMMERMAN. All right. I think it is going to be a difficult thing to do but I want to point out these factors. First of all, our company has made a study——

Mr. GESELL (interposing). Just a minute, Mr. Zimmerman. Will you tell us how you are going to make a study of compensation when the companies themselves do not have the figures? I want that explained to me.

Mr. ZIMMERMAN. Mr. Gesell, I think that your questionnaire asked for the earnings of all full-time men under contract, 1938. Is that true?

Mr. GESELL. Also I asked the break-down, in fact the schedule you have offered is a break-down, that was asked for in our questionnaire. Your company happened to be one that had the figures. There are only two or three that did have.

Mr. ZIMMERMAN. Mr. Gesell, that information can, of course, be gotten, but that still would not tell the complete story, for these reasons: That a great many men have income from other sources outside their own company. As evidence of that, two studies have been made, one by my own company, in which we took into consideration 133 men of whom we found, just selected at random, 71 had income from other life-insurance companies. Another study recently made of 197 men showed just under 50 percent had income from other sources. That must be taken into consideration. Then there are some men who have income, let's say, from writing accident and health or general insurance, and so forth, and so the entire picture would look somewhat better. We are not satisfied with it.

Mr. GESELL. I don't suppose anybody could be satisfied with a record of men who had been in the business 3 years and were still making less than a thousand dollars on the average from the sale of insurance.

Mr. ZIMMERMAN. I think, Mr. Gesell, that is right. We are not satisfied, and we want to improve this.

Mr. GESELL. You take these highest compensation figures and they are, by and large, amazingly low.

Mr. ZIMMERMAN. Yes, that is true. The life-insurance business, however, does offer certain things which no other line offers to the man, and I think the average individual—it is just like law or medicine, though not to the same extent—is willing to take some financial sacrifices in those early years if in the later years he is going to be able to overcome that and average up.

Mr. GESELL. There may be this difference, don't you think? I know when I went into law I didn't read as many advertisements about how I was going to make myself a millionaire overnight. I see advertisements continually in the papers of life insurance agents being offered the opportunity of making such a substantial livelihood. It doesn't look as though that is working out, does it?

Mr. ZIMMERMAN. Well, the honest story is that income is necessarily going to be low in the early years.

Mr. GESELL. The fact is that the honest story is on the average it is going to be less than a thousand dollars in your company after 3 years.

Mr. ZIMMERMAN. According to the schedule there that is true and still that is not the whole story, Mr. Gesell, because there would be some other income coming in.[1]

Mr. GESELL. To sum up on these things that we have been talking about, I want to see if you would agree with four or five points. If there wese less turn-over of agents, you would have less lapse?

Mr. ZIMMERMAN. Yes; you would have less lapse, and yet it wouldn't affect it materially, in my opinion.

Mr. GESELL. If you had less turn-over of agents, there would be lower net cost of insurance, would there not?

Mr. ZIMMERMAN. That is perfectly true.

Mr. GESELL. If you had better selected agents, there would be less lapse, would there not?

Mr. ZIMMERMAN. Yes.

Mr. GESELL. If you had better selected agents, there would be lower net cost, would there not?

Mr. ZIMMERMAN. That is true, Mr. Gesell.

On this matter of lapse I would just like to say a word.

Mr. GESELL. Certainly.

Mr. ZIMMERMAN. Because there is a general feeling, I think, that a great many lapses are due to pressure selling or inefficient selling. Now, admittedly some lapses are due to that. Here again I have a study made by my own company covering some 3,000 cases showing the causes of lapse,[2] and dissatisfaction, which in general would mean that the agent had not properly serviced the case, was responsible for 2.13 of the lapses, only 2 percent.

Mr. GESELL. I was being very careful here to point up the other reasons that had to do with lapse other than pressure of business which you are attributing to me and which I have not mentioned yet. I have talked about turn-over and selection of agents. Let's go on here a little.

You have agreed that if we had less turn-over and better selection of agents, we would have less lapse and lower net cost. Is that right?

Mr. ZIMMERMAN. That is right.

Mr. GESELL. If you had better trained agents, there would be less lapse and lower net cost, would there not?

Mr. ZIMMERMAN. Yes.

Mr. GESELL. If there were less emphasis on the first year's commission, particularly in the case of inexperienced agents, there would be less lapse, would there not?

Mr. ZIMMERMAN. Yes; that would be a factor.

Mr. GESELL. If you paid a guaranteed minimum salary to men coming into the business until they had trained and proven themselves, you would have less lapse?

Mr. ZIMMERMAN. On the assumption that you attract better men, do a better job of training and supervising, that is right.

---

[1] See "Exhibit No. 2331," appendix, pp. 15557–15558.
[2] See "Exhibit No. 2332," appendix, p. 15559.

Mr. GESELL. If you had longer renewals and lower first-year commissions, which you discussed with me, there would be less lapse, more persistent business, lower net cost?

Mr. ZIMMERMAN. Very frankly I think that would be a minor item. I think the average agent realizes that only by doing a good job of quality business, helping the policyholder keep it going, and servicing it, can he in the long run build a sound clientele.

Mr. GESELL. Though you might feel it minor, you would still agree, would you not, that if you paid a man a real servicing commission and stretched it out over a longer period of time, you would have less lapse, more persistent business, and lower net cost?

Mr. ZIMMERMAN. I think primarily you would have from the standpoint of the agent a payment for services which he is today rendering but not being compensated for.

Mr. GESELL. What I am seeking is a direct answer to my question as to whether or not including all these other factors you have mentioned, there would not be less lapse, more persistent business, and lower net cost.

Mr. ZIMMERMAN. Yes. On the lapsation I would say to a very small extent, again.

Mr. GESELL. You said there were too many, in your opinion, inadequately trained agents, poor agents, in the country at the present time?

Mr. ZIMMERMAN. Unfit agents.

Mr. GESELL. Unfit agents. If you had fewer unfit agents you would have less lapse, would you not?

Mr. ZIMMERMAN. Yes.

Mr. GESELL. You would have lower net cost?

Mr. ZIMMERMAN. Yes.

Mr. GESELL. I have no further questions.

Mr. ZIMMERMAN. I would like to put this in the evidence as a study on lapse.

Mr. GESELL. We take every study on lapse that is offered us, Mr. Zimmerman. This is for the Connecticut Mutual?

Mr. ZIMMERMAN. That is right.

Acting Chairman PIKE. It may be received.

(The table referred to was marked "Exhibit No. 2332" and is included in the appendix on p. 15559.)

Mr. ZIMMERMAN. May I offer something for correction? I think I referred to the fact that our association is composed of field men and general agents; that should include managers and superintendents. There are a great many of those.

Mr. GESELL. We are very much obliged to you.

I am sorry, I promised Mr. Zimmerman to introduce the objectives of the association and I overlooked it. I would like to have them offered.

Acting Chairman PIKE. They may be received.

(The document referred to was marked "Exhibit No. 2333" and included in the appendix on pp. 15559–15560.)

Acting Chairman PIKE. We will recess until 2 o'clock.

(Whereupon, at 12:15 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:15 p. m., upon the expiration of the recess.

The CHAIRMAN. The committee will please come to order. Will you call the first witness, Mr. Gesell?

Mr. GESELL. The first witness this afternoon is Mr. Lambert.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LAMBERT. I do.

TESTIMONY OF DENISON DAVID LAMBERT, AGENT, TRAVELERS INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. What is your full name please, sir?

Mr. LAMBERT. Denison David Lambert.

Mr. GESELL. With what company are you connected, Mr. Lambert?

Mr. LAMBERT. The Travelers Insurance Co. and its subsidiaries.

Mr. GESELL. Are you a general agent or an agent?

Mr. LAMBERT. Plain, ordinary agent.

Mr. GESELL. How long have you been a life-insurance agent?

Mr. LAMBERT. Since 1922.

Mr. GESELL. Have you worked in the District here all that time?

Mr. LAMBERT. All the time; yes, sir.

Mr. GESELL. With the Travelers all that time?

Mr. LAMBERT. With the Travelers, yes.

Mr. GESELL. We were discussing with Mr. Zimmerman this morning several points that I wanted to get your views on, and the others who are to follow you.

First of all, let me ask you one or two questions about the turn-over. What kind of turn-over do you have in your office?

Mr. LAMBERT. In comparison to other offices, it is rather small, I should say.

Mr. GESELL. About what percent, have you any idea?

Mr. LAMBERT. Roughly, out of 50 office agents, I should say that two or three are not with us at the end of the year due to some reason or other, either going to some other city to do business or not succeeding.

Mr. GESELL. Do you find that there is quite a turn-over among agents in the District?

Mr. LAMBERT. Yes; I think there is, because when I was looking for business their faces seemed to disappear quite rapidly at times.

The CHAIRMAN. Perhaps the other agents feel that your face doesn't disappear rapidly enough. [Laughter.]

Mr. GESELL. Have you any idea as to what can be done about this matter of turn-over?

Mr. LAMBERT. I think the system that the Travelers uses is one way to cut down agents.

Mr. GESELL. What is that?

The CHAIRMAN. You mean to cut down agents' turn-over.

Mr. LAMBERT. Agents' turn-over, excuse me.

The Travelers has a training course that they have the agents go through.

Mr. GESELL. Is that a mandatory course?

Mr. LAMBERT. Yes. As I understand it, I believe it is a 6-month course.

Mr. GESELL. Do I understand also the Travelers has a requirement that the agents must be able to support themselves for a certain period of time?

Mr. LAMBERT. I think they prefer that an agent is able to take care of himself, but if a man shows considerable promise and it looks as though he is going to get ahead I presume they would make an exception.

Mr. GESELL. But they try to take on men who are able to support themselves?

Mr. LAMBERT. They try to take on men who are able to stand the gaff in the first few months.

Mr. GESELL. What about this question of compensation? Do you think the present method of compensating agents is satisfactory?

Mr. LAMBERT. I think it is satisfactory with the exception that I think the commissions should be continued longer than the usual renewal period.

Mr. GESELL. What is the renewal period in the case of your company?

Mr. LAMBERT. We have 9 years.

Mr. GESELL. Why do you think it should be continued longer, Mr. Lambert?

Mr. LAMBERT. Well, I think it should be continued longer so that agents when they get to be older and unable to produce as much business could have some sort of a pension from the company, which has been, say, taking this small extra commission and holding it for that purpose.

Mr. GESELL. You have no pension system for agents in your company?

Mr. LAMBERT. No.

Mr. GESELL. And you are not under Social Security.

Mr. LAMBERT. No.

Mr. GESELL. Do you look at this renewal commission as a service commission or as a deferred first-year commission?

Mr. LAMBERT. I look at it as both.

Mr. GESELL. Which do you consider the more important element of the two?

Mr. LAMBERT. On some policyholders it becomes very much a service item and on others, with no trouble coming from them, it is entirely a part of the first-year commission when I have no work to do in connection with it.

Mr. GESELL. Would you feel one reason for extending the renewal commission would be because it would encourage more services to policyholders after the policy has been sold?

Mr. LAMBERT. Well, the small extra commission that I would advocate would be in the nature of 2½ percent or something like that. I feel that with an extra small commission like that, when a policy is about to lapse and the salaried employees of a company have been unable to prevent the man from lapsing, the agent, if that commission is going to come to his benefit later on, will make an attempt to prevent a lapse, and the agent has the best chance of preventing a lapse because he is the man that sold the policyholder in the first place.

Mr. GESELL. So if he receives this commission which is really labeled as a service commission, there is more emphasis put on it in that direction, you might have as a result more persistent business?

Mr. LAMBERT. I think it would cut down lapses very much.

Mr. GESELL. Do you think the first year commission being as large as it is has an effect on lapse? I mean, is there a tendency because of high first-year commission to place policies in order to get that commission without regard to whether or not they will renew from time to time?

Mr. LAMBERT. No; I don't think so.

Mr. PIKE. May I ask a question? How long must a policy remain in force for the agent to get and keep his first-year commission?

Mr. LAMBERT. Well, the first-year commission is payable as the premium is paid during the first year and after that there is no more first-year commission.

Mr. PIKE. Suppose it is on a quarterly basis?

Mr. LAMBERT. If the man pays two quarters and stops, the agent gets commission really on the two quarters.

Mr. GESELL. What is the first-year commission?

Mr. LAMBERT. It is graded. It is the New York standard scale.

Mr. GESELL. You say it is graded. You mean you get a different commission——

Mr. LAMBERT (interposing). On different policies.

Mr. GESELL. Different kinds of policies?

Mr. LAMBERT. Different kinds of policies.

Mr. GESELL. Doesn't that have a tendency for you to sell the kind of policy you get the biggest commission on?

Mr. LAMBERT. I can see your point there. I can see if two policies are very similar and one policy pays a smaller commission and another policy pays a larger commission, I suppose that I am as human as anybody else and would naturally lean toward the higher commission form of policy even though I tried to be unprejudiced in the matter. I don't believe that that works any particular harm, however, because——

Mr. GESELL (interposing). Do you feel it more desirable to have the first-year commission the same on all forms of policies?

Mr. LAMBERT. Well, I understand that they do that in England, and I intend to go over the policies that I had sold, that is through the past period of 10 years, to find out how that would affect me personally, and I haven't done that. I suppose it would take an actuary, probably, because I wouldn't know what would be the rate of first-year commission that applied to all policies.

Mr. GESELL. Do you feel it is desirable or undesirable to have these different commission rates on different kinds of policies?

Mr. LAMBERT. I think probably it is equitable the way it is.

Mr. PIKE. Could you give any idea of how those work out? I can see, for instance, on a certain form of policy, say on a whole-life policy, you have a higher commission in percentage than you might have, let us say, on an endowment policy, yet the first-year premium on the endowment policy would be so much higher that you would get more money. I haven't any idea.

Mr. LAMBERT. An endowment policy as compared to an ordinary life policy has a smaller commission.

Mr. PIKE. A smaller commission in dollars?

Mr. LAMBERT. In dollars. If you say a hundred-dollar endowment premium——

Mr. PIKE (interposing). No; I mean the face amount of the policy, not the premium. Suppose you were writing, say, $10,000 ordinary life and $10,000 endowment.

Mr. LAMBERT. If it is a 20-year endowment policy and an ordinary life policy, there is a 10 percent differential in the commissions.

Mr. GESELL. In favor of the endowment?

Mr. LAMBERT. In favor of the straight life.

Mr. PIKE. How would your commission in dollars in endowment be, still higher?

Mr. LAMBERT. I hate to answer that because I don't know at what age.

Mr. GESELL. The same age.

Mr. PIKE. Take 35.

Mr. LAMBERT. If you take a man 60 years old in ordinary life and 20-year endowment they are almost the same.

Mr. PIKE. You don't sell many endowments at 60 years?

Mr. LAMBERT. No.

Mr. PIKE. Take an age you would sell more.

Mr. LAMBERT. I should say—I am a little at a loss without a rate book. I should say roughly at 35 a 20-year endowment with my company would run about $45 a thousand and 40 percent would be $18, if I figure it correctly. An ordinary-life policy at 35 would be in the neighborhood of—I don't know, about $24, I should say, and 50 percent would be about $12.

Mr. PIKE. That is what I meant. In spite of a lower rate you still got a higher commission on endowment?

Mr. LAMBERT. That is right.

Mr. GESELL. What about this problem of lapse, Mr. Lambert? What do you think are the primary causes of lapse?

Mr. LAMBERT. A man's condition changes, frequently, so that he no longer needs insurance. That is one of the hardest cases of lapse to stop.

Mr. GESELL. You would call that economic circumstance, or something of that sort?

Mr. LAMBERT. Yes.

Mr. PIKE. If you were giving him just service you would encourage him to lapse?

Mr. LAMBERT. Yes; there was a man not very long ago with whom I agreed that I didn't see any need for him to continue it. If you find a man who is hard up as far as funds are concerned and has to let it lapse, he has to do that.

Mr. GESELL. To what extent do you consider lapse the result of selling? Is there some overloading of the policyholder?

Mr. LAMBERT. I don't see that the selling has any relation to the lapse unless a person has been high-pressured, and there is so little high-pressure that I don't think that is a factor.

Mr. GESELL. You don't think that is a big factor?
Mr. LAMBERT. No; I don't.
Mr. GESELL. I have no further questions.
The CHAIRMAN. Do the members of the committee desire to ask any questions of Mr. Lambert?
Thank you very much.
(The witness, Mr. Lambert, was excused.)
Mr. GESELL. Mr. Krafft.
The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?
Mr. KRAFFT. I do.

TESTIMONY OF HAROLD D. KRAFFT, GENERAL AGENT, PROVIDENT MUTUAL INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. What is your full name, please, sir?
Mr. KRAFFT. Harold D. Krafft.
Mr. GESELL. With what company are you connected?
Mr. KRAFFT. The Provident Mutual of Philadelphia.
Mr. GESELL. Are you general agent or agent?
Mr. KRAFFT. I am a general agent.
Mr. GESELL. For the Provident Mutual here in Washington?
Mr. KRAFFT. In this territory.
Mr. GESELL. How long have you been general agent?
Mr. KRAFFT. Three and a half years.
Mr. GESELL. Were you an agent before you became a general agent?
Mr. KRAFFT. Some years ago, yes.
Mr. GESELL. With the Provident?
Mr. KRAFFT. No.
Mr. GESELL. What company were you with?
Mr. KRAFFT. I was with the Equitable of New York as an agency assistant or unit manager before I went with Provident.
Mr. GESELL. Mr. Krafft, I want to ask you about some of these same topics that we have been discussing here today. First of all, about the problem of the new agent, the selection and training of the new agent, have you some ideas on that you would like to give the committee?
Mr. KRAFFT. You are entering a rather big field when you go into the question of selection and training of the new agent.
Mr. GESELL. You have to select agents and train them all the time as a general agent. I thought perhaps you could give us some idea.
Mr. KRAFFT. Yes, we do; and there has been a distinct development in that field over recent years. Not so many years ago, the entire desire was to get a quantity of men into the life-insurance field.
Mr. GESELL. You mean by that——
Mr. KRAFFT (interposing). Numbers of agents.
Mr. GESELL. Take on a lot of agents and some of them would succeed and that way you would build up an agency?
Mr. KRAFFT. That is right. During recent years, we have found that that was not successful from the point of view of the company,

from the point of view of the general agent himself, and so selection has entered the picture.

The CHAIRMAN. How long since?

Mr. KRAFFT. That has been going on over the period of about the last 8 or 10 years, that definite attention has been given to that.

In that selection, we tried to pick out men of different caliber than we did some years ago. By that, I mean men who have a reasonable chance of success in the business over a period of time. In addition to the usual selections made by the general agent and the members of the general agency, we have been going a step further through the use of aptitude tests to see if it were possible to get an advance indication of that man's ability in the life-insurance business. Recently we have given more consideration to his contacts and his position in the territory. Through every method we have tried to select men who would be permanently successful.

Mr. GESELL. I take it that means you selected fewer men?

Mr. KRAFFT. We have.

Mr. GESELL. Do you look into the financial standing of the agent?

Mr. KRAFFT. Very carefully.

Mr. GESELL. Must he have some independent resources?

Mr. KRAFFT. We prefer that he have enough independent resources to keep him close to his normal standard of living for a period of months.

Mr. GESELL. Why is that?

Mr. KRAFFT. Because we recognize that during that early period of time, it will be impossible for him to earn what he would need.

Mr. GESELL. And as a result, what will happen?

Mr. KRAFFT. Will you rephrase the question?

Mr. GESELL. As a result, what will happen if he hasn't got some means of his own?

Mr. KRAFFT. Then it will become the general agent's problem to give him assistance if he is deserving of assistance during that early period.

Mr. GESELL. But given a man who can't get assistance from his general agent and hasn't much resources of his own, would you agree there would be a tendency for that man to go out and mis-sell policies in an effort to get a living?

Mr. KRAFFT. I can't agree with you on the use of the word "mis-sell." I can say he would go out under more pressure to sell than he would under normal conditions.

Mr. GESELL. And thus the likelihood of mis-selling would be greater?

Mr. KRAFFT. There is a likelihood he wouldn't answer the needs of the policyholder.

Mr. GESELL. What do you feel about the question of minimum guaranteed salary in the early years, along the lines we were discussing with Mr. Zimmerman this morning?

Mr. KRAFFT. During the early years I have always felt there was a definite period where a change in our schedule could be made that would make it better for the man coming into the business.

Mr. GESELL. You mean then that it would be desirable to pay some kind of a minimum guaranteed salary?

Mr. KRAFFT. It would be desirable to make a change in the compensation schedule.

Mr. GESELL. You mean either pay him a lot more for selling a policy or give him some kind of a salary?

Mr. KRAFFT. Give him an additional salary, either from commission sources—by that I mean discounting unearned advance premiums.

Mr. PIKE. That would be something like a drawing account?

Mr. KRAFFT. It would be somewhat in the nature of a drawing account.

Mr. GESELL. There have been a lot of dangers in the matter of the drawing account, have there not?

Mr. KRAFFT. Yes; there are.

Mr. GESELL. It seems to me I recall quite a bit of criticism of that 'way back in the Armstrong days.

Mr. KRAFFT. There has been.

Mr. GESELL. Wouldn't the salary procedure obviate many of those difficulties?

Mr. KRAFFT. A salary procedure would undoubtedly obviate a lot of that difficulty.

Mr. GESELL. What period of time to you think the agent should have that type of assistance?

Mr. KRAFFT. That is a hard question to answer because each man who comes into the life-insurance business is an individual, and some will have a financial background and others will not. It would have to differ with each man brought into the business.

Mr. GESELL. You mean you might have some arrangement which would pay him until he was in a position to go it on his own?

Mr. KRAFFT. To go on his own.

Mr. GESELL. Do you think you would attract a higher quality of men to the profession of a life-insurance agent if he had some such guaranty in the earlier years?

Mr. KRAFFT. I think undoubtedly it would improve the men coming into the insurance business.

Mr. GESELL. You select agents all the time for your agency?

Mr. KRAFFT. Yes.

Mr. GESELL. Is that your practical experience, that if you do have something like that to offer them, you will get a better type of man?

Mr. KRAFFT. I would have to answer that from the other angle, that the man who has a financial background and comes into the business is more likely of success.

Mr. GESELL. That is very interesting. You mean those that have a little stand-in at the beginning——

Mr. KRAFFT (interposing). Yes.

Mr. GESELL (continuing). May take a little more time in learning and get to be better agents?

Mr. KRAFFT. They will develop into better agents.

Mr. GESELL. And do you sometimes meet resistance from agents whom you would otherwise employ because of the fact that you are unable to give them any such guaranty in the early years?

Mr. KRAFFT. Yes; that is true.

Mr. GESELL. Now, taking it 'way on the other end, if you could offer to a man who came to the life-insurance business some type of security in his old age, do you believe you would get a better type of man?

Mr. Krafft. I think that would make a difference.

Mr. Gesell. You recall Mr. Zimmerman said today that was his practical experience in the field, that a lot of people asked about security and wanted security.

Mr. Krafft. They do; and I feel there is a place in the Social Security program for the life-insurance agent.

Mr. Gesell. Would you perhaps try to get that security on the last end of the agent's career through some changes in the compensation schedules which would give more emphasis to renewal commissions and less to first-year commissions?

Mr. Krafft. I don't know that the security at retirement enters the picture there as much as perhaps a change in the existing commission schedule which would give higher renewals.

Mr. Gesell. Will you elaborate on that a little?

Mr. Krafft. Taking the first part of the question as I understood it, it seems to me that an opportunity exists for life-insurance agents to be included under Social Security, in view of the fact that it is a social program and they should be included.

However, on the other part of it, a change in the commission schedule which would increase renewals or compensation during the lifetime of the policy would undoubtedly stabilize the earnings of the agent.

Mr. Gesell. You mean by that that if a man knew that he was to get some kind of a commission as long as his policies persisted, and that that commission was in the nature of a service commission for what he did, it might have a very beneficial effect in that it would bring him a more stable agency force and give some degree of stability in later years?

Mr. Krafft. That is correct.

Mr. Gesell. Would you feel that a lower first-year commission would be necessary to offset a more extended renewal commission?

Mr. Krafft. I believe, Mr. Gesell, we are getting into a question there that is beyond me, the question of the limitations with regard to commission payments to agents. I am not qualified to answer that. If it could be done so that it would not affect the cost of the protection to the policy owner, I would say "Yes."

Mr. Gesell. Do you experiment with salaried agents in your own general agency?

Mr. Krafft. I do not, no.

Mr. Gesell. Why not?

Mr. Krafft. For two reasons. I have had no experience with it and I haven't a financial position that would enable me to experiment with it.

Mr. Gesell. You obviously believe in it from what you have said here this afternoon.

Mr. Krafft. I think there is an opportunity there.

Mr. Gesell. Isn't your position probably that of a lot of other general agents—without some kind of financial support from their company, they couldn't put such a program into effect?

Mr. KRAFFT. I believe there would be many in that position.

Mr. GESELL. Would you, with some kind of arrangement from your company, be willing to initiate that kind of a program in your agency. give it a try?

Mr. KRAFFT. The answer would have to be "Yes."

Mr. GESELL. Similarly, are there in the case of your agency things you would like to do from the point of view of training which you are unable to do because you do not have the same type of financial support?

Mr. KRAFFT. I don't believe that holds true with regard to my agency in training, as I have been extremely interested in that subject of training over a period of years, and I have possibly acted, myself, in the capacity of an instructor in various lines.

Mr. GESELL. As I recall you telling me one time, you have been extremely "hypped" on that subject for a long time.

Mr. KRAFFT. I would have to disagree with the word "hypped," but I have been vitally interested in it because I believe that is a definite advance that has to be made in our business.

Mr. GESELL. I have no further questions of Mr. Krafft.

The CHAIRMAN. Do the members of the committee desire to ask any questions?

Thank you very much, Mr. Krafft.

(The witness, Mr. Krafft, was excused.)

Mr. GESELL. Colonel Crawford.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CRAWFORD. I do.

TESTIMONY OF LAWRENCE C. CRAWFORD, INSURANCE BROKER, WASHINGTON, D. C.

Mr. GESELL. Will you state your full name, please, sir?

Mr. CRAWFORD. Lawrence C. Crawford.

Mr. GESELL. With what company are you associated, Mr. Crawford?

Mr. CRAWFORD. I am principally associated with the Travelers of Hartford.

Mr. GESELL. Are you licensed as an agent with them?

Mr. CRAWFORD. I am.

Mr. GESELL. With what other companies are you licensed as an agent?

Mr. CRAWFORD. I have a license with the Aetna and one with the Prudential.

Mr. GESELL. Do you also hold a broker's license?

Mr. CRAWFORD. I do.

Mr. GESELL. Would you consider that you are primarily a broker?

Mr. CRAWFORD. I prefer to consider myself as a broker.

Mr. GESELL. How long have you been in the business of being a broker?

Mr. CRAWFORD. About 15 years.

Mr. GESELL. Here in the District?

Mr. CRAWFORD. Yes.

Mr. GESELL. I suppose as a broker you sell not only life insurance, but other forms of insurance as well.

Mr. CRAWFORD. I sell everything except ocean marine.

Mr. GESELL. And you say your connection is with the Travelers?

Mr. CRAWFORD. Yes.

Mr. GESELL. Will you explain how that works out?

Mr. CRAWFORD. I have an agency contract with the Travelers and I produce a certain amount of life and casualty business, in return for which I have accommodations, offices, in the Travelers office. They give me accommodations and telephone service and things of that kind, in proportion to the premium volume which I produce on all lines for them.

Mr. GESELL. Did I understand that when you approach a policyholder, you are an independent in that you may place the policy in any company you desire?

Mr. CRAWFORD. Absolutely.

Mr. GESELL. In accordance with his wishes?

Mr. CRAWFORD. Absolutely.

Mr. GESELL. Mr. Crawford, we have never had a life-insurance broker on the witness stand here and if you will tell the committee a little about a broker, what he is and what he does, and what you think about a broker, and what his function is in the life-insurance business, I think it would be very interesting.

Mr. CRAWFORD. I will be very glad to, Mr. Gesell.

I think in the first place that the sale of life insurance by brokers means that the policyholder or the prospective policyholder is not necessarily limited to the offerings of one company. He gets the best that the market affords, within reasonable limits. It has worked very successfully in the casualty and fire business, and I see no reason why it shouldn't be to the advantage of the purchaser of insurance in the life-insurance business.

Mr. PIKE. It is not very customary, though, is it, in life insurance?

Mr. CRAWFORD. It is not very customary. There are a number of large brokers and it is growing, I think.

It has always seemed to me that it is very much more logical, since the policyholder pays the premiums, that the salesman, the producer, should represent the policyholder rather than the company.

Mr. GESELL. You mean by that that when you come to a policyholder, you have not the line of any one company to offer, and therefore you are a little freer to select policies which would meet his own needs?

Mr. CRAWFORD. Yes; that is exactly what I mean. Many people that I approach want participating insurance, some want nonparticipating insurance. I am fairly free to place policies in either kind the policyholder desires, and in approaching the policyholder, I try to make it perfectly clear—or the prospect—that it is not really the cost of the contract that I think is the most important. I think the most important things in the life-insurance contract are the policy provisions.

Mr. GESELL. Will you explain that a little more for us? Is there such a variety in policy provisions that you really need somebody to broker those policies?

Mr. CRAWFORD. Yes; I think there are a great many things in the ordinary life policies—take the leading 20—in the way of options, settlement agreements, and also underwriting provisions. For example, you find many companies whose disability provisions will exclude disability resulting from military and naval service in time of war. There are other companies whose disability provisions don't have such limitations in them, and consequently I think it would be wrong to sell a man in the Army a disability provision, a contract with a disability provision that was "out" in the event of military and naval service in time of war when he can get exactly as good a disability provision, with exactly as good a company, without such a limitation in it.

Mr. Pike. Even though he were just a Reserve officer.

Mr. Gesell. Give us some other examples, will you, Colonel Crawford?

Mr. Crawford. I had a woman call me up the other day and ask me to come out and write some 20-payment life insurance on her 17-year-old boy. She asked me what company I was going to put it in, and I told her I didn't know, I was going to see what was the best the market afforded. I queried one or two companies and I found there was only one company that would give that type of insurance, 20-payment life, with a disability provision and double indemnity in the event of accident, to a 17-year-old boy, and naturally I took an application out and sold her a 20-payment life in that particular company. The question of the relative cost of the two contracts never entered into the argument or the discussion at all. It was just a question of what was the best coverage for that particular prospect, and that is the way I think a brokerage contract enables a man to operate.

Mr. Gesell. Let's have some more examples. This is very interesting, and if there are some more examples that you can give us as to why you think you are able to give this different type of service, I should like to have them.

Mr. Crawford. It is especially important at this time, I think, because of the war-service limitations that the companies have put on. I had a customer, who is a marine officer, write to me from the Pacific coast the other day and he wanted an additional $5,000 life insurance. He had the maximum in Travelers that I would normally have put him in, he couldn't get any more, and I began to hunt around to see where else I could put him. The first company I approached wouldn't write disability and double indemnity or accident on an officer in the service. Therefore, I dropped it and found a company that would.

Mr. Gesell. Let's take it from another point of view. If you are called in by a policyholder to program him or to adjust his schedule of policies, do you find because you are a broker and perhaps a little more acquainted with the different lines offered by the different companies, that you are able to give any different service than you would be if you were an agent for just one company?

Mr. Crawford. Oh, yes; the fact that I do have to deal with a good many different companies in my activities as a broker enables me, I think, to become more familiar with the policies of other companies. As illustrative of that, I would like to point out that here is a compendium of the different practices of the companies in connection with settlement options and underwriting provisions. That is not all of them. That is gotten up by the Chartered Life Underwriters Chapter of New York for the guidance of people who are doing programming. I refer to it only because I want to illustrate how many different options and settlement agreements there may be in an ordinary-life contract that comes from the different companies. There are only four kinds of contracts: term-insurance, ordinary-life, limited-pay, and endowment, and everything else is just a combination of those, but there is a compendium that shows 15, 20, 25 companies with different settlement options.

Mr. GESELL. There is quite a disparity between the provisions, is there not?

Mr. CRAWFORD. Yes; in a general way there is.

Mr. HENDERSON. Suppose a client comes to you for programming and he, for example, has taken his policies while a single man and paid no attention to them, and has acquired a family, and so forth. Your judgment tells you that perhaps he ought to drop some insurance, take other kinds, and the like. Do you work it out for him?

Mr. CRAWFORD. Oh, yes; I had a man come in the other day, he had been recently married, he had $2,000 10-year endowment insurance, and I recommended he drop it and take $10,000 5-year term because that is all he could afford.

Mr. HENDERSON. Do you run into any trouble with the companies on that? Do you get accused of switching, or is there a technical distinction there that lets you out of any charge of switching?

Mr. CRAWFORD. Mr. Henderson, whenever I recommend that a man drop a policy, or whenever I write a policy replacing another contract, it always shows in the application that this is a replacement, and I always accompany the application with a letter from the assured or from the applicant saying that this substitution is his own idea and he knows what he is doing and he wishes it done that way, and there never has been any question raised.

The CHAIRMAN. There are some substitutions, however, in which the policyholder doesn't know what he is doing? Is that a fair inference from what you say?

Mr. CRAWFORD. That is the common report, Senator; yes, I think there are.

The CHAIRMAN. And is that what is meant by twisting?

Mr. CRAWFORD. That is it.

The CHAIRMAN. Are we to understand that twisting is a device to the disadvantage of policyholders which some agents indulge in?

Mr. CRAWFORD. Yes.

The CHAIRMAN. And which is generally condemned by the industry?

Mr. CRAWFORD. Absolutely.

The CHAIRMAN. You are not defending that?

Mr. CRAWFORD. No, no, no. I think that there are many times when it is to the policyholders' advantage to drop a policy, but when that situation occurs there isn't any reason at all why the policyholder and the company and everybody else shouldn't know it, because it is something that will stand the light of day.

The CHAIRMAN. Do the companies always know when a policy is being dropped in another company?

Mr. Crawford. They always do when I write it.

The Chairman. I understood that from what you said, but I mean as a general practice in this method. Is it possible for a company to write a new policy substituting for an old one without knowing it?

Mr. Crawford. Yes; it is possible, if there is falsification in the submission of the application.

The Chairman. I meant assuming that the application was filled out properly and according to rule.

Mr. Crawford. Not if it is filled out properly and according to rule, because every application that I have ever seen, or else every medical statement, has the question: Does this contract replace any existing insurance?

The Chairman. That appears in every application, does it, of every company with which you have had any experience?

Mr. Crawford. It either appears in the application or in the statement of the medical examiner.

The Chairman. So would it be a correct inference that twisting could not take place if it were not at least tolerated by the company writing the substitute policy?

Mr. Crawford. Yes, sir; if the application is honestly made out.

The Chairman. I see a man in the audience shaking his head about that, so there must be some debate.

Mr. Crawford. Well, of course, you must remember, Senator, I am not a company official and just how the companies act on those applications and just what they do with them and how much scrutiny they give them I don't know. All I know is the common practice among the agents and the particular practice with reference to the applications that I send in.

Mr. Gesell. It is very much a matter of definition, is it not, what is twisting and what is replacement? As I understand the statutes they mostly read that twisting is switching a policyholder from one policy to another by misrepresentation or an omission to state some material fact, whereas replacement, putting a policyholder out of one policy and into another without misrepresentation, with complete disclosure, is a perfectly regular practice that takes place all the time.

Mr. Crawford. I think so; yes.

The Chairman. The distinction as you define it I think is quite clear. All I was trying to determine was whether the application is so written that a company writing the substitute policy has reason to know that it is a substitute policy or whether that can be concealed.

Mr. Crawford. Not if the questions are honestly answered.

Mr. Gesell. The chairman will recall the testimony before the committee with regard to an intercompany agreement known as the replacement agreement, signed by many, many companies, under the terms of which a period is given whereby one company who is about to write a policy replacing that of another company corresponds with that other company and notifies them in order that the agent of the other company may go and attempt to conserve the business and to determine whether or not a twist or a pure replacement exists.[1]

---

[1] See testimony of Mr. Frank L. Jones, Hearings, Part 10, pp. 4648 to 4668.

Mr. PIKE. I think there is one way to avoid that, an honest way: To take out the new policy and wait 2 or 3 months before canceling the other.

Mr. CRAWFORD. It is nonetheless a false answer to the question: Is this proposed insurance replacing any existing insurance? If you know you are going to do it, it is just as much falsification as if you know you have done it.

The CHAIRMAN. Would the brokerage system open the door to that sort of practice?

Mr. CRAWFORD. I don't see that the brokerage system would open the door to it any more than the agency system does. There is nothing in an agency contract that makes a man any more upright than in a brokerage contract, I think.

The CHAIRMAN. No; people are pretty much alike, whatever line of business they are engaged in.

Mr. GESELL. Will all companies take brokerage business?

Mr. CRAWFORD. No; it is very difficult sometimes to place policies on a brokerage basis.

Mr. GESELL. Will you explain what happens in those cases and why it is difficult to place them?

Mr. CRAWFORD. Well, the companies have two reasons which they give which I confess have never seemed to me to be very logical. One of them is that it protects their own agents. My answer to that is that I think business should be conducted for the benefit of the public and not for the benefit of the agents. What is best for the public is best for the business as a whole.

The other answer they give is, or the other reason, that it increases the mortality, that they get loaded up with unfavorable or borderline cases, that they don't get the whole story from the broker as they do from their agent. The reason I think that is not logical is because, as I said a minute ago, there is nothing in an agency contract that makes a man any more upright than a brokerage contract, and if the companies get a sour risk from an agent, or one or two of them, they soon throw him out. If they did the same thing with brokers, the same result would, I believe, come about.

Mr. GESELL. Is there any way you can place business in a company that won't take brokerage?

Mr. CRAWFORD. In some companies you can place business that won't take direct brokerage.

Mr. GESELL. What is the practice?

Mr. CRAWFORD. By splitting the commission with an agent of that company. In other companies that have a very well disciplined agency force you simply can't place brokerage, they simply won't take it, that is all.

Mr. GESELL. But in the companies that haven't such a well-disciplined agency force, you say split commissions—I take it you mean the business appears to the company as coming from the agent, he has a participation in it with you?

Mr. CRAWFORD. That is right.

Mr. GESELL. Are there any other angles to this brokerage business that occur to you?

Mr. CRAWFORD. Of course, I would like to point out that in the operation of a brokerage business from the public standpoint it is very important that the brokers be bonded or carefully supervised because the public is at the mercy of an unscrupulous broker. When the public pays money to a broker, if the broker makes away with it he has no recourse, whereas if he pays it to an agent the company is bound by the payment to the agent.

Mr. GESELL. Is that true even though the agent is an independent contractor, for purposes of Social Security?

Mr. CRAWFORD. I don't think there is any question in the world but that money paid to a man holding an agency contract the company is responsible for, and I don't think it has ever been questioned; I have never heard it questioned.

Mr. GESELL. Do you feel the present requirements with respect to the bonding of brokers are adequate?

Mr. CRAWFORD. Unhappily we have no such requirement in the District of Columbia, and we are working for such a requirement today.

Mr. GESELL. I have no further questions of this witness.

Mr. HAYES. One question occurs to me, Mr. Crawford. Several times as a prospect I have had an experience such as this, that an agent supposedly a whole-time agent of a particular company, would attempt to sell me insurance, and for some reason or another I wouldn't like the particular contract in his company that he offered. In every such instance—and it happened, I should say, four or five times all told—he has countered that remark with the suggestion that he could place it in some other company for me. Do you know whether or not supposedly whole-time agents actually do engage in some sort of brokerage of that character, and do they do it on a split commission basis or just how do they arrange it when they place insurance in companies other than their own?

Mr. CRAWFORD. Agents very frequently place policies in companies other than their own.

Mr. HAYES. Whole-time agents?

Mr. CRAWFORD. Whole-time agents, for just the reasons you give, and sometimes in order to get it placed in other companies they have to split the commission with an agent of the other company. Other times the company will accept it as brokerage, but it is a perfectly legitimate activity of a full-time agent, because he says to his company, "Well, this prospect won't have my policy and there is no reason why I should lose the commission, therefore I am going to place it in the other company."

Mr. HAYES. I was merely curious to know how extensive was the practice as far as you knew. Would you say it is fairly extensive?

Mr. CRAWFORD. Yes; I think it is fairly extensive, although it is not legal unless the man is licensed as a broker.

Mr. HAYES. Let me get that straight. Do you mean it is not legal for him to do that?

Mr. CRAWFORD. It is not legal for that company to pay him a commission unless he either has a brokerage license or an agency license.

Mr. HAYES. You mean the second company with which he places the insurance, unless he places it through one of their agents?

Mr. CRAWFORD. That is right.

Mr. GESELL. Agents frequently do carry licenses in several companies just to be able to place the business outside of their own?

Mr. CRAWFORD. Yes, indeed.

The CHAIRMAN. Are there other questions? We are much indebted to you.

(The witness, Mr. Crawford, was excused.)

Mr. GESELL. Mr. Maloney.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MALONEY. I do.

TESTIMONY OF JAMES A. MALONEY, AGENT, FIDELITY MUTUAL LIFE INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. Mr. Maloney, what is your full name, sir?

Mr. MALONEY. James A. Maloney.

Mr. GESELL. With what company are you connected?

Mr. MALONEY. Fidelity Mutual Life.

Mr. GESELL. Here in the District?

Mr. MALONEY. Yes.

Mr. GESELL. How long have you been an agent?

Mr. MALONEY. I have been an agent for 16½ years, a general agent for 3½, and I am back as an agent now.

Mr. GESELL. All the time with the Fidelity, or with different companies?

Mr. MALONEY. No; I was 16½ years with the Equitable and 3½, approximately 4, with the Fidelity.

Mr. GESELL. How long have you sold insurance here in the District?

Mr. MALONEY. Twenty years.

Mr. GESELL. I want again to cover these same topics with you that I have covered with everyone else, Mr. Maloney. Is there much of a turn-over in your office?

Mr. MALONEY. When I was manager there was.

Mr. GESELL. You are manager no longer?

Mr. MALONEY. That is right.

Mr. GESELL. There is not a turn-over now as heavy as before?

Mr. MALONEY. The new manager hasn't been in long enough to determine, I don't think.

Mr. GESELL. What were the reasons for the turn-over?

Mr. MALONEY. I think bad judgment in the selection of men. I think I was guilty of that.

Mr. GESELL. In addition to that, were there any reasons?

Mr. MALONEY. I think that is the main reason.

Mr. GESELL. Do you have a wide range of men to select from?

Mr. MALONEY. Yes.

Mr. GESELL. And you believe that the reason for the turn-over was mainly the inability to choose good men.

Mr. MALONEY. I would say it is the difficulty of drawing into a business the type of man which the companies have been trying to get, but which they are having difficulty in getting, and which we, as managers, experienced difficulty in trying to put them under contract.

Mr. GESELL. Why is it difficult to get them in?

Mr. MALONEY. Well, there are a lot of reasons for it, probably.

The insurance business possibly hasn't the same, you might say, high standing that I think it should have, primarily because of the large turn-over.

Mr. GESELL. Is it partly because the men don't see any sure earnings ahead of them when they first come in?

Mr. MALONEY. I don't know that that is it entirely. There is a certain amount of uncertainty about the business which it is difficult to overcome, and I think it takes a particular type of man to sell life insurance, and it is very difficult to find that type of man.

Mr. PIKE. Do you think you can tell him in advance of actual experience?

Mr. MALONEY. I have used tests of various kinds and I have selected them with college degrees, and I haven't found that it helped much.

Mr. GESELL. What do you think about the possibility of getting better men through giving some kind of a minimum guaranteed salary in the early years?

Mr. MALONEY. I think that would be very helpful, for this reason, that it would put sort of a rein on the manager in his selection if it were necessary for him to put up, or the the company to put up, a certain minimum amount; that there would be considerably more care exercised in the appointment of men than there is at the present time when there are no salary advances.

Mr. GESELL. You mean the agent or manager of the company would have a stake in the man?

Mr. MALONEY. They would have to make a very careful decision.

Mr. GESELL. What is one of the factors in taking on men, the desire to increase volume?

Mr. MALONEY. The desire to take on men is the same as that in any other business, to increase one's income. If he is a manager, he wants a larger income. If he is an agent, he goes into the business because he thinks he can make a larger amount there than elsewhere.

Mr. GESELL. Is it the tendency of managers to take on a lot of men to increase their own volume?

Mr. MALONEY. I have heard that there were—I don't know whether there are now—two schools of thought, one where a large number of men might bring in a large volume; and then there was another school of thought where selection was the paramount factor, and I think in recent years that it has been pretty well proven that selection is more important than numbers.

Mr. GESELL. Do you think you would get a better selection if there was some kind of salary, such as we have been discussing?

Mr. MALONEY. I don't know whether you would or not, but it would certainly be conducive of a little more care.

Mr. GESELL. Do you think there is a tendency for new men coming in with no financial means and with no type of salary guarantee, to sell insurance or misplace insurance just for the sake of making a living?

Mr. MALONEY. My experience has been that the average man is essentially honest, and I have found in my 20 years very, very few men in the insurance business who were dishonest.

Mr. GESELL. I didn't mean to say that it would be dishonest to try to sell somebody insurance, but if a man has to make rent, if a man has to make gas bills, and if a man has to make things of that sort, he is more apt to be a little strenuous in placing a policy and a little less apt to fit his program to the policyholder's needs; don't you think that is true?

Mr. MALONEY. I don't think it is true at all with a man who recognizes his own capacity to sell, because it never becomes necessary for him to cut those sharp corners.

Mr. GESELL. We are talking about the new men now, untrained men, beginners.

Mr. MALONEY. I don't know, I wouldn't like to answer that. I would say off hand that he would be pretty honest as a whole.

Mr. GESELL. Do you think the method of compensation should be changed?

Mr. MALONEY. I don't think it should be reduced. [Laughter.] The reason I say that is because there has been a lot of discussion about it, and particularly reducing the first-year commission and extending it over a longer period of time.

Mr. GESELL. What do you think of that?

Mr. MALONEY. I would be opposed to that, personally, for the reason I think the Social Security could take better care of our needs and there would be certain minimums that we could look forward to, whereas if we attempted to do that by prolonging the commissions, our incomes to a great extent would be dependent on the longevity or the economic disasters that might affect people, with a resultant loss of our policyholders upon whom we would depend for our annuity. I don't think it would be very satisfactory.

Mr. PIKE. You would want to get policies on younger people than you were, if you wanted to be sure to get through.

Mr. MALONEY. They wouldn't do it then because there would be too many things that would interrupt the continued process of that policy over a period of time, say 20 years.

Mr. PIKE. Yes; it is quite clear you would have a constant detrition in your period of policies.

Mr. MALONEY. And as you got older you would be unable to replace them.

Mr. GESELL. I have no further questions of this witness.

(The witness, Mr. Maloney, was excused.)

Mr. GESELL. Mr. Crowley.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CROWLEY. I do.

The CHAIRMAN. Please be seated, Mr. Crowley.

TESTIMONY OF THOMAS R. CROWLEY, CROWLEY & MARR, GENERAL AGENTS FOR THE PENN MUTUAL LIFE INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. Will you state your full name, please, sir?

Mr. CROWLEY. Thomas R. Crowley.

Mr. GESELL. With what company are you connected?

Mr. CROWLEY. I am a member of the firm of Crowley & Marr and we are general agents for the Penn Mutual.

Mr. GESELL. Here in the District?

Mr. CROWLEY. Here in the District.

Mr. GESELL. How long have you been general agents for the Penn Mutual?

Mr. CROWLEY. Since January 6, 1931.

Mr. GESELL. Were you in the insurance business before that time?

Mr. CROWLEY. Yes, sir.

Mr. GESELL. As an agent or general agent?

Mr. CROWLEY. As both.

Mr. GESELL. How long have you been selling insurance?

Mr. CROWLEY. I have been selling insurance since January 1919.

Mr. GESELL. With the Penn Mutual, or with other companies as well?

Mr. CROWLEY. With two other companies prior to the Penn Mutual, but for a very short time with the other two. I have been with Penn Mutual since 1922.

Mr. GESELL. What do you think of this problem of turn-over of agents? Would you agree that it is a problem?

Mr. CROWLEY. Yes; I do agree that it is a problem.

Mr. GESELL. What causes it?

Mr. CROWLEY. Well, I think you will find that turn-over with most agents occurs—I am speaking for ourselves, and when I say "ourselves" I mean our office, I don't know much about the other fellow—in the first 2 years. If we had a 2-year tenure of time in which to educate and supervise a man we might expect little turn-over. In that first 2 years it comes, in large measure, and I should say with our own case it comes through inability to select.

Mr. GESELL. Is it all a matter of selection or is it also a matter of training?

Mr. CROWLEY. It is a matter of both. It is a matter of three things; it is like a three-leaf clover. You have your selection, you have your training, and you have your all-important supervision.

Mr. GESELL. Are you able to bring to your agency the kind of men you would like to bring?

Mr. CROWLEY. We can bring the type of men we would like to bring. Just pursuing your question a little further, we don't bring them in the number we would like to bring them.

Mr. GESELL. That is what I was getting at. What is the reason for that? Is it because perhaps you can't offer them anything definite at first?

Mr. CROWLEY. No; I don't think that is the reason, to be very frank with you, because we have offered them something definite.

Mr. GESELL. You have?

Mr. CROWLEY. Yes.

Mr. GESELL. You have tried the salary plan?

Mr. CROWLEY. We have.

Mr. GESELL. Have you found it successful?

Mr. CROWLEY. We have not.

Mr. GESELL. How long have you been using it?

Mr. CROWLEY. About 18 months.

Mr. GESELL. Do you find you have just as much of a turn-over with the salaried man as with the other kind of man?

Mr. CROWLEY. I should say yes.

Mr. GESELL. What kind of salary do you pay them?

Mr. CROWLEY. We try to pay him a salary that he would figure he could live on.

Mr. GESELL. What does it run? Is it different for each man?

Mr. CROWLEY. It might be different for each man. In no case has the salary been less than a hundred dollars a month and in no case has it been greater than one hundred and fifty, to give you the exact figures.

Mr. GESELL. How long do you guarantee it?

Mr. CROWLEY. Well, we start off under our arrangement for 3 months, based upon a certain specific performance. If that performance goes along, we will go for another 3 months, and so on. We will continue for 2 years. We never have, though, continued for 2 years.

Mr. GESELL. Then you would feel that it is a matter more of training and of supervision?

Mr. CROWLEY. That is what I think.

Mr. PIKE. Would you start that salary with the training period or wait until he had gone through the training period before starting it?

Mr. CROWLEY. We have done it both ways. I don't know that it makes a great deal of difference.

Mr. KADES. That salary isn't in the nature of a drawing account?

Mr. CROWLEY. That is a salary.

Mr. KADES. Straight salary?

Mr. CROWLEY. Yes.

Mr. GESELL. Do you feel the licensing requirements for agents are sufficiently stringent?

Mr. CROWLEY. I don't know that I do.

Mr. GESELL. I take it from that you mean you don't think they are sufficiently stringent?

Mr. CROWLEY. That is right. I think they could be more stringent here in the District.

Mr. PIKE. In what regard, Mr. Crawley?

Mr. CROWLEY. I think they could search more thoroughly into an agent's actual knowledge of the application of the business rather than such questions as how many days of grace and what have you.

Mr. PIKE. The technical knowledge isn't the all-important thing?

Mr. CROWLEY. That is right, I think.

Mr. GESELL. How long a training period do you give a man before you let him take a rate book and go out and try to sell?

Mr. CROWLEY. Well, we keep him in the office approximately 2 weeks, during which time we try to give him a working knowledge of the various policies and their application. From then on it is a constant process of education. I should say in 2 weeks' time he would have a pretty fair technical knowledge of the 90 percent of cases that he will eventually sell, 90 percent of the policies that he will eventually sell.

Mr. GESELL. Is he kept under supervision after that first 2 weeks' period?

Mr. CROWLEY. Yes, sir. He is constantly under supervision from then on.

Mr. GESELL. I meant especially sharp supervision?

Mr. CROWLEY. Oh, yes; yes.

Mr. Gesell. What do you do, have him come in and tell you the problems he has met, case history stuff?

Mr. Crowley. Yes; exactly. In addition to that, we have a report system which he fills out so that we may have some idea of his weaknesses, and the report system also helps us to bring out ours in the supervising.

Mr. Pike. Do you send other men with him to help him close?

Mr. Crowley. We do where he has made appointments. We don't go out just canvassing.

Mr. Pike. But if he says, "Here is a tough one and I wish you would help me," you do?

Mr. Crowley. That is right.

Mr. Gesell. Do you think there are any changes which could be made in the compensation system which would assist in the alleviation of some of these problems we have been talking about?

Mr. Crowley. I don't know that there is any great change in the compensation system that can be made. There might be some improvement in the first 2 years. In my opinion, you have to have an agent 2 years before you know whether you have got an agent or whether you haven't.

Mr. Gesell. What about the other end with regard to pension plans, social security, and so on?

Mr. Crowley. I, of course, am very much in favor of a pension plan, not only for my agents, but I would like to have one for ourselves. I think that, however—and I do want to say this—any pension plan that might be devised should be a contributory one between the company and the agent and should be self-supporting.

Mr. Gesell. Do you find that men may hesitate to come into the business as agents because of the absence of such type of plan or program for the latter part of a career that they might have?

Mr. Crowley. I have never definitely known that to be the case, but on the other hand I believe it would be a decided asset in inducing the proper kind of man to come in.

Mr. Gesell. It would help select?

Mr. Crowley. I think so.

Mr. Gesell. I have no further questions.

Mr. Pike. I have two questions. One may seem facetious. You don't think that insurance agents in general would be good customers for these policies we frequently see advertised assuring one how easily one can buy retirement at $55 or $100 a month?

Mr. Crowley. I don't believe the average insurance agent would be a very good customer for that policy because I don't think he could afford to buy it.

Mr. Pike. That is the point, that is the trouble. The other question: Do you feel you have carried this salary experience long enough? You haven't filled out your experimental period, have you?

Mr. Crowley. No; I have not.

Mr. Pike. But you feel definitely disappointed in the way it has worked?

Mr. Crowley. Well, it certainly has not worked so far.

Mr. Pike. And it had better improve pretty quickly or it will prove unsatisfactory?

Mr. Crowley. It will prove that I won't do it any more.

The CHAIRMAN. Do you have any opinion with respect to various matters which have been discussed here by the agents who have been called, differing from the opinions expressed by any of them?

Mr. CROWLEY. Well, I differ somewhat from one agent who spoke this afternoon with relation to brokerage business, and herein is where I differ: I have been in the business since 1919 and I have never really met one.

Mr. GESELL. Never really met a broker?

Mr. CROWLEY. That is right. I have never really met one. The reason I say that is because every broker that I have met has always had some main company affiliation and that main company has done 90 percent of his business.

The CHAIRMAN. In other words, you mean it is a title rather than a practical method of doing business?

Mr. CROWLEY. That is my opinion, sir.

The CHAIRMAN. Have you met many who call themselves brokers?

Mr. CROWLEY. A great many, not locally here, but I know a great many that call themselves brokers.

The CHAIRMAN. Are they numerous in the country at large?

Mr. CROWLEY. At large I would say no; there are quite a few in New York City.

The CHAIRMAN. When you say you have met a great many, how many?

Mr. CROWLEY. Oh, I guess I know 50.

The CHAIRMAN. And in each instance these men primarily serve one company?

Mr. CROWLEY. That is right; that is my opinion. I say that is right—that is my opinion.

Mr. GESELL. Mr. Crowley, do you think there are too many agents in the District?

Mr. CROWLEY. No.

Mr. GESELL. You don't think that there are too many agents here?

Mr. CROWLEY. No; I don't think there are too many here.

Mr. GESELL. How many do you think there are?

Mr. CROWLEY. This is only a guess; I am speaking of life-insurance agents, I am not speaking of the number of licenses that are out. I should say 250.

Mr. GESELL. Well, there are about 2,000 licenses out.

Mr. CROWLEY. I wouldn't doubt that.

Mr. GESELL. Would you agree, then, that there are too many licensed agents?

Mr. CROWLEY. I will agree with that.

The CHAIRMAN. Sometimes I have heard the taxi drivers say there are too many taxis in this town.

Are there any other questions of Mr. Crowley?

Mr. KADES. Have you arrived at any conclusions as to why the salary plan hasn't worked?

Mr. CROWLEY. Yes; I have. If I might divert just a moment and tell you why I have reached my conclusions, I think that I have been sold in putting these men under a salary contract by the man's anxiety to come in the business because he was getting a salary. Had the salary been removed entirely from the picture and had he been convinced that this was his business and this was the thing he wanted to do, and then I had said, "If you want to do this I will make it possible for you to do it through the salary," I might have had a better experience. I have gone about the thing myself in the wrong manner. Instead of getting a man who wanted to make a career out of the business I have thus far gotten men who wanted a salary.

Mr. Gesell. Then, you would feel perhaps that you hadn't given the plan a fair test.

Mr. Crowley. I think that is probably true.

(The witness, Mr. Crowley, was excused.)

The Chairman. Are there any other witnesses this afternoon?

Mr. Gesell. No others this afternoon.

The Chairman. The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 3:30 p. m., a recess was taken until 10:30 a. m., Thursday, February 29, 1940.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, FEBRUARY 29, 1940

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:50 a. m., pursuant to adjournment on Wednesday, February 28, 1940, in the Caucus Room, Senate Office Building, Representative B. Carroll Reece, presiding.

Present: Representative Reece (acting chairman); Senator O'Mahoney (chairman); Representative Williams, Messrs. Kades, Pike, Lubin, Henderson, and Brackett.

Present also: Senator Josh Lee, of Oklahoma, Gerhard A. Gesell, special counsel; Ernest Howe, chief financial adviser; Helmer Johnson, attorney; and H. A. Blomquist, chief investigator, Securities and Exchange Commission.

Acting Chairman REECE. The committee will come to order, please. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes, I am.

There are two or three matters left over from previous hearings that I want to take account of for a moment. First of all, we introduced for the record "Exhibit No. 2300" showing information concerning the 10 largest urban real estate properties owned by the Mutual Life Insurance Co. as of December 31, 1938.[1] On the previous exhibit introduced we simply showed one of the two appraisals which had been made on the property. The Mutual Life has requested that the exhibit be modified to show both appraisals on the property by independent appraisers, so I would like to offer this in lieu of the exhibit already introduced.

Acting Chairman REECE. It may be admitted as suggested by counsel.

Mr. GESELL. When Mr. Beebe, of Mutual, was on the stand, the committee requested that he supply forms used by the Mutual in obtaining information from certain types of utilities in which the Mutual was considering an investment. I am referring to two such forms. The first form is what is known as the "Water Company Confidential Report for Insurance Companies." I understand that that form is sent out to water companies.

The second form, which is known as "Report for Insurance Companies," is sent to light, power, and gas companies. There are six pages to this form, and when the companies engage in the combined service of both electric light, power, and gas, all six pages are sent,

---

[1] Supra, facing p. 15523.

according to the information that the Mutual has given me. However, if the company concerned is engaged only in the electric light and power business, then pages 1, 2, 3, 4, and 5 are sent. If the company is engaged only in the gas business, pages 1, 3, and 6 are used.

I would like to offer these reports for the record, in accordance with the previous arrangement.

Acting Chairman REECE. They may be admitted.

(The forms referred to were marked "Exhibits Nos. 2334 and 2334-A," and are included in the appendix on pp. 15560-15567.)

Mr. GESELL. There is one other matter involving the Mutual Life that has to do with its urban real-estate account. The committee will recall when Mr. Polk was on the stand, I discussed the real estate of the Mutual at that time, and neglected, however, to offer for the record a schedule showing for each of the Mutual Life's urban real-estate properties in the city of New York held December 31, 1938, the book value, assessed value, appraised values, and adjustment of book value approved by the real estate committee at the end of the year. It will be recalled that this schedule was discussed with Mr. Polk, trustee of the Mutual Life.

I should like to offer it to be filed with the committee at this time as an exhibit. I should like to state that the schedule shows the New York City properties of the Mutual had a book value as of December 31, 1938, prior to adjustment, of $49,672,006.35; an assessed value for 1938 of $60,989,500; a value according to appraisal by Brown, Wheelock, Harris & Stevens, Inc., of $34,304,500, and an appraised value by Horace Ely & Co. of $43,039,700, and a new book value as adjusted by the real estate committee December 31, 1938, of $48,099,750.

It should be pointed out in connection with the above figures that one property having a book value of $3,168,000 and an appraisal value of $2,850,000 by Horace Ely & Co. was not appraised by Brown, Wheelock.

I do not wish to print the schedule but wish it to be given an appropriate number and filed.

The Mutual Life has advised that as of December 31, 1939, the book value of the balance of these properties remaining unsold was reduced by a lump sum adjustment by an Ely appraisal.

Acting Chairman REECE. Is it your desire to have this printed?

Mr. GESELL. It is not. With the summary I have given, I think it is unnecessary to print it, but I think it should be given an exhibit number.

Acting Chairman REECE. Very well.

(The schedule referred to was marked "Exhibit No. 2335" and is on file with the committee.)

Mr. GESELL. The first witness this morning is Mr. Alfred M. Best.

Acting Chairman REECE. Will you be sworn, please?

Do you solemnly swear the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BEST. I do.

TESTIMONY OF ALFRED M. BEST, PRESIDENT, ALFRED M. BEST CO., INC., NEW YORK, N. Y.

Mr. GESELL. Will you state your full name and address for the record, please, sir?

Mr. BEST. Alfred M. Best, 75 Fulton Street, New York City.

Mr. GESELL. And what is your principal occupation, sir?

Mr. BEST. I am president of Alfred M. Best Co., Inc., publishers of insurance works.

Mr. GESELL. Will you give us a little idea of the type of insurance publication that your organization distributes, particularly in the life field?

Mr. BEST. In the life field we have a large annual volume of reports covering the history and operating results of life-insurance companies, fraternal orders, and so forth, operating anywhere in the United States. We have a small publication called "Best's Recommended Life Insurance Companies," a simple tabulation of some of the principal items, that is pocket size, and we have the life edition of the Best's Insurance News that we publish monthly.

Mr. GESELL. Your organization receives detailed information concerning the financial condition and the operations of legal-reserve companies from year to year, does it not?

Mr. BEST. Yes; the larger companies file with us the same convention form statements which they give to the insurance departments, together with some additional data that we find necessary for the preparation of our reports.

Mr. GESELL. Do you also receive further information from sources in the field, State insurance departments, and other sources of that character, by correspondence with the companies directly?

Mr. BEST. Oh, Yes.

Mr. GESELL. How long have you been in this business, Mr. Best?

Mr. BEST. Forty years.

Mr. GESELL. Over that period, then, I take it you have become quite familiar with the general operating problems in the life-insurance business?

Mr. BEST. Yes; I think I can say that.

Acting Chairman REECE. Did Mr. Best found this company?

Mr. BEST. Yes; I did, and have been president of it ever since.

Mr. GESELL. I wanted to consider with you today, Mr. Best, one particular phase of the life-insurance problem, namely, the retirement of life-insurance companies and the failures of life-insurance companies which have taken place in the period since 1930. Am I correct in saying that you have from your records in these various sources that you have indicated compiled information in response to our request with regard to life-insurance companies which failed in the period from 1930, giving particular reference to a group of companies where on the basis of your information you estimated that the initial loss to policyholders was in excess of $1,000,000? [1]

Mr. BEST. I have done that.

Mr. GESELL. How many such companies are there, taking the period from 1930 to 1939?

---

[1] See "Exhibit No. 2336," appendix, pp. 15568–15569.

Mr. BEST. There are 19 companies on the tabulation.

Mr. GESELL. Those would be 19 companies where the initial loss to policyholders in accordance with your figures and estimates was $1,000,000 or more?

Mr. BEST. That is correct.

Mr. GESELL. Are you acquainted through the material you have with the reasons and causes for some of these failures?

Mr. BEST. Yes.

Mr. GESELL. I would like to discuss them with you, taking them case by case. Do I understand that there were no failures in the year 1930, falling in this category?

Mr. BEST. That is correct.

Mr. GESELL. The first failure took place in the first part of 1931?

Mr. BEST. Yes.

Mr. GESELL. That is the Home Life Insurance Co., of Little Rock, Ark. Is that correct?

Mr. BEST. That is right.

Mr. GESELL. Will you, to begin with, state for the committee some of the problems and considerations which are involved in estimating or computing what the loss to policyholders may be in the case of a life-insurance failure?

Mr. BEST. That has already been done in the memorandum attached to the schedule.

Mr. GESELL. That is the memorandum that I have before me now?

Mr. BEST. Yes; entitled "Policyholders' Losses in Life Company Failures, Period January 1, 1930, to January 1, 1940."

Mr. GESELL. Would you kindly summarize some of those principal reasons for us, using the memorandum as a basis, if you wish?

Mr. BEST. Very well.

In the first place, it is necessary to use as a basis for any estimate of the indicated initial loss to the policyholder the policy reserve figures from the latest available statement prior to the time of the reinsurance of the failed company subject to a lien. There may be a considerable lapse of time between the appointment of a receiver for such a company and the final reinsurance of the business, and during that time there is a tendency for policyholders to lapse their insurance at a greater-than-average rate, and consequently it is probable that as of the date of reinsurance the reserve would actually be less than indicated by the last previous available statement.

Mr. GESELL. That is because in the period when the company is in difficulty policyholders are apt to start getting their money out before the receivership occurs?

Mr. BEST. Yes; and even though they can't get their money out, if their reserve is a small amount they just lapse the policies.

Mr. GESELL. And cease paying——

Mr. BEST (interposing). Yes. Now, the second very important point is that the lien in such a reinsurance cannot possibly affect money which the policyholder has already borrowed on his policy. He has received that money and used it.

Mr. GESELL. In other words, if he has made a policy loan, he has in effect taken out a portion of his reserve; therefore he can't lose it?

Mr. BEST. That is correct; nevertheless in the accepted system of life-insurance accounting, policy loans are treated as assets and the reserve against those policies is carried gross among the liabilities.

Mr. GESELL. Is not reduced by the amount of loan?

Mr. BEST. Is not reduced by the amount of the loan. That of course does not affect surplus. The assets are increased, the reserve liability is increased, the surplus remains the same.

Mr. HENDERSON. Take an absurd, hypothetical basis to see if I understand that. If you had, say, a billion dollars in reserves and policy loans of $800,000,000—I realize that is an absurdity—you would show assets in the way of loans and still show a reserve of a billion dollars?

Mr. BEST. That is true. That being the fact, the first important correction in the figures in order to make this sort of an estimate is to deduct from the reserve figure all policy loans and premium notes and in this tabulation that has been done, and you will notice that it makes a very large difference, varying in different companies because the percentage of policy loans to assets and to reserves varies among the companies. That is a very important item.

Mr. GESELL. You have taken that into account in these figures we are going to discuss?

Mr. BEST. That is true; but there I had to stop, and I could not take into account in the tabulation another item which is of very considerable importance.

Mr. GESELL. What is that?

Mr. BEST. That is the fact that in many of these reinsurances some of the business was taken over not subject to the lien; in other words, it was exempted from the lien. As an illustration, in the Continental Life of St. Louis, reinsured by the Kansas City Life, about half of the business of the Continental then in force was represented by what are known as registered policies and the reserves on those policies were on deposit with the Missouri Insurance Department. The Kansas City Life, for whatever reason, was willing to assume that part of the business without imposing any lien against the reserves. Now, the effect of that in round figures is as follows: The tabulation will show gross reserves of $13,000,000 and a 50 percent lien, which to the uninitiated might indicate a loss to the policyholders of 50 percent of $13,000,000 or $6,500,000. When we deduct the policy loans, however, from the reserves and then apply the lien to the remainder, the 6½ million shrinks to 4½ million. I corresponded with the Kansas City Life to ascertain the actual amount of lien imposed and it was two-million-four-hundred-odd-thousand dollars. I mention those particular figures as showing how wide the difference might be.

Mr. GESELL. How important this particular factor is?

Mr. BEST. How very important that particular item may be.

Acting Chairman REECE. Will you permit an interruption?

We are glad to have with us Senator Lee, of Oklahoma, who has followed the work of the committee with a great deal of interest.

Mr. BEST. There is another item which is of great importance, and that is that in almost every one, in fact I think every one, of these 19 cases, and almost all other reinsurances where a lien was imposed, the contract provided that if a policyholder died within a stipulated period of years the lien would be waived and the claim paid in full. That, of course, would mean that the beneficiary of a policyholder who died within that period of years after the reinsurance would lose nothing.

Mr. PIKE. He would get more than his share of the reserve?

Mr. GESELL. In other words, if there was a 50-percent lien attaching at the time of the reinsurance, a policyholder might die following that lien and his beneficiary still get the full benefits under the policy?

Mr. BEST. That is correct.

Mr. GESELL. In certain circumstances as provided by the particular reinsurance agreement.

Mr. BEST. And that runs into a considerable amount. It is worth considering.

Then, there is still another item, and that is the interest paid by the policyholder on the lien.

Mr. GESELL. I think to understand this item you have to go a little more into detail with respect to how one of these reinsurance arrangements works out.

Mr. HENDERSON. Who holds that lien? That is what I am interested in.

Mr. BEST. The reinsurer, the company which takes over the business, assumes it subject to these liens and agrees otherwise to carry out the terms of the contract so assumed.

Mr. HENDERSON. Is there an impounding that takes place?

Mr. BEST. It is simply a bookkeeping account.

Mr. HENDERSON. It is not deposited with a trust company, or anything like that?

Mr. BEST. There is no special segregation of assets as a rule. The entire assets of the failed company usually go into a pool which the reinsuring company endeavors to work out to the best advantage of the policyholders of the failed company.

Mr. GESELL. Setting up this item on its books as one item of the particular account?

Mr. BEST. That is right. That must be done, otherwise the assuming company would have to set up in its liabilities the whole amount of the reserves under the policies taken over. It would have no corresponding assets to offset it, and consequently its surplus would be reduced by the difference between the actual value of the assets at the time of the reinsurance and the total amount of reserve liability.

Mr. PIKE. You sort of hope that the mortality saving will clear that out during the life of the people taken over?

Mr. BEST. Yes; the mortality savings and general earnings of the fund.

Mr. GESELL. You were about to discuss this interest item.

Mr. BEST. Yes. That interest item is of considerable importance, but in my judgment not nearly as great as might be first considered. It is a rather intricate thing, but following your suggestion, I would explain that under these contracts, the company taking over the business by reinsurance, charges interest on the lien. It must do that because the lien represents a portion of the reserves which should be on hand at the time of the reinsurance in sound, earning assets.

Mr. HENDERSON. Who pays the interest?

Mr. BEST. The policyholder pays the interest.

Mr. GESELL. Of the reinsured company?

Mr. BEST. The policyholder of the reinsured company.

Mr. GESELL. This is a fact, if I understand you correctly, that in effect increases the loss. The other items we have been discussing tend to diminish the loss. This would tend to increase it. Is that not correct?

Mr. BEST. That is true.

Then, going back for a moment to that matter of interest, it might appear that all of the interest paid by a policyholder whose policy is subject to the lien is a loss to him and should be added to the face amount of the lien which was placed on his particular policy, but that is not true. As a matter of fact, the interest so collected is credited in part to the reserves under each policyholder's policy, thus increasing his surrender values, and the rest of it goes into the general fund of assets out of which it is hoped that future recoveries and earnings will enable the assuming company to reduce, and ultimately extinguish, the lien.

Mr. GESELL. In other words, if a 3½-percent interest rate happens to be earned on the reserve——

Mr. BEST (interposing). That is the usual figure in companies of this type.

Mr. GESELL. And there was an arrangement for a 6-percent interest——

Mr. BEST (interposing). Yes.

Mr. GESELL. In the reinsurance contract, where do the 2½ percent go?

Mr. BEST. That would undoubtedly show up finally in the general fund of assets taken over at the time of the reinsurance from the failed company, and there are other reasons, too, which perhaps it isn't necessary to go into, purely accounting and actuarial, which make me feel that the item is not as important as it seems on the surface.

Mr. GESELL. Are there other factors which must be taken into account in computing policyholder losses of these failed companies?

Mr. BEST. Yes; there is one more that I haven't mentioned that is very important. Any sound company reinsuring the business of a failed company under such conditions as we are discussing naturally sees to it that the values then placed on the assets are conservative values. They may go too far in the writing down of those assets, and subsequently, when the assets are sold, they realize more than the figure at which they were estimated as the basis of the reinsurance and the imposition of the lien.

Mr. GESELL. In other words, when we talk in these hearings about initial loss, that is the loss that takes place at the time the lien attaches, but it may be that in the history of the reinsurance arrangement the contract would be so advantageous that that lien can be reduced?

Mr. BEST. That is true.

Mr. GESELL. And the loss ultimately worked out would be considerably less than the initial loss?

Mr. BEST. That is true, and, of course, the exact reverse of that is true. If the assets ultimately work out at values lower than those assumed at the time of reinsurance, somebody is going to lose the difference, presumably the company which assumed the reinsurance.

Mr. GESELL. Is it your point that the lien may be reduced or increased, depending to some extent upon the method used in the valuation of the reserve taken over at the time the reinsurance contract is entered into?

Mr. BEST. Yes; that is a factor.

Mr. GESELL. That is the factor that affects whether or not the lien goes up or down—the primary factor?

Mr. BEST. Yes. It is true also that reductions of the liens have taken place in relatively few cases. In some they have been quite extensive. There is one small company, the Register Life of Iowa, the business of which was first reinsured in another Iowa company and finally in a California company, and in that case there have been five reductions of a lien which at the outset was 100 percent of the reserve, and those five reductions amount to 52 percent of the original lien.

Mr. GESELL. So that it really ends up with a 48-percent lien?

Mr. BEST. Forty-eight percent, in addition to which the California company now handling that fund estimates somewhere between 25 and 26 percent of that original 100 percent lien is represented by the value of the funds still on hand.

Mr. GESELL. We had in previous hearings cases where a company followed that same reinsurance track, only the lien was increasing each time.

Mr. BEST. Yes; there are relatively few of those. Some of the contracts, of course, provide for the reinsuring company increasing the lien if that becomes absolutely necessary; but that is not usual.

Mr. GESELL. It is true, is it not, that these adjustments in the lien after the initial lien is fixed affect the surviving policyholders much more favorably if the lien is reduced than others who may have died or surrendered policies from the original group?

Mr. BEST. As already pointed out, if death occurs within the period of years following the reinsurance within which it is stipulated that the lien will be waived, then the policyholder who dies suffers no loss so far as the lien is concerned other than possibly a loss of the payment of interest.

Mr. HENDERSON. May I ask a question there? When you say "policyholder," do you mean policyholder of the old company?

Mr. BEST. Of the old company, the failed company.

Mr. HENDERSON. I am interested in what the advantages are for the reinsurer in taking over a company whose reserve is impaired. Is it appropriate to ask the question now, Mr. Gesell?

Mr. GESELL. Yes; I think it is.

Mr. HENDERSON. What does the company gain? In a number of circumstances it was evident the other day with the Metropolitan that some property came over on account of their taking over a company at the request of the superintendent of insurance in the State of New York. What I am interested in is, where there is a voluntary move, what is the gain which the company makes?

Mr. BEST. Well, first the increased volume of business has a tendency to make the operating expenses a little lower; that is, per unit of insurance carried.

Mr. GESELL. It is frequently said, is it not, Mr. Best, that this reinsurance arrangement is a much cheaper way of acquiring business than building it up through an agency?

Mr. BEST. Yes; I was just about to say that; that is the other principal reason for taking on the business in that way, and of course it is not as risky for the reinsurer as it might look if the revaluation of assets is done on a sound basis. For what net liability the reinsurer assumes, it gets adequate assets.

Mr. HENDERSON. What risk does it take? It takes a risk, maybe, on the decline in the value of the assets representing the reserve?

Mr. BEST. Yes; that is true, just as it would on any asset that it purchased.

Mr. HENDERSON. But, in general, it takes over these policy contracts and runs them right in with the rest of its business?

Mr. BEST. Well, usually there is a separate account kept for the benefit of the policyholders in the old company. There is a little additional accounting cost involved in that.

Mr. HENDERSON. What do they do about the agents?

Mr. BEST. Well, if the agents are in territories where the assuming company can make use of them they like to hold them, particularly if the agent has a fairly good record of production.

Mr. HENDERSON. They do get some trained staff?

Mr. BEST. They usually get a value there.

Mr. GESELL. That is a pretty valuable item, is it not, particularly in a small company?

Mr. BEST. Yes; it is. It is very important.

Mr. HENDERSON. It probably gets the additional business of new writings which come from having that number of policyholders on the books?

Mr. BEST. Yes; and the smaller the company taking over the business of another company the more important the increase of business becomes from the point of view of cutting down expenses. That is particularly true, of course, where there isn't any lien involved.

Mr. HENDERSON. That expense item is a rather large one, as I remember. What was it in the first table Mr. Howe introduced for the percentage of outgo which went for administrative?[1] It looks to me as if, on this supposition you make, a small company has a working margin in there which is pretty high.

Mr. BEST. Yes; I could illustrate that very simply, I think. A short period of years ago I made a study of two small life-insurance companies, each with about $150,000,000 of business in force. The businesses were of about the same character, the assets were of about the same character, and neither company was making any real progress. They were just stymied. A careful calculation indicated that if those two companies were consolidated and all unnecessary duplication of expense eliminated, immediately they would show an earning which would run ultimately to around $250,000 in excess of what they would jointly make operating separately. That is just an illustration.

Mr. GESELL. I understand your position to be, Mr. Best, that this growth in business, acquisition business in reinsurance, is particularly helpful to the relatively small company?

---

[1] See "Exhibit No. 2258," appendix, p. 15493.

Mr. Best. Yes.

Mr. Gesell. As the company gets larger, reinsurance has less advantage to it?

Mr. Best. That is correct.

Acting Chairman Reece. Is the advantage which the reinsuring company obtains by its opportunity to take over a group of trained agents reflected on the books in any way?

Mr. Best. Not at the time. It probably would be in the future operating figures. If the acquisition of the business of the agents resulted in a reduction of expense, of course that would show up in future statements.

Mr. Pike. There is no item comparable to goodwill ever entered on those things?

Mr. Best. No; no such item.

Acting Chairman Reece. But the policyholders of the reinsured company derive no benefit from any advantages which the reinsuring company may derive from acquiring this group of trained agents?

Mr. Best. Except that the reinsuring company will probably handle the assets of the reinsured company better and at less expense than that reinsured company could have handled it for itself if it had not gone out of business. They do get that advantage.

Mr. Gesell. Mr. Best, let's start discussing some of these specific cases.

Mr. Pike. There is one question I would like to ask. Suppose I am a policyholder in a company that is reinsured with, let's say, a 50-percent lien on it. Suppose I had a cash surrender or a loan value of, say, $500, before the sad news came along. I am entitled, then, with a 50-percent lien in a new company, to a $250 loan value?

Mr. Best. Yes; that is true; and then the contract almost invariably provides that additions to reserve accumulated out of future premiums are of course not subject to lien, and increase the amount which the policyholder may borrow or obtain on surrender.

Mr. Pike. Then, possibly, eventually my cash-surrender value might get back to what it would have been on the original policy if that lien was eaten up?

Mr. Best. Yes; it is a fact that history does record some cases where a substantial lien at the time of reinsurance was completely worked out so that the persistent policyholders lost nothing. The only ones in those cases who lose are the ones who are not persistent, and get less than the surrender value which they would otherwise obtain.

Mr. Pike. Or didn't have any cash-surrender value in the first place?

Mr. Best. Yes; and then they don't lose.

Mr. Gesell. The first I believe you said was the Home Life Insurance Co., of Little Rock, Ark.

Mr. Best. Yes.

Mr. Gesell. That company was reinsured by Central States Life Insurance Co., of St. Louis., Mo., on March 31, 1931, was it not?

Mr. Best. Yes.

Mr. Gesell. It went into receivership in January of '31.

Mr. Best. Yes.

Mr. Gesell. The rate of the lien was 50 percent.

Mr. Best. That is true.

Mr. Gesell. And the gross reserves of the company were $3,436,000, and $2,439,000 after adjusting for policy loans and premium loans.

Mr. Best. That is correct.

Mr. Gesell. And your estimate of the indicated initial loss was $1,220,000?

Mr. Best. Correct.

Mr. Gesell. What do your studies and your expert knowledge of these matters indicate to be the reasons why the Home Life Insurance Co. failed?

Mr. Best. That is an unusual situation.

Mr. Henderson. I can say, Mr. Best, that I think in all these cases what we are really interested in, is your judgment of the dangers and conditions that did bring about the failure, because naturally the obverse side of that is the security of the policyholder, one of the things which lend real protection.

Mr. Best. Yes; and any light I can throw on a subject so important I will be very glad to contribute.

In this case, the Home Life was controlled by certain interests who had a whole chain of small banks scattered up and down the State of Arkansas.

Mr. Gesell. That was Mr. Rogers Caldwell, was it not?

Mr. Best. Well, Caldwell was in Nashville, Tenn. He was interested in this, he had bought the control of this company from Mr. A. B. Banks, of Little Rock, who was in control prior to Caldwell going in and buying an interest, both in the banks and in the insurance companies, this company and two others, one a fire company and one a casualty company. I think in this particular case it can be said that it just toppled down when the banks went, nothing else. Up to that time, the company had done extremely well.

Mr. Gesell. You mean its affairs, because of this common ownership, were so entangled with those of the banks that when the banks got into difficulty, it took the insurance companies with them?

Mr. Best. I mean their holdings in bank stocks were too much.

Mr. Gesell. And that was the result of the promotional interest being also interested in promoting the banks?

Mr. Best. Yes; I suppose so. I have no knowledge, of course, on that, as to why they bought them.

Acting Chairman Reece. May I ask if the portfolios of the company had been manipulated in such a way as to be advantageous to the insurance companies and disadvantageous to certain other interests that were connected with the company?

Mr. Best. No; if what you have in mind is any intentional dishonesty, I would say no. I think it was just very bad judgment.

Mr. Gesell. Bad investment judgment?

Mr. Best. Bad investment judgment, of a particular type in this instance.

Mr. Gesell. Of a particular type, namely that of putting too much bank stock into the portfolio of an insurance company?

Mr. Best. That is right.

Mr. Gesell. The next one was one that I think is pretty close to some of us here in Washington, the National Benefit Life Insurance Co., right here in the District.

Mr. Best. Yes.

Mr. Gesell. That went into receivership in September of 1931, did it not?

Mr. Best. That is true.

Mr. Gesell. And does your information indicate that the loss probably was well in excess of $1,000,000?

Mr. Best. Yes; although in this instance we haven't as much detail as we had on the other companies.

Mr. Gesell. What were the factors connected with that failure?

Mr. Best. This was a company operated by Negroes, and without doubt it was bad investments in this case, also, which resulted in the closing up of the company, and general all-around bad management. They just didn't know anything about running a life-insurance company.

Mr. Gesell. What were some of the bad investments?

Mr. Best. It seems to me for one thing they had a home office building. I am speaking from memory now and it is some time ago. That home office building represented about 4 or 5 times the surplus of the company, the last time I saw the figures, and that was just one item.

Mr. Pike. You find oversize home-office buildings every now and then in the small companies, do you not?

Mr. Best. In the small companies, that is true. I don't think it is a good practice, either.

Mr. Gesell. Those were all the failures in 1931, the Home and National Benefit?

Mr. Best. Correct.

Mr. Gesell. The first in 1932 is on the list as the Inter-Southern Life Insurance Co., of Louisville, Ky., is that correct?

Mr. Best. That is right.

Mr. Gesell. That company was reinsured by the Rome Life Insurance Co. of Louisville in August of '32?

Mr. Best. Right.

Mr. Gesell. Having gone into receivership in April of '32?

Mr. Best. Yes.

Mr. Gesell. And the net life reserves, that is after adjusting the policy loans and premium notes, were close to thirteen million—twelve million nine hundred sixty-one?

Mr. Best. That is right.

Mr. Gesell. Again a 50-percent lien?

Mr. Best. Again a 50-percent lien.

Mr. Gesell. And the loss you estimate in the case of that company was how much?

Mr. Best. Six million four hundred and eighty-four thousand dollars.

Mr. Gesell. Can you tell us something of the factors which led to the failure of the Inter-Southern Life Insurance Co.?

Mr. Best. That is an extremely involved situation. This company had been in business a long time and had passed into the control of the Caldwell interests in Nashville. The Caldwell interests started in interesting themselves in various other life insurance companies scattered throughout the country, as they interested themselves in everything else, newspapers and banks, everything.

This company purchased a very large amount of the stocks of other life insurance companies so that it became quite top heavy from that angle.

Mr. GESELL. Were those companies which Mr. Caldwell was also interested in?

Mr. BEST. Those were companies in which Mr. Caldwell was also interested, and the investments were large.

Mr. GESELL. Some of them were purchased from Caldwell himself, were they not?

Mr. BEST. Yes; or from Caldwell & Co., that is true, or perhaps from some other company in which Caldwell was interested. The fact is, I should say, the controlling factor in the failure of that company was the investment in the stocks of other life insurance companies.

Mr. GESELL. That is again failure as the result of bad investment practice?

Mr. BEST. Bad investment practice.

Mr. GESELL. And would fall more or less in the same category as the Home Life failure, only in the case of the Home Life we had bank stocks; in the case of the Inter-Southern Life we had insurance stocks?

Mr. BEST. That is true.

Mr. PIKE. And in each case you had Rogers Caldwell, or just this one?

Mr. BEST. I beg your pardon?

Mr. PIKE. In this latter case you had Rogers Caldwell. It really goes to a man.

Mr. BEST. We had Rogers Caldwell in both of them.

Mr. PIKE. That is what I was thinking; he was common to both of them.

Mr. HENDERSON. That means a lot of these failures weren't just bad guesses on investments such as we have been treating here—that is, you go through and do the best you can with investment analysis and buy securities for the portfolio, and then for reasons not under your control, something happens. In a lot of these cases, this overriding, interlocking management would say, "You buy this company and you buy that company because we are interested in it, and not because of the security."

Mr. BEST. Yes; that is true. To make the whole picture complete, I could say this: I know that the intent of Mr. Caldwell with whom I discussed the matter many times was to acquire a considerable number of rather small life insurance companies and consolidate them into one or two big companies, which was in itself a perfectly sound program, and that he intended to do that entirely with outside capital. He did not originally start off with the idea of any pyramiding by having company B buy stock in company A, and C buy stock in B or A, or both, but Mr. Caldwell ran into a situation where that plan could not be carried out.

It was impossible at this time. You all remember what the times were, and so, where some of these companies had purchased these stocks, he is not the only one that did that sort of thing. He purchased them believing it to be a purely temporary expedient, and resorted to in order that a desirable purchase could be made which otherwise could not be made. They found that this was not a temporary thing, that it was in there permanently.

The curious thing about all of these failures is that usually there isn't deliberate, willful, bad faith involved. There is terribly bad judgment involved in a good many of them.

Mr. HENDERSON. I gather from that, what you mean is, it isn't a case of a villain starting out to rook somebody. Occasionally the situation gets tight and human nature fails and falters; is that it?

Mr. BEST. No; what I mean is that an investment of a life insurance company in stocks of other life insurance companies was made in this case and in other cases in good faith so far as the intent to ultimately take them out again was concerned, and for that matter in the belief that they themselves were sound investments.

Mr. GESELL. But here was a case, was it not, where a man undertook to pyramid life-insurance companies with policyholders' and stockholders' funds of those same insurance companies, rather than getting capital from outside, and that is what led him eventually into his difficulties?

Mr. BEST. Yes; there were considerable stockholders' funds in that picture. They ran into a good many millions of dollars. There were, in fact, policyholders' funds as well.

Mr. PIKE. That suggests to me that here is one case where State regulation has fallen down in the life-insurance field.

Mr. BEST. Well, that, of course, we have seen in almost every field of endeavor.

Mr. PIKE. I mean, there is a chance to take a company operating in one State, through a piece of financial jugglery perhaps in another State ending up with bad results for everybody, including the juggler.

Mr. BEST. Well, the company is governed primarily by the laws of its home State.

Mr. PIKE. Yes; but its stock may be very well taken over by a company in another State, or has been in this case, I take it.

Mr. BEST. Yes; of course, that is true.

Mr. PIKE. And sometimes when you cross State lines you wonder who is going to run the show.

Mr. BEST. Of course in that case the company making the purchase would again have to comply with its own State laws, and the element of judgment enters in again, and in none of these cases were they unlawful.

Mr. PIKE. But the results were very unfortunate.

Mr. BEST. Yes; of course. The stock of any company——

Mr. PIKE (interposing). It violated a well-known principle that companies should not have in their investments equities of other companies engaged in the same line of business.

Mr. BEST. That is a very sound investment principle.

Mr. GESELL. The next one on the list in 1932 is the Mississippi Valley Life Insurance Co. of St. Louis, which was reinsured in the American Life and Accident of St. Louis, Mo., the Detroit Life Insurance Co. of Michigan, and the Republic Life Insurance Co. of Dallas, Tex. The Mississippi Valley Life Insurance Co. went into receivership on April 25, 1932; is that correct?

Mr. BEST. '32.

Mr. GESELL. And the loss in that case resulting from a 100-percent lien was $2,970,000; is that correct?

Mr. BEST. That is right.

Mr. GESELL. We have had some testimony about the Mississippi Valley Life in our hearings already, Mr. Best, and are somewhat familiar with its early history.[1] To what do you attribute its ultimate failure—in this case very complete failure?

Mr. BEST. The company's investment practices were very bad, to begin with.

Mr. GESELL. In what regard?

Mr. BEST. My recollection is that it seemed as if everything they selected was the wrong thing. They did have some real estate involved there that they never should have had, and their expenses were excessive, too. From almost every point of view that was a very badly managed life insurance company.

Mr. GESELL. Just because of bad management?

Mr. BEST. That shows what happens when you have that kind of management.

Mr. GESELL. In the final analysis it appeared that that management had been continuing for some period of time, did it not?

Mr. BEST. They had been in there for a considerable period of time.

Mr. PIKE. As I remember that case, it looked to be managed for the personal profit largely of the managers rather than for the benefit of the policyholders. If there was any degree of management, it was to the benefit of the managers.

Mr. BEST. I think in that case there might fairly be imputed something a little worse than merely bad business judgment.

Mr. PIKE. It looked to me that they used better judgment in their own behalf than they did for the policyholders, from the record.

Mr. BEST. Yes.

Mr. GESELL. The next is the Old Colony Life Insurance Co. of Chicago, Ill., reinsured in the Life and Casualty Co. of Chicago, Ill., and going into receivership on September 20, 1932, again, a case of 100-percent lien, complete loss, which you estimate at $3,719,000. Is that correct?

Mr. BEST. That is correct.

Mr. GESELL. What can you tell us about that failure?

Mr. BEST. That was asset trouble, primarily. They had a very large office building, which made trouble. There again the expenses were somewhat excessive, but definitely that was bad investments.

Mr. GESELL. Bad investments. Were they investments in concerns or enterprises in which the management was interested, or just bad investments?

Mr. BEST. No; not to my knowledge.

Mr. GESELL. Just bad investments?

Mr. BEST. Yes, sir; I might say speculative investments—not speculation for the benefit of the particular operator, but the company itself was speculating in some of those investments.

---

[1] See testimony of Messrs. J. D. DeBuchananne and Paul Temple, Hearings, Part 13, pp. 6688, and 6736, 6741–6744.

Mr. GESELL. The last one in '32 was the Security Life Insurance Co. of America, of Chicago, Ill., reinsured in the Central Life Insurance Co. of Chicago, Ill., in September of '32, having gone into receivership in April of '32. There was a case again of 100 percent lien on the policies, was it not?

Mr. BEST. That's right.

Mr. GESELL. And a loss to policyholders, according to your estimates, taking into account policy loans and other factors, of $6,726,000?

Mr. BEST. Yes.

Mr. GESELL. That was Machir Dorsey's company, was it not?

Mr. BEST. That is true.

Mr. GESELL. Can you tell us a little about that failure?

Mr. BEST. Yes; the security was an old company and it operated for a great many years very successfully. It was purchased, it was sold and purchased by a New York City banking house for clients of theirs, who then, after owning it for several years, sold it to Mr. Dorsey. That unquestionably was a failure due to bad investments. They had a lot of stocks of other life-insurance companies, too.

Mr. GESELL. They had bought, as I recall, among other things, into this Inter-Southern Life Insurance Co.?

Mr. BEST. Yes; they did, and that is a long story. I don't know whether you want it to go into the record or not.

Mr. GESELL. I might say that there is one we are still fairly actively engaged in pulling together. We may be still at that in 1945, I am not sure.

Acting Chairman REECE. May I ask if, in a case of these companies where there is a 100 percent loss to the policyholders, did the reinsuring companies lose anything, or did they derive any considerable profit from the reinsurance?

Mr. BEST. They might derive some profit in the form of reduced operating expense. They couldn't lose anything, because with a lien of 100 percent against the liabilities if the assets realized nothing they were not out of pocket. They will undoubtedly realize something. How much, even at this date, I haven't the remotest idea, but under those conditions I think that the assuming company did get some benefit from taking over that block of business. They probably still have today policyholders who came in through that transaction.

Acting Chairman REECE. You suggest they could not have lost anything. If the company had been insolvent at the time it was reinsured, might it not have been possible for them to have lost something?

Mr. BEST. You mean, if the Security had been insolvent or the Central insolvent? I didn't understand the question.

Acting Chairman REECE. If the company reinsuring had been insolvent, that is, if it had insufficient assets to meet the liability to the policyholders.

Mr. BEST. I don't see how taking on the reinsurance could have changed that situation so far as the assuming company is concerned.

Mr. GESELL. In that kind of situation, where the 100-percent lien exists, when you take over the assets of such a company you take over no obligation?

Mr. BEST. No obligation.

Mr. GESELL. So it is a question purely of whether or not you can realize anything on those assets over a long period?

Mr. BEST. That is it. You get a few agents, some policyholders, some future premiums.

Mr. GESELL. Can you give us a little more idea of the kind of investments the Security Life had which led to its troubles?

Mr. BEST. There again the principal difficulty was investment in stocks of other life insurance companies which never should have been made. It was a pyramiding situation. That, too, was done, so I am informed by the people who were in control of the situation, purely as a temporary expedient. They were planning to set up an institution with somewhere around 10 millions of resources as a holding company, and it was to purchase all of these insurance stocks which found their way into the Security; it was to clear out on Missouri State stock, which was owned by the Inter-Southern, and it was then to consolidate the Security and two other smaller companies into one, and there was a plan provided for some additional capital funds. If that all had been done, of course, whatever shrinkage in value took place, therefore, on these insurance stocks would have fallen on the holding company, not on the Security or its policyholders.

Mr. GESELL. They also bought some pretty bad Waukegan properties, did they not?

Mr. BEST. There was a great deal of notoriety given to that transaction. There were indictments. I believe, however, that they were acquitted on that charge.

Mr. GESELL. We put this case of the Security Life in what we might call the "Caldwell" category, do we not? It is much the same kind of failure as we saw in the case of the Home Life and the Inter-Southern.

Mr. BEST. It definitely ties into the case of the Inter-Southern.

Mr. GESELL. The next was the Northern States Life Insurance Co., of Hammond, Ind., was it not?[1]

Mr. BEST. That also was one of the Dorsey companies.

Mr. GESELL. That was reinsured in the Lincoln National in March of '33, after a receivership in December of '32, is that not correct?

Mr. BEST. That is right.

Mr. GESELL. And there we had a 60-percent lien on the policies, did we not?

Mr. BEST. That is right.

Mr. GESELL. And an estimated loss on the basis of your computations of $3,676,000?

Mr. BEST. That is right.

Mr. GESELL. What were the factors which led to the failure of the Northern States Life Insurance Co.?

Mr. BEST. The Northern States, to the best of my recollection, had no holdings in the stocks of other life insurance companies, or if so, they were of trifling amount. It was depreciation of assets which made the company insolvent, but it was the sort of general run of the assets rather than any specific single large item or class.

---

[1] See, infra, p. 15410, for discussion of the Illinois Life Insurance Co., which was next in order in "Exhibit No. 2336."

Mr. GESELL. Then you would say bad investments?

Mr. BEST. Bad investments.

Mr. PIKE. Is that one of the companies where the Lincoln Life held shares as collateral for a loan?

Mr. GESELL. I do not believe so.

There was, again, some real estate in the case of the Northern States, was there not?

Mr. BEST. That is true.

Mr. GESELL. Now, we come to one that has got to be quite a famous one, the case of the Missouri State Life Insurance Co., of St. Louis, Mo.

Mr. BEST. Yes.

Mr. GESELL. That company was taken over in September of '33 by a newly formed company known as the General American Life Insurance Co., of St. Louis, was it not?

Mr. BEST. Yes.

Mr. GESELL. It went into receivership on August 28, 1933; is that not correct?

Mr. BEST. That is true.

Mr. GESELL. There was a 50 percent lien in the case of that failure; is that not right?

Mr. BEST. Yes.

Mr. GESELL. And an estimated initial loss of $38,017,000?

Mr. BEST. Yes; that is correct.

Mr. GESELL. Can you tell us a little about the Missouri State failure?

Mr. BEST. Yes. The first thing that I want to say about it, however, is that this is one of the companies in which a portion of the business was not affected by the lien, and by correspondence with the company in preparation of this statement I learned that the actual lien was a little over 32 millions, whereas my table shows 38 millions.

Mr. GESELL. That would be a case similar to the one of the Continental that you discussed in your qualifying testimony?

Mr. BEST. Yes; and then you see this reinsurance was as of September 7 and the reserve figure with which we worked is the preceding December 31, and in that interval there was a very heavy run on that company for policy loans and surrender values. The company had made a large investment in the stock of another life-insurance company which turned out in that case to be one of the best investments they ever had, and it still is.

Mr. GESELL. That is the investment——

Mr. BEST (interposing). In the Southwestern Life of Dallas, Tex.

Mr. HENDERSON. When you talk of investment in another life insurance company you are always talking about investment in a stock company?

Mr. BEST. That is true.

Mr. HENDERSON. There is no way they can make an investment in a mutual, is there?

Mr. BEST. None whatever. They can purchase stock of a proprietary company.

The company had changed hands—the Missouri State had changed hands several times, creating considerable speculation on the part of the public, particularly among insurance men, and there had been some rather poor judgment exercised—no particular item.

Mr. GESELL. This is a case you were in as a consultant, is it not, in some phases of this problem?

Mr. BEST. No, I wasn't, not so far as that company was concerned. There is a little memorandum about that but I don't believe it is correct, at any rate I haven't the slightest recollection of it.

Mr. GESELL. But you were familiar with the Northern States Security and Inter-Southern proposition?

Mr. BEST. Yes.

Mr. GESELL. Can you give us some idea of the investments?

Mr. BEST. I should say that the Missouri State failed first because of a sort of general laxity, lack of conservatism, in making its investments, not of any particular one type.

Mr. GESELL. Bad management.

Mr. BEST. I still criticize the ownership of a stock of another company, but it turned out all right in this case. It is worth more now than they paid for it. But it was also undoubtedly very hard hit by the policy loans and runs which it endeavored to meet. That was very heavy, due partly to the general economic condition, which was mighty bad at that time. That was nearly the peak of the demand for policy loans in life companies. Partly, however, because of a little uncertainty on the part of policyholders concerning the company itself. There was no single very large investment which went sour, or anything of that sort. They are still working with these assets of what they call the old fund, the old Missouri State Life assets, and American is endeavoring to work around. They have effected some reductions in the lien.

Mr. PIKE. I have a vague memory, Mr. Best, that they also were lax in their writings.

Mr. BEST. Well, their underwriting experience was not bad. It wasn't outstandingly good, but that might be a fair criticism. There was a period when they were a little easy about the business they accepted.

Mr. GESELL. The next case is that of the National Life Insurance Co. of the United States, of Chicago, Ill., taken over by the Hercules Life of Chicago, in January of '34, following receivership in October of 1933.

Mr. BEST. Correct.

Mr. GESELL. There, there was a 50-percent lien and an estimated loss of $16,549,000, was there not?

Mr. BEST. Yes.

Mr. GESELL. What led to the failure of that company?

Mr. BEST. First and foremost, the fact that it owned something over 12,000 shares of stock of the Continental Illinois Bank, and that stock never appeared in the statement of the National Life at anything like the top-quoted market. Of course, it was absurdly high. That stock, as I recall, got up to pretty nearly a thousand dollars a share and tumbled to $20.

Mr. GESELL. So when it started to tumble, it depleted the assets of the National Life?

Mr. BEST. Yes; also in that particular case, during the immediately preceding years there was a pretty substantial amount taken out in dividends by the stockholders.

Mr. HENDERSON. How did they come to have these 12,000 shares?

Mr. BEST. They just acquired it from time to time

Mr. HENDERSON. Was interlocking of directors responsible for it?

Mr. BEST. No; no such reason was responsible so far as I know. They had stock in both the big banks as an investment pure and simple.

Mr. GESELL. Would it be a case where you would classify the causes of failure then either as bad investment judgment or bad valuation of assets or maybe just economic conditions? Or would you say it was speculative investment?

Mr. BEST. Well, I said a moment ago, and let me clarify it, that they had investment in stock of both the big banks, I mean the Continental and the Merchants, which subsequently were consolidated, and that is how they came to have such a very large block of the consolidated companies.

Mr. PIKE. It was too concentrated an investment no matter how good it looked when they bought it?

Mr. BEST. Exactly. It was far too large for a company of this size. There were some other investments which were somewhat speculative in nature, a piece of real estate up on Michigan Avenue that was purchased I think from the president of the company, and I don't think he made any profit out of it. I think they were a little too good to themselves in the matter of dividends and weakened the company. Primarily what put them out of business was the tremendous shrinkage in value of that immense block of stock.

Mr. HENDERSON. You mean dividends to the stockholders?

Mr. BEST. Of dividends to the stockholders, yes. This was a nonparticipating company.

Mr. GESELL. As a matter of fact, we haven't had the failure of a mutual company yet, have we?

Mr. BEST. No, we have not.

Mr. HENDERSON. In this whole group of 19 how many were mutuals?

Mr. BEST. I can't tell you that accurately. I think there are none.

Mr. GESELL. Let's see if we get any mutuals as we go through this. I believe there are none.

Mr. BEST. Small companies usually start on a stock basis. It is almost impossible nowadays, under present competitive conditions, to start a mutual company at scratch.

Mr. PIKE. Somebody would have to put up the original cushion and you couldn't get policyholders to do it.

Mr. BEST. Somebody must do that, yes.

Mr. GESELL. The last in 1933 is again one which we have considered in some detail here in the hearings, that of the Royal Union Life Insurance Co. of Des Moines, Iowa, which was reinsured by the Lincoln National following receivership in June of '33. That is again a case of a 50-percent lien and an estimated loss in this case of $11,724,000. Is that correct?

Mr. BEST. Yes.

Mr. GESELL. What would you say were the causes of failure of the Royal Union?

Mr. BEST. Royal Union had no stocks of other companies, it didn't have any large investments of bank stocks. It had a sort of general mixture of assets. It reinsured quite a number of other companies and from those companies inherited rather a hodge-podge of assets.

Mr. PIKE. They were over-valued, do you think?

Mr. Best. They took them over without any liens, and they turned out to be overvalued.

Mr. Gesell. They also paid off pretty heavy amounts of cash to their own personnel and officers as commissions on those reinsurance transactions, as we heard in the record.

Mr. Best. I don't recall whether they paid any of their own people, that I don't remember.

Mr. Gesell. That is a matter of record here. Was there any other factor in the failure that you know?

Mr. Best. No; just assets primarily.

Mr. Gesell. Bad investments again?

Mr. Best. Bad investments again.

Mr. Gesell. This would be mostly bad investments through the reinsurance rather than the direct investment?

Mr. Best. Yes.

Mr. Henderson. I am just wondering—it may not be a fair question—how long before it actually became evident to the public that the Royal was in difficulty did you know about it? Our records seem to indicate it ran quite a number of years back. Royal is the one in which they always took on as an officer the departing or retiring superintendent of insurance, isn't it?

Mr. Gesell. That is correct.

Mr. Henderson. I was just wondering, as someone who follows these things pretty closely, how long you knew it or suspected it? If it isn't a fair question just drop it.

Mr. Best. It is a perfectly fair question. I didn't know you were going to ask it and I don't like to answer questions of that sort unless I am positive of my facts. It is usually a perfectly simple matter, through a close analysis of the statement of a company of that type, or any other life insurance company, to arrive at a pretty fair guess as to the stability and the soundness of the management, and I think we knew for several years prior to this final collapse.

Mr. Pike. You sniffed this thing quite a while before it happened, I imagine?

Mr. Best. Yes; we knew pretty well.

Mr. Gesell. You were at that time rating companies, were you not, and you withheld a rating on this company?

Mr. Best. Yes; that is my best recollection, we didn't rate them at all.

Mr. Henderson. But the policyholder doesn't get those ratings.

Mr. Best. Occasionally, they do; not all of them. I wish they did.

Acting Chairman Reece. Has the lien on this company been reduced any as yet?

Mr. Gesell. What do you recall in that regard? Has the lien been reduced in the case of the Royal Union?

Mr. Best. I don't recall.

Mr. Gesell. I haven't information, but I can find out for you.

Acting Chairman Reece. No; don't bother.

Mr. Best. I think in the case of the Northern States the Lincoln increased the original lien, which they had a right to do under the contract. It is the only one I remember where that took place.

Mr. Gesell. Coming to '34, we have the Independent Life Insurance Co. of Nashville, Tenn., first on the list, which was taken over by the Standard Life Insurance Co. of Jackson, Miss., in May of 1934, following receivership in February of '34. There, there was a hundred percent lien, according to your records, and a loss to policyholders of $1,179,000. Is that correct?

Mr. Best. That is correct.

Mr. Gesell. What can you tell us about the causes for that failure?

Mr. Best. My recollection of this is that it was an industrial company with rather generally incompetent management, a relatively small concern, and again with wrong investments primarily.

Mr. Gesell. We seem to come to that in almost every case so far.

Mr. Best. Necessarily; it is self-evident that that would be what was responsible for nearly every life insurance failure. There are other things, but that is the principal thing.

Acting Chairman Reece. There is still one point about these companies where there is a hundred-percent lien. It was stated a while ago there was no way by which the reinsuring company could sustain any loss. Is the transaction simply one of the reinsurance company taking over all the assets there may be without any obligation to anyone?

Mr. Best. Well, they take them over without assuming any obligation to make policy loans or pay surrender values or give extended insurance or paid-up insurance in accordance with the terms of the original contracts; in other words, the whole reserve liability is wiped out.

Mr. Gesell. They do meet claims?

Mr. Best. They do meet claims as they occur, but of course I wouldn't say whether these 100-percent liens there is a provision for waiving it in the event of death, but it can be done; there is a method by which it could be done with safety to the reinsuring company, which could simply purchase term insurance to cover that lien and pay a premium for it out of the money that the assets taken over would earn, but again I would say that they take no risk under those conditions.

Mr. Pike. You did, however, mention one with rather bad overvaluation of assets taken in without lien.

Mr. Best. Yes.

Mr. Gesell. What was the character of these investments that were bad in the case of the Independent Life?

Mr. Best. I don't recall that one as clearly as I do some of the others. It was a small institution.

Mr. Gesell. Well, we will classify it as bad investments.

Mr. Best. That was 6 years ago.

Mr. Gesell. The next was the Peoria Life Insurance Co., of Peoria, Ill., was it not?

Mr. Best. That is right.

Mr. Gesell. That company was reinsured with a 50-percent lien and a loss to policyholders initially of $6,580,000. Is that correct?

Mr. Best. Yes.

Mr. Gesell. What can you tell us about the causes for that failure?

Mr. Best. Peoria Life had some pretty heavy real-estate investments. It was, as I recall it, in a large hotel, their home office building, and others that ran up to a pretty substantial sum. Of course, in all of these matters nothing has been said this morning to the effect that even investments that might have been selected with reasonably sound judgment went sour during this particular period of years. That doesn't mean that the assets we are talking about were selected with sound judgment, because I do not think they were, but what really happened was that the depression didn't wreck these companies; it did two things, it subjected them to more than normal demands for cash, as in the case of the Missouri State Life that I mentioned, and it brought out into the open the deficiencies in the assets which they owned which might otherwise not have become known; conceivably they might have worked themselves out, in many cases.

Mr. HENDERSON. Right in that connection, Mr. Best, could I have the total of the losses of these 19 companies?

Mr. BEST. Yes. The tabulation shows $138,000,000.

Mr. HENDERSON. That is initial loss?

Mr. BEST. Indicated initial loss to the policyholders in these 19 failures.

Mr. HENDERSON. Do you know what the assets of the 19 companies were?

Mr. BEST. No.

Mr. GESELL. The gross life reserves you have here.

Mr. BEST. Yes; we have the gross life reserves, which were $352,048,000.

Mr. HENDERSON. One thing that struck me during these hearings, particularly in the study we made of these 26 companies, was that here were these 19 we are dealing with which lost $138,000,000 and they had this gross reserve of——

Mr. BEST (interposing). Three hundred and fifty-two million.

Mr. HENDERSON. I made a rough calculation on the 26 companies which had something like $24,000,000,000 of assets, and it seemed to me that, taking into account all the realized losses and giving effect pretty liberally to the overvaluations which we traced, and giving effect to practically everything that you can think of, if they had to liquidate, which is what takes place with the 19 companies we have been discussing—assuming there was a market for reinsurance so you didn't have to dump the securities on the market—there would be less than a billion dollars to cover all the realized and unrealized losses. I believe I am correct in this, Mr. Gesell, I'm quite sure it is under a billion dollars in this 10-year period of the worst experience investments ever suffered. I think that is an extraordinary record as far as the integrity of insurance assets is concerned.

In the message the President sent to Congress, out of which this study came, he drew a parallel between the investment trusts and the insurance company funds.[1] Now, there is this parallel, and we are seeing today and have seen in specific matters over a period of time, more and more the integrity of the insurance company depends upon its investment policy.

Now, if you were just to compare what this loss is—I don't have the total of all the horrible losses that took place in investment trust properties, but I recall we sent up one report to Congress not 2 weeks ago in which there was a loss of $370,000,000. One investment trust alone, in other words, had, I think, a realized loss which was 40 percent at least of all the loss that might have taken place in all

[1] S. Doc. No. 173, 75th Cong., 3d Sess. Entered in the record as "Exhibit No. 1." See Hearings, Part I, appendix, p. 185, at p. 190.

these 26 companies. It is an amazing record as far as investment policy is concerned.

Well, now, in that, of course, if you were making an estimate in the 30's, '34, '35, when these people had to go on the hook, there was some prospect that they might have worked out, but in most of the cases you recited today, they wouldn't, would they? There was thimble-rigging in a lot of this stuff.

Mr. BEST. The last question is a little hard to answer, for this reason. You are comparing the investment trust with the life-insurance companies. I have heard people say the savings bank is in much the same position as the life-insurance company, but that is not true. The life-insurance company is in an enviable position for the reason that it has collected every day more than sufficient to meet its needs, and held it until they were sure they didn't need it, and what they don't need they hand back, but in the interval they have the money.

Mr. HENDERSON. In other words, there are two things which the insurance company has that the savings bank doesn't have, at least two things: It has a contract with the policyholder which requires him to make those payments if he wants to keep his policy intact, and then it collects an excess which gives it a working margin, and if it doesn't need that—and in most cases it doesn't—there is a return to the policyholder.

Mr. BEST. That is perfectly true.

Mr. HENDERSON. That tends to strengthen——

Mr. BEST (interposing). Strengthen the life company.

Mr. HENDERSON. The life company as an investment institution, doesn't it?

Mr. BEST. That is, of course, why the life-insurance companies have survived this whole depression so comfortably.

Mr. HENDERSON. That is one of the reasons, but you take as between some of these investment trusts whose record can be laid out page after page, it was management there, it was razzle-dazzle and thimble-rigging and abuse of trusteeship and the like which were responsible for a lot of those losses.

Mr. PIKE. We are getting down to the same thing in these we are going over this morning.

Mr. HENDERSON. That is what I think, this is the fringe of the group, and we talk about bad investments. In the early part when you were talking about some of these companies, you said there was good faith there, but they put themselves under the possibility, the potentiality of temptation, didn't they?

Mr. PIKE. Yes; they did.

Mr. HENDERSON. That a mutual company couldn't have done, or a strong company that was looking over a period of years wouldn't have done. It would have said, "My trusteeship doesn't permit me to put the funds of my policyholders in any place where my own personal advantage has to be served by either keeping these things in or transferring them, taking some more of the policyholders' money."

Mr. BEST. That would be a fair characterization of the correct attitude whether a company is stock or mutual, big or little. There must be a recognition of the trustee relationship in the handling of the funds.

Mr. GESELL. And it was really the lack of recognition in these few cases which led to the difficulties?

Mr. BEST. I think it was. That is my judgment. To complete the comparison, you were speaking of the investment trusts; my recollection is that about this same period there were over 14,000 banks closed with a loss of some 3½ billions indicated initial loss, using the same phrase we have here.[1] That again compares unfavorably with this figure. I started to correct 138 million and say that we must take out 8 millions of that for the record; first, 2 million for the Continental Life, because of the registered policies, and then 6 million in the case of the Missouri State Life, so we have $130,000,000 to deal with here.

Mr. HENDERSON. That would represent a loss of $130,000,000 out of, roughly $350,000,000?

Mr. BEST. Of these assets, roughly; yes.

Mr. GESELL. I think you have computed, Mr. Best, have you not, that it is less than 1 percent of the average amount of the assets of the legal-reserve companies during the decade we are discussing?

Mr. BEST. Yes.

Mr. HENDERSON. But they were in these 19 companies. That is the point.

Mr. BEST. But if we are considering the stability of the life insurance business as a whole, then let us look at the figures of the entire life insurance business, and it is a fact that even though this loss that is indicated here is the better part of it, probably is, something should be added for various things, the ones not listed, perhaps, but it will be found it represents somewhere between one-half and two-thirds of 1 percent, or between one-half and three-fourths of 1 percent of the average amount of assets of life insurance companies during that period, which is an astonishing fact.

Mr. PIKE. More astonishing is the fact Commissioner Henderson was getting at, that in the 19 worst companies the loss has not been as great as in the average investment trust. As a shame-faced fellow who has been connected with a few investment trusts, I think that is probably true.

Mr. GESELL. If the committee please, I would like to get over with Mr. Best before the recess——

Mr. HENDERSON (interposing). I have one more remark to make. I want it clearly understood that when I was estimating what the total life loss outside has been, I probably didn't indicate how fast some of those good assets are coming back to valuation.

Mr. BEST. Yes.

Mr. HENDERSON. You look at how much under water they were in 1932 and how they came back and the present excess, and they are coming back. I am taking the most liberal estimate of potentiality of loss there might have been, and it is a remarkable record.

Mr. BEST. Yes. It confirms my own belief in the remarkable ability of the investment departments of these large life insurance companies to select investments with great skill. They have made a fine record.

Mr. HENDERSON. I don't know whether you noticed it the other day, but in talking to those responsible for investment analysis I made the remark that if we applied those standards on the registration of securities or the issuance of securities under public utilities,

[1] See "Exhibit No. 2336," appendix, p. 15568–15569.

we would be in hot water all the time, because a lot of them wouldn't get by.

Mr. Gesell. Finishing these cases, we have next the case of the Register Life Insurance Co., of Davenport, Iowa, which failed with a 50-percent lien in '34 and a loss of $1,779,000.

Mr. Best. Yes.

Mr. Gesell. What were the factors in that failure?

Mr. Best. Some bad mortgage loans in Montana, primarily. It was a relatively small company.

Mr. Gesell. Did that tie into some personal advantage the officers were getting?

Mr. Best. None whatever, it was very honorable management; they just made a bad guess in where they put their money and away they went.

Mr. Gesell. In '35 the only failure we have is that of the Pacific States Life Insurance Co., of Denver, Colo., is it not, which went into receivership in '35. The loss there was $2,686,000 and 100-percent lien.

Mr. Best. Yes.

Mr. Gesell. What were the causes of that failure?

Mr. Best. My recollection is not as clear on that one as on a great many of these others. I recall that it was again asset trouble, but just what trouble I am not quite sure. There was more than that to it too. The company never was a well-managed concern from the time it started.

Mr. Gesell. How long was it in business before it failed?

Mr. Best. I can't remember that.

Mr. Gesell. Several years?

Mr. Best. Yes; several years.

Mr. Gesell. In most of these cases, Mr. Best, would it be fair to say that you, through your work, were in a position to realize that a failure or some real serious financial difficulties were forthcoming before they hit the light of day?

Mr. Best. In most cases that is true.

Mr. Gesell. And sometimes for a considerable time?

Mr. Best. Yes; there would be evidences of deterioration.

Mr. Gesell. That seems to me, taking it one way, rather a pretty sharp criticism of regulatory machinery in certain cases. If you with your information, sitting there, were in a position to know that these failures were impending and that difficulties were very severe, one would expect a regulatory official to have that same information.

Mr. Best. Of course, the feeling that a company was headed for failure on our part—that feeling on our part would, of course, be on our own opinion, based on our method of analyzing. Someone else might not agree with us. In most cases we turned out to be right, it is true.

Mr. Gesell. It comes down to this, either that the regulatory authorities should get more acquainted with your method or they weren't very well up to date on what was going on. Isn't that a fair statement?

Mr. Best. As far as these companies were concerned, of course, there is room for criticism of the lack of strictness.

Mr. GESELL. In State regulation?

Mr. BEST. In certain States. You will notice that they are confined to relatively few States, too. There was none of this trouble in Massachusetts or New York or Connecticut or Wisconsin, or many other States—there was no difficulty at all.

Mr. GESELL. It is a matter, of course, of the particular State department.

Mr. BEST. Yes, and remember, please, also—let's get the record complete—the period we are dealing with, and that there were an awful lot of people during that period who were hanging on and sending good money after bad and thinking they were going to pull something out that finally blew up in their faces.

Mr. GESELL. The next one in 1936 is the Federal Reserve Life Insurance Co. I don't think there is any reason for discussing the reasons for that failure because we gave that a very intensive examination here.[1]

What about the Continental Life Insurance Co., of St. Louis, Mo.?

Mr. BEST. There was a curious set-up that was involved, the president's interest in a bank in St. Louis in which the company had very large deposits.

Mr. GESELL. Is that the case where the man had the bank on one floor and the insurance company on the other and ran the same assets up and down the back elevator?

Mr. BEST. I wouldn't say any such thing. I am under oath.

Mr. GESELL. I remember hearing a lot of discussion of that.

Mr. BEST. Anyhow, there was an insurance company and a bank and the president was heavily interested in both and controlled both. He made some very bad investments and finally it had to be taken over, and finally reinsured.

Mr. GESELL. Was the insurance company being used to benefit the banking position; was that the difficulty?

Mr. BEST. Each one was used for the benefit of the president.

Mr. GESELL. And the loss in that case, with a 50-percent lien, was $4,582,000; is that correct?

Mr. BEST. Which I have asked you to reduce to $2,400,000.

Mr. GESELL. For the reasons you indicated.

Mr. BEST. Because part of the business was in registered policies, and that was the actual lien.

Mr. GESELL. Now, we have the next to the last one on this list, namely, the Detroit Life Insurance Co., of Detroit, Mich., which failed with a 60-percent lien and a loss of $3,444,000. What were the factors in that case?

Mr. BEST. They had a lot of bonds which stood up fairly well. Most of the loss was on mortgages. There were many foreclosures, and the losses were on mortgages and foreclosed real estate rather than the bonds in that instance, but again it was assets.

Mr. GESELL. Bad investments?

Mr. BEST. Bad investments.

Mr. GESELL. Bad management?

Mr. BEST. Bad management.

Mr. GESELL. There were none in '37 and '38?

Mr. BEST. None in '37 and '38.

---

[1] See Hearings, Part 13, p. 6607 et seq.

Mr. GESELL. And only one in '39?

Mr. BEST. Yes.

Mr. GESELL. The American Life Insurance Co., of Detroit, Mich., with a 75-percent lien and a loss of $7,702,000; is that correct?

Mr. BEST. That is true.

Mr. GESELL. What were the factors behind that failure?

Mr. BEST. The largest one was certain very, very large mortgage loans made in the Rio Grande Valley in Texas, where they grow grapefruit.

Mr. GESELL. Was there again some personal interest of the manage ment in this case, or just bad investments?

Mr. BEST. I don't think it was a financial interest on the part of the president, but I think he got a notion that he wanted to build a Garden of Eden down in the Rio Grande Valley, and he was the one to do it.

Mr. PIKE. Was it one of those citrus developments?

Mr. BEST. Yes; millions of dollars were invested by this small company, and ultimately they just simply all went sour. You are probably all familiar with the experience of Hidalgo County, Tex. It is classic.

Mr. GESELL. The summary of these 19 cases, where the losses were $1,000,000 and more initially, in effect was that the companies had gross life reserves in the neighborhood of $352,000,000; that they had policy loans and premium notes outstanding in the neighborhood of $111,000,000; that the net reserves were $240,000,000; that the average lien was 57.4 percent; and that the indicated initial loss, allowing for the $8,000,000 adjustment which you have brought to our attention today, was $130,000,000.

Mr. BEST. That is correct.

Mr. GESELL. Are the details with respect to some of the dates of the receiverships and the amounts of reserves in individual cases on this schedule which you prepared?

Mr. BEST. They are.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 2336" and is included in the appendix on pp. 15568–15569.)

Mr. GESELL. There is one additional failure that I want to consider, since it involves one of the 26 companies shown in "Exhibit No. 2250"[1] that we have been giving so much attention to; that is, the Pacific Mutual failure.

Mr. BEST. Yes. I did not include that in my list because life-insurance policies were not affected.

Mr. GESELL. That is right; there was no loss to policyholders.

Mr. BEST. That is right; to life insurance policyholders.

Mr. GESELL. It is, however, a case of a company which got into difficulties, and since it is somewhat out of the ordinary and different from these other cases we have been discussing, I would like you to give us some idea as to the factors which led to that company's difficulties and receivership.

Mr. BEST. They were underwriting rather than investment.

There were some investment troubles, but in view of the total amount of assets they were negligible in importance.

[1] Hearings, Part 10–A.

The company a good many years ago, over 20, undertook to issue a type of insurance policy called noncancelable disability insurance. These policies were issued after medical examination at rates which varied and increased with age, and the coverage extended to certain stipulated ages; first, 65; afterward cut down to 60; finally, I think in some cases, to age 55. Under those policies, the company undertook to pay certain sums of money per month to the policyholder in the event of this total permanent disability from any cause whatever, whether illness or accident.

Now, the company's actuaries when they began this enterprise—for which I, unfortunately, was somewhat responsible, because I realized the importance of that kind of coverage and went up and down the land for several years before that, endeavoring to find someone who would undertake the issuance of it. From the public point of view, it was a very valuable thing.

They made a very serious mistake in estimating their premiums.

Mr. Pike. They hadn't had the experience with the moral hazard?

Mr. Best. There was a totally different moral hazard involved. When they started I pointed out, thinking it over, that the moral hazard was a very important factor; that is, the coverage should not exceed a reasonable percentage of the well-established earning power of the applicant. Instead of that, they did, in fact, issue policies where the monthly payments were equal to as much as 75 percent of the current earnings of the applicant. It should have been far lower.

In the second place, there should be a long waiting period for which no indemnity would be paid, on the theory that the company could not afford to insure a man who couldn't get along without the company for, let us say, 6 or 12 months, and the company didn't do that either. It issued policies in which there was a 1 or 2 or 3 months' waiting period, and then if it was agreed that permanent disability was established, then they went back and paid for that period.

The result was that the premiums initially charged were found to be only 20 percent of what they should have been, and from time to time they kept increasing them, but they finally reached a point where the burden was so terrific that they had to be placed in receivership, and the company was reorganized under a very peculiar method.

A new company with $3,000,000 of capital and surplus, as I recall it, or four million, was established, and that four million was provided out of the assets of the old. All of the stock was held by the insurance commissioner for the benefit of the policyholders of the old company.

Mr. Pike. That is just the disability policyholders?

Mr. Best. Yes. Now, the new company took over the business of the old one exactly in accordance with the terms of the original contracts except under these permanent disability policies, and in those cases, the amounts of disability were reduced by varying percentages, so that it put them all on the same basis as to future premiums in relation to coverage.

Mr. Gesell. This was a failure then, in other words, which resulted from bad underwriting practices?

Mr. Best. Bad underwriting judgment.

Mr. GESELL. And we had no instance of that in these 19 cases we were discussing?

Mr. BEST. No; we saw an indication here and there of rather loose acceptance of business, but nothing to compare with this. It is a different matter.

Mr. GESELL. It is true, is it not, in addition to these 19 cases we were considering, there were other companies which failed where a lien was imposed on the reserve or a reinsurance arrangement made which resulted in adjustments or restrictions adversely affecting the policyholders?

Mr. BEST. That is true. In the 10 years there were 141 mergers and reinsurances of life-insurance companies. That includes the 19 which are on this tabulation. In quite a number of other cases—what Mr. Gesell has said is correct—there were losses to policyholders of just the same type we were discussing here, but in most of those cases, most of the 141, and I mean more than half, there wasn't any loss to policyholders.

Mr. GESELL. We have prepared a tabulation from information submitted by Mr. Best, who submitted us a schedule of life company retirements, 1930 to 1939, which I would like to offer for the record but not for printing.

Acting Chairman REECE. It may be received.

(The tabulation referred to was marked "Exhibit No. 2337" and is on file with the committee.)

Mr. GESELL. That schedule we have used to prepare a summary schedule, which shows the names of 45 companies during this period which retired with a lien on the reserves or adjustment or restrictions adversely affecting the policyholders. That is 45 which includes the 19 out of a list of approximately 200 retirements over the period. And I would like to have this summary schedule of places, where there was a lien or some type of loss, printed in the record. It is prepared from the document which I offered a moment ago.

Acting Chairman REECE. It may be received for printing.

(The schedule referred to was marked "Exhibit No. 2338" and is included in the appendix on pp. 15570–15572.)

Mr. BEST. You overlooked one here, the Illinois Life.[1]

Mr. GESELL. That was not intentional. What is the loss in the Illinois Life?

Mr. BEST. The Illinois Life was a pretty large one. There were some interruptions when we were looking at that particular place.

Mr. GESELL. I am glad you brought it to my attention.

Mr. BEST. The Illinois Life was reinsured in the Central Life Insurance Society of Des Moines in July 1933, after being placed in receivership November 28, 1932.

On the basis already explained, there is an indicated initial loss to policyholders, represented by a 70-percent lien, of $15,276,000.

Mr. GESELL. What is the loss?

Mr. BEST. $15,276,000.

Mr. GESELL. That was one I was sure I would not have overlooked.

Mr. BEST. I thought not.

Mr. GESELL. What were the causes of that failure?

[1] See "Exhibit No. 2336," appendix, pp. 15568–15569.

Mr. Best. Very heavy investments in the securities of two hotel concerns in Chicago, the La Salle Hotel, an investment that was made many years prior to the failure, and the Stevens Hotel, in which the principal officers and the controlling stockholders of the Illinois Life were the prime promoters. They made an investment of many millions of dollars.

Mr. Gesell. In their own enterprise?

Mr. Best. In their own enterprise, and in their experience with the first one, with the La Salle, it had been excellent. They made a great deal of money out of that investment, so they became overambitious, built this enormous Stevens Hotel, with something like 4,000 rooms, and at about the time they got it built the depression hit, and they have never filled the 4,000 rooms.

Mr. Pike. That hotel has never seen daylight yet.

Mr. Best. I think not. Those were the principal things.

Mr. Gesell. That concludes any questions I have of Mr. Best.

Mr. Henderson. I have some.

Acting Chairman Reece. Have you noticed any general tendency, in the case of the smaller companies particularly, to invest too much money in their home offices?

Mr. Best. That has been evident in quite a number of cases. It is an unwise thing, particularly because in many cases the buildings are one-purpose buildings and can't be used for any other purpose than the home office of that particular company or some other company.

Mr. Pike. Frequently an element of local pride.

Mr. Best. That's it; a monument to the founder.

(Mr. Pike assumed the chair.)

Mr. Henderson. Mr. Best, most of these companies were organized under the laws of States away from the eastern seaboard; isn't that a fact?

Mr. Best. True.

Mr. Henderson. And all of them were stock companies?

Mr. Best. Yes.

Mr. Henderson. And none of them was a very large company?

Mr. Best. No.

Mr. Henderson. And all of them had difficulty with both management and with their portfolios?

Mr. Best. Yes; the trouble with the investments tying right back to the wrong kind of management.

Mr. Henderson. And several of them were due to what I call the old razzle-dazzle, thimble-rigging kind of thing, and also—well, you take this case of the Rio Grande. A fellow wanted to build a big utopia there with policyholders' money; wasn't that it?

Mr. Best. Just about.

Mr. Henderson. Another fellow wanted to have a big lake-shore-front hotel that would be a monument, and that with the policyholders' money.

Mr. Best. Yet, curiously, in both those cases the ruin of the life-insurance company involved the ruin of the owners of the life-insurance company, too. It represented virtually all of their assets.

Mr. Henderson. I just wondered whether—you are familiar with the 250 small companies as well as the large ones, aren't you?

Mr. BEST. Very familiar.

I would like to say for the record that we have scattered around this country in almost every part of it relatively small companies which are very splendidly managed.

Mr. HENDERSON. You evidently thought I was edging up to the question of whether it was size that had anything to do with these failures. I was.

Mr. BEST. Size helps, for the reason that there is a sufficient income to justify the engaging of adequate management brains, and in some of these little companies that have 20 millions or 25 millions of business in force, the premium income just will not provide a sufficient amount of money to buy management.

Now, on the other hand, there are companies from here to Portland, Oreg., that, in our opinion, are just as sound and accomplishing just as good results as the very best of the big ones. I wanted to be sure that was made clear.

Mr. HENDERSON. I gather what you would say is that the difficulty is not in the size, however, but you require a certain size in order to hire ability?

Mr. BEST. That is the first point.

Mr. HENDERSON. And ability can be hired?

Mr. BEST. Yes.

Mr. HENDERSON. But you can't hire integrity, can you?

Mr. BEST. That is true; and there is no method that I know of by which you can make a stupid person intelligent.

Mr. HENDERSON. It gets down, then, to something of the protections that are necessary as against both stupidity and venality, doesn't it?

Mr. BEST. Yes.

Mr. HENDERSON. I am just wondering whether or not, in your mind, the fact that most of these items of skulduggery occurred outside of the eastern seaboard indicated the supervision was more scrupulous, better trained, more exact, than it was in the West, or in the newer States?

Mr. BEST. No; in some of the newer States the supervision has been excellent, in some it has not. In adjoining States it would not be; it would be lax. It is largely the matter of the personal equation plus the insurance code.

Acting Chairman PIKE. There is a little politics in that, too, Mr. Best?

Mr. BEST. Very good. I should say that the best thing that could happen would be for every employee of an insurance department to be compelled to pass a civil-service examination so that he would be competent to do his job when he went out on an examination or on anything else, and would be secure in his job if he behaved himself.

Mr. GESELL. Is it your experience that there are insurance men out examining companies for insurance departments who are incompetent to the task?

Mr. BEST. I haven't, of course, personally had contact with them to any great extent, but I am told again and again that some of the men who appear from some of the departments are not competent. It is not surprising. The point is that the very things that wrecked these companies have been quite well recognized, particularly in some of the

States where the worst record was made, and recognized in the form of a revision of the insurance code, making it much more strict than it was before.

Mr. GESELL. I suppose you have in mind particularly the revision in the State of Illinois?

Mr. BEST. I have. That is what I was thinking of.

Mr. HENDERSON. What about Tennessee? Have you noticed any change there?

Mr. BEST. No; we have no company trouble in Tennessee.

Acting Chairman PIKE. The Tennessee people just bought those and got them in trouble.

Mr. BEST. The men that bought the companies were from Tennessee, but they aren't Tennessee companies. There are some very excellent companies in Tennessee, very fine companies, very successful.

Mr. HENDERSON. Is there quite a difference in the quality of supervision from one State to another?

Mr. BEST. Oh, yes; there naturally would be. As I was saying, if the code is fundamentally correct, if all the States would follow the general theory which is embodied in the codes of the most conservative States, where we have been handling these problems for many, many decades, and successfully, too, with a very good record of failures prevented, and then enforce them, then they don't have trouble.

Mr. HENDERSON. In most of these failures we looked at, which supplement the testimony we have had, the companies didn't go wrong mainly in the writing of their usual policies?

Mr. BEST. No.

Mr. HENDERSON. Where they went wrong is in the trusteeship and in the general competence of management of funds, isn't that it?

Mr. BEST. Yes.

Mr. HENDERSON. And that is likely to be increasingly so, isn't it?

Mr. BEST. Yes; I am thinking of your use of the word "trusteeship." There again comes up the question of good faith and bad faith in the making of these investments. and, as I pointed out, in a great many of them I think it would be unfair to impute bad faith. It was all bad judgment, you see. I have to be very careful how I answer a question of that sort.

Mr. GESELL. I come out with this conclusion on that. There were some clear cases of bad faith, quite a few cases of just bad judgment, and quite a few shadowland cases?

Mr. BEST. Just about right.

Mr. HENDERSON. It is time to adjourn, Mr. Gesell, but I think the staff ought to include Mr. Best in the list of those whom we are going to talk with after the conclusion of these hearings. Pathologists such as he would undoubtedly be of considerable assistance.

Mr. GESELL. Naturally, this testimony, which was rolled through fairly easily today, has taken some preparation on Mr. Best's part, quite a good deal, in fact. We do appreciate his turning over the facilities of his office to our men, and using his own knowledge of his files to pull this story together.

I have just one other question which I would like to ask. Do you know how many policyholders were involved in these failures?

Mr. Best. No; it could be ascertained. In some cases, even relatively small companies, the number was rather surprisingly large.

Mr. Gesell. That was the point I wanted you to make. Though we may be talking about relatively small companies, when you get down to John Q. Public and individuals, many, many individuals may be concerned.

Mr. Best. There again, whether they are large or small, it depends on what you compare it with.

Acting Chairman Pike. I think the committee, including those who have had to leave, are very much obliged to you, Mr. Best.

We will adjourn until 2 o'clock, Mr. Gesell?

Mr. Gesell. Yes; if that is convenient.

Acting Chairman Pike. Very good.

(Whereupon, at 12:35 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committees resumed at 2:20 p. m. on the expiration of the recess.

Acting Chairman Pike. I think, in fairness to the witnesses, we had better start. The committee will please come to order.

Mr. Gesell. I have one or two documents to offer for the record at this time, if the committee please. The other day we heard testimony concerning bond portfolios and some testimony touching on the handling of bonds in default. This afternoon I should like to offer for the record a schedule showing the representation of the largest life insurance companies, that is to say the 26 companies shown in "Exhibit No. 2250,"[1] on bondholders' protective committees.

This schedule, which was compiled from company replies to questionnaires, shows that on December 31, 1938, 91 one of 26 companies were represented on 65 bondholders' protective committees, 47 of which represented the bondholders of defaulted railroad issues. The extent of the insurance companies' participation in these committees is indicated by the fact that the Metropolitan was a member of 25 committees and held over $123,000,000 par value of the bonds represented by the committees.

Prudential was a member of 19 committees and held 64 million par value of represented bonds, while New York Life was a member of 20 committees and held 91 million par value of bonds represented by the committees.

In the case of 16 of the railroad committees, the committees were formed primarily to represent institutional holders. The other 31 railroad committees, of which one or more insurance companies was a member, were general committees. On one committee, that of the Chicago, Milwaukee, 13 life-insurance companies holding 76 million par value of Chicago, Milwaukee bonds were members. Twelve life-insurance companies were members of the New York, New Haven committee.

The total par value of bonds owned by the insurance companies and deposited with committees of which they were members was $490,404,000.

This schedule, as in the case of other schedules prepared from

[1] Hearings, Part 10–A.

questionnaires, is offered subject to correction and is prepared on the basis of the material submitted us by the companies.

(Senator O'Mahoney assumed the chair.)

The CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 2339" and is included in the appendix on pp. 15573–15577.)

Mr. GESELL. We have also prepared schedules showing the attendance at meetings of directors of the five largest companies for the period 1929–39. These schedules on directors' attendance were compiled from information submitted us by the companies and are offered in further development of testimony which has been taken.

The CHAIRMAN. Is that subject for correction?

Mr. GESELL. Yes.

(The schedules referred to were marked "Exhibits Nos. 2340 and 2340–A to 2340–D" and are included in the appendix on pp. 15578–15581.)

Mr. GESELL. There is one other series of figures which I believe the record should contain on life-insurance investment. The schedule I have on hand is prepared by the Association of Life Insurance Presidents for its member companies and shows the distribution of life insurance admitted assets by States and by type of asset. This will give some idea of the relationship which exists between reserves, premiums, and disbursements and investments by States.

I did not feel it warranted the expense of the committee to bring a member of the association down for the purpose of offering that schedule. It was submitted to us by the association and is part of their regular service in that connection.

The CHAIRMAN. These are the figures, I take it, from which Mr. Davenport has prepared a tabulation.

Mr. GESELL. I believe he prepared certain tabulations for your personal use from those figures. Those are a little more complete than the ones you obtained and are the official figures.

The CHAIRMAN. But it is just an analysis of the figures given out by the Association of Life Insurance Presidents?

Mr. GESELL. That is correct. They are given out in a little more general terms for public information and this is the detail.

The CHAIRMAN. It may be received.

(The schedules referred to were marked "Exhibits Nos. 2341, 2341–A and 2341–B" and are included in the appendix on pp. 15582–15593.)

Mr. GESELL. Mr. Howe is returning to the stand this afternoon to complete his statement. The committee will recall that we fell behind the schedule, and to convenience witnesses who were waiting to testify, Mr. Howe's testimony was broken into two parts. He will now complete his statement.

(Off-the-record conference.)

The CHAIRMAN. You may proceed.

TESTIMONY OF ERNEST HOWE, CHIEF FINANCIAL ADVISER TO THE INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.—Resumed

Mr. GESELL. Your testimony this afternoon, Mr. Howe, will relate to the subject of net cost of insurance and matters relating to it, will it not?

Mr. Howe. It will. One of the important considerations in the purchase of insurance as with other services, commodities, or investments is that of the cost. With this in mind, tables on net cost of insurance to policyholders have been included in "Exhibit No. 2250" in the pages which follow page 281.[1]

Mr. Gesell. Those schedules commence at page 282, do they not?

Mr. Howe. The explanation commences at page 282 and the actual tabulations commence at page 284.

None of the tabulations included in "Exhibit No. 2250" require more careful consideration than the so-called net-cost tables. It is, therefore, desirable to call the attention of the committee to the explanation of this data which appears on pages 282 and 283 of the exhibit. However, I will not take the time of the committee to read these qualifications at the present time as I think that they will become evident as the testimony proceeds.

A simple example will clarify the method of determining net cost most frequently used in the business in the sale of insurance. The first policy listed on pages 284 is a whole life participating policy sold by the Aetna. At age 25 the gross annual premium as shown in column 1 is $20.48 per thousand. Thus in the period of 10 years the policyholder will have paid the company 10 times the gross annual premium, or $204.80. This is shown in column 2. There is no sure way to determine what the dividends will be on the policy, but the salesman has a scale furnished him by the company which will serve as an illustration. This illustration shows the amount of dividends which would be paid during the 10-year period on the assumption of the payment of dividends in accordance with the current scale. On table 284 it appears that the 10 years' dividends on the basis of the 1939 dividend scale would be $42.60. By subtracting these dividends from the premiums paid, the policyholder may estimate that to maintain the policy in force on this basis would cost him $204.80 less $42.60 in dividends or $162.20, which is shown in column 4. This is the 10-year net cost on a policy continued basis. If the policyholder wishes to determine the 10-year net cost policy surrendered, this is simply derived by subtracting the tenth year cash value—which he gets back if the policy is surrendered—from the 10-year net cost policy continued. In the case of the example chosen, the tenth-year cash value is $89 and is deducted from the tenth-year net cost policy continued, which is $162.20. This leaves a balance of cost on a policy surrendered basis of $73.20. It will be observed that all of the factors in the calculation are established by contract except dividends. The dividends are the uncertain factor.

In the preparation of net cost and discounted net cost tables, there have been taken into account all policy provisions susceptible of mathematical evaluation on this basis. There are, however, differences in policy contracts which cannot be so evaluated. Furthermore, such differences may be material from the point of view of some policyholders.

Mr. Gesell. What are some of those, Mr. Howe?

Mr. Howe. Well, they have to do frequently with provisions in connection with the war, the war clause, and other provisions which might be material to policyholders in certain circumstances.

---

[1] See Hearings, Part 10-A, pp. 281–298.

For this reason, a policy with a net cost higher than the lowest net cost policy may best fulfill the needs of a given policyholder.

In spite of the qualifications which have been made and those which will be stated as this discussion of net cost proceeds, these tables have been inserted in the tabulation because in our opinion they do provide the most practical and understandable approach to the consideration of net cost from the policyholder's point of view.

Tables 286 and 287 show net cost on whole life policies at age 35, an age which is frequently used as typical.[1] In examining the gross premium charges on the two pages it will be seen that the lowest gross premium is that of the Western and Southern's special nonparticipating policy—sold only in amounts greater than $1,000. This premium is $20.01 per thousand. That will be seen on page 287. The Hartford stock companies, that is the Travelers, Aetna, and Connecticut General, all have the same gross premiums on their nonparticipating policies. If this premium—which is shown as $21.42 per $1,000 for whole life at age 35—is used as a base, it will be seen that the gross premiums charged by other companies vary from 106.83 percent of the Hartford nonparticipating rate, in the case of the Lincoln National's standard nonparticipating policy, to 93.42 percent in the case of Western and Southern's special nonparticipating policy.

Premiums of particpating policies, on the other hand, vary from $22.56 per $1,000, in the case of the Metropolitan's special, to $28.11 in the case of whole life policies of the Equitable, Mutual, and New York Life. Thus gross premiums on these participating policies at age 35 are from 5.32 percent to 31.23 percent higher than the Hartford nonparticipating rate.

Dividends, of course, depend to some extent upon the level of gross premiums. Other factors being equal, companies which collect high gross premiums are in a position to pay higher dividends. The dividend, as we have seen, is primarily a return of premium.

The 10-year net-cost policy continued reflects the extent to which high dividends offset high premiums.

Examination of this data for such 10-year net cost on a policy-continued basis for standard participating policies at age 35 shows that cost varies from $197.96 for the policy of the Northwestern Mutual to $234.01 for the Mutual of New York. This may be compared with the fixed contractual net cost of the Hartford nonparticipating policies of $214.20.

In reducing net-cost calculations on a policy-continued basis to net cost on a policy-surrendered basis, the additional factor to be considered is the surrender value. Surrender values, like gross premiums, are fixed in the policy contract, but there are differences between companies in the provisions made.

Not only do reserves themselves differ between companies but surrender charges are different in different companies. The New England Mutual and Mutual Benefit, for instance, pay the full reserve if the policy is surrendered in the third year. In other words, they have no surrender charge thereafter. The Northwestern Mutual and Penn Mutual pay the full reserve beginning in the tenth year. Other companies, such as Travelers Insurance Co., assess surrender charges, in certain cases, up to and including the nineteenth year.

[1] See Hearings, Part 10–A, pp. 286–287.

It is not surprising, therefore, to find that cash or surrender values differ. As is reasonable to expect in view of their low gross premiums, the cash values of the Hartford nonparticipating policies, with minor exceptions, are the lowest shown, being approximately $111 per thousand at the end of the tenth year. Among the standard participating policies the highest cash value shown at the end of the tenth year occurs in the case of the policy of the John Hancock at $148 per thousand. This cash value is about $2 higher than the cash value on the policies of 11 other companies.

Of the participating companies shown on page 286, the Phoenix Mutual charges the lowest gross premium ($24.58 per thousand) and pays the lowest cash value; namely, $130 per thousand.[1] The highest gross premiums ($28.11 per thousand) are charged by the Equitable, Mutual, and New York Life, who pay next to the lowest surrender values shown on the page; that is, $131.

Bearing these facts in mind, let us now consider the net-cost data shown on tables 286 and 287.[2] From table 287 we see that of the standard nonparticipating policies, sold in the amount of $1,000 or more, the policy of the Equitable of Iowa has the lowest net cost and that of the Lincoln National the highest. This is true both in the tenth and twentieth policy years and irrespective of whether the policy is surrendered or continued.

Of the participating policies shown on pages 286 and 287, the lowest net cost on a policy-surrendered basis at the end of the twentieth year is shown by the Metropolitan's special policy.[2] This is $2.91 per thousand. At the end of the tenth policy year, however, on a policy-surrendered basis, the John Hancock's special participating policy and the whole-life policy of the Northwestern Mutual are lower.

Of the standard participating policies sold in the amount of $1,000 or more, as shown on page 286, on the policy surrendered at the end of twentieth-year basis, the Metropolitan's whole-life policy paid up at age 85 shows a net cost of $36.20, which is the lowest of any policy included in the tabulation.[3] Next in point of low cost, at $59.81 per thousand, is the policy of the Northwestern Mutual. On a 20-year net-cost policy-continued basis, the policies of these two companies indicated in the table also show the lowest net cost. However, on a policy-continued basis there is very much less difference between them, as the Metropolitan's net cost is $384.94, as compared with $387.39 for the Northwestern Mutual. For the same policies at age 25, on a 10-year net-cost policy-continued basis, the policies of the Northwestern Mutual, the Provident Mutual, and the National Life of Montpelier, Vt., are less than the net cost of the Metropolitan's policy. On a 10-year net-cost policy-surrendered basis, as shown by table 284, the policies of 10 companies have a lower net cost than that of the Metropolitan.[4] These 10 companies listed in order of lowest net cost are the following: Northwestern Mutual, Provident Mutual, National Life of Montpelier, Vt., Penn Mutual, Mutual Benefit, State Mutual, New England Mutual, Connecticut Mutual, John Hancock, and Equitable of New York. On the other hand, on a net-cost policy-surrendered end-of-twentieth-year basis, the policy of the Metropoli-

---

[1] See Hearings, Part 10-A.
[2] Ibid., pp. 286–287.
[3] Ibid., p. 286.
[4] Ibid., p. 284.

tan again appears as having the lowest net cost. Thus it will be abundantly evident that by selection of the basis upon which net-cost comparisons are made a wide variety of results may be obtained.

As has been pointed out on page 282 in the foreword to the net-cost and discounted net-cost tables, the net-cost figures which we have just been discussing have been derived in the manner generally used by publishers of insurance data and by life-insurance agents in the solicitation of business. As has been pointed out in the foreword, this method of deriving net costs is subject to the objection that $1 of premium paid, or dividends received, in the early years of the contract is given equal weight with $1 of premiums, dividends, or cash values in the later years of the contract. This disregards the element of interest. As a result, this method of deriving net costs shows comparative figures which generally favor (1) participating policies over nonparticipating policies; (2) high-premium participating policies over low-premium participating policies; (3) participating policies which pay extra or special dividends at quinquennial durations, or in the later policy years over those participating policies under which annual dividends increase from year to year and are not supplemented by extra or special dividends. It was in order to minimize these inequalities that the discounted net-cost tables were prepared.[1] In these tables premiums paid are not considered as equivalent to their aggregate amounts, but such premiums paid during the period were discounted back to the time of issuance of the policy at an assumed rate of 3½ percent per annum.

Mr. GESELL. Where do the discounted tables appear?

Mr. HOWE. The discounted net-cost tables appear on page 300.[1]

Mr. GESELL. Commencing on 300?

Mr. HOWE. Yes; commencing on page 300.

Similarly, dividends and the amount available upon surrender of the policy at the end of the period were discounted back to the time of issuance of the policy at the same assumed rate. The data from tables on page 286 and page 302 has been selected to show the differences which result by the use of the 3½-percent discount factor.[2] By comparing the net costs on the policies surrendered at end of twentieth-year basis, it will be seen that the discounted net cost in the case of the Guardian Life is $160.04 as compared with the undiscounted the cost of $108.75. Thus, the discounted net cost is 147.16 percent of the undiscounted net cost. This is the smallest variation shown in the cases of any of the policies listed on pages 286 and 302. The largest variation between discounted and undiscounted net cost on the policies surrendered at the end of twentieth-year basis occurs in the case of the policy of the Metropolitan Life. The undiscounted net cost is $36.20 while the discounted net cost is $116.13. Thus the discounted net cost is 320.80 percent of the undiscounted net cost. A still more striking comparison may be made from the Metropolitan's special policy which is shown on table 287 and table 303.[3] The undiscounted net cost of policy surrendered end of twentieth year is $2.91. The discounted net cost is $89.26. Thus, the discounted net cost is 3,067 percent of the undiscounted net cost. This highly unusual situation is occasioned by the unique dividend system of the Metro-

[1] See Hearings, Part 10–A, pp. 300–314.
[2] Ibid., pp. 286 and 302.
[3] Ibid., pp. 287 and 303.

politan. Apparently this company is the only company included in the list of the 26 currently under consideration which pays a cash settlement dividend, provided premiums have been paid for at least 17 years prior to surrender. This cash settlement dividend in the case of whole-life policies and endowments of 30 years or more (which classification includes the policies considered in tables 286, 287, 302, and 303)[1] begins at 1 percent of the policy reserve in the seventeenth year and increases to 6 percent in the twentieth year. Thereafter it increases to 10 percent in the thirteenth year and succeeding policy years. This settlement dividend is not fixed by contract but has been paid in addition to any other dividends upon the policy. As will readily be seen, however, it has a very pronounced effect when used in the computation of net cost on a policy-surrendered basis, especially when the discount factor is not taken into account.

On considering the discounted net-cost policy surrendered end of twentieth year which is shown in column 11 of table 302, it will be seen that the Metropolitan's policy with a net cost of $116.13 is the lowest of those shown by any of the companies.[2] The net cost of the Northwestern Mutual on this basis is $125.41 and other low-cost companies in the order of ascending costs are the Provident Mutual, the National Life of Montpelier, Vt., the Prudential, the Penn Mutual, the New York Life, and the Equitable of Iowa.

In column 9 which shows 20-year discounted net costs, policy continued, the lowest net cost is that of the Northwestern Mutual which shows a net cost on this basis of $290.04 per thousand.

Company executives have made two principal objections to the net-cost material in "Exhibit No. 2250."[3] The first of these objections emanates principally from mutual companies selling participating insurance. The objection is that the tables are neither a reliable estimate of what may be expected of the future nor are they a chronicle of what has actually happened in the past.

This, of course, is true. No method has yet been evolved for divining the future; and the experience of the past, by reason of the unprecedented decline of interest rates, has been excluded from the tables because historical net-cost figures do not represent either the present position or the future outlook. Policies issued in 1919 were sold on a basis often not available to purchasers today. Gross premium rates have been increased and cash values decreased in many cases. Reserves have often been provided on a lower interest assumption than that in use 20 years ago. This historical basis is therefore just what it purports to be—pure history. The 1939 dividend scale was adopted for inclusion in the book of tables for the reason that it does at least provide the best available criterion of the 1939 position.

Even as an indication of the 1939 position, however, the net-cost tables are subject to the important qualification that those companies which have conservatively valued their assets and reserves and reflected such valuations in a lower dividend scale may appear to have higher net costs than those whose valuation practice has been less conservative. Furthermore, in cases of companies whose 1939 dividend scale was abnormally low for any reason, the costs will be higher than would otherwise appear.

---

[1] Ibid., pp. 286, 287, 302, and 303.
[2] Ibid., p. 302.
[3] Ibid., pp. 281–314.

Nevertheless, it is felt that the net-cost data, considered together with the information appearing in preceding tables (which should shed some light on the relative conservatism of the various companies), provide a certain general standard for measurement of recent operating results of the companies.

The Mutual Life Insurance Co. of New York, which reduced its dividends substantially in the year 1939 and increased them again in 1940, has emphasized the shortcomings of net-cost calculations based upon a single year's dividend scale in a letter to Mr. Gesell dated February 1, 1940, and has furnished the Securities and Exchange Commission with historical net-cost data for all of the standard participating policies—sold in the amount of $1,000 or more, which policies are included in tables 284 to 298.[1] The Commission has decided that in the interest of informed discussion these calculations of the Mutual Life, together with the company's letter, might be included in the record.

Mr. Gesell. I would, in accordance with Mr. Howe's statement, like to offer at this time for the record the letter of the Mutual Life Insurance Co. containing its discussion of the net-cost problem, particularly from the point of view of the way a dividend reduction may affect the calculations.

I should also like to offer for the record the historical net-cost computations prepared by the Mutual actuaries, which Mr. Howe has been referring to.

The Chairman. This was referred to the Mutual actuaries and the representative of the company?

Mr. Gesell. That is correct; and they have no objection to this material being included in the record.

The Chairman. It may be received.

(The documents referred to were marked "Exhibits Nos. 2342 and 2343" and are included in the appendix on pp. 15594–15603.)

Mr. Howe. A direct comparison of the historical net cost figures appearing in the Mutual Life schedules with the net cost data in "Exhibit No. 2250" is now possible.

Mr. Gesell. In other words, Mr. Howe, what you propose to consider is the differences which may exist between this historical method of computing net cost and the method which has been pursued by the Commission in these tables?

Mr. Howe. That is correct.

Mr. Gesell. Did I understand correctly that your position is firm on the proposition that the procedure which has been adopted here is, taking all the factors which you have mentioned into consideration, more preferable from the point of view of the policyholders looking to it for the purpose of purchasing insurance?

Mr. Howe. That is my considered opinion, Mr. Gesell.

A general impression of what the comparison reveals may be had by comparing the net cost—policy surrendered end of twentieth year for whole-life policies at age 35. This data on the 1939 scale appears on page 286 of "Exhibit No. 2250." The historical net cost in the case of the Mutual is $76.30,[2] or 57.12 percent of the net cost derived from the 1939 scale. On the historical scale the Mutual Life ranks thir-

[1] See Hearings, Part 10–A, pp. 284–298.
[2] Corrected to $76.50, Hearings, Part 29, p. 15766.

teenth instead of twenty-third on the 1939 scale. In the case of other companies the historical net cost varies from 66.85 percent of 1939 net cost in the case of the Northwestern Mutual to 111.61 percent for the John Hancock and 164.44 percent for the Pacific Mutual.

In the case of the Pacific Mutual, the high historical cost is undoubtedly explained by the financial difficulties of the company leading to its reorganization on July 22, 1936. In the case of other companies, however, the comparison, while interesting, may not be as significant as might be imagined. The provisions of the historical policy are frequently different from the 1939 policies with which they are compared. The use of different premium rates and frequently a 3-percent reserve basis on the 1939 policy as compared with a 3½-percent reserve basis on the 1919 policy tends to minimize the difference between the two on the basis of the 20-year net cost policy surrendered basis. Furthermore, the use of different dividend formulae and especially different historical special or settlement dividends may change the results enough to produce apparently startling but actually inconclusive comparisons.

Mr. GESELL. The comparisons are made on this schedule which I show you, are they not?

Mr. HOWE. That is correct.

Mr. GESELL. I wish to offer this comparative schedule for the record.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 2344" and is included in the appendix on p. 15604.)

Mr. HOWE. The second objection (most frequently voiced by leading nonparticipating companies) is that in comparing net costs of participating policies with net costs of nonparticipating policies, fundamentally different contracts are involved and consideration of this fundamental difference should be given proper weight. In the first place, nonparticipating companies contract to provide life-insurance protection for a fixed annual premium during the entire life of the contract. This is in sharp contrast with participating companies which charge higher gross premiums than they believe they will need, returning the excess to the policyholder in the form of dividends. Thus nonparticipating contracts provide for a definite net cost stipulated by contract while participating policies provide for an arrangement under which net costs may fluctuate as conditions change. Furthermore, it will be recalled that the level of gross premiums charged on nonparticipating policies is lower than that used on participating contracts. Nonparticipating companies contend further that because of the persistent decline in interest rates, participating companies in the future may be obliged to cut their dividend scales even below the 1939 basis and urge that it is unfair to compare their inflexible net costs with participating net costs under these circumstances. Only the future can demonstrate how valid this argument may be.

Mr. GESELL. Let me interrupt you a moment there, Mr. Howe, to see if I understand this argument of the nonparticipating companies. They say, in effect, that when you buy a policy from them you know what it is going to cost you, and no matter what changing conditions may arise, you have this particular price premium that you must pay which is fixed in the contract?

Mr. HOWE. That is right; absolutely fixed.

Mr. GESELL. And if economic changes come about which will require them to raise their rates, they can raise rates on new policyholders but can't touch you because you have a contract with them?

Mr. HOWE. That is correct.

Mr. GESELL. On the other hand, you are in the case of the participating company given a hypothetical situation such as the committee was discussing with Mr. Howell and Mr. Stedman when they were on the stand the other day. It may be necessary for the participating companies to reduce dividends in order to meet their policy contracts.

Mr. HOWE. That is right.

Mr. GESELL. And the nonparticipating companies argue they feel that is a likelihood and therefore someone who has a contract with them has the advantage of knowing now what he is going to have to pay for all time?

Mr. HOWE. That is right.

Mr. GESELL. And the fellow that goes into a participating company, so they argue, is faced with the possibility that economic conditions can change the amount of the dividend return which he gets, and therefore affect the net cost of his policy?

Mr. HOWE. That is right. Another way of expressing it is that one is a fixed contract and the other a cost-plus contract.

Mr. PIKE. He has a ceiling on his gross premium?

Mr. HOWE. Yes; he has a ceiling on his gross premium in the participating company, that is correct.

Mr. PIKE. And it might depend upon how you view interest rates as to which policy you would rather have?

Mr. HOWE. And a variety of things.

The CHAIRMAN. Arguments can be made on both sides of this question.

Mr. HOWE. Effective arguments can be made on both sides.

Mr. HENDERSON. We might rephrase that and say effective arguments are made.

Mr. HOWE. Vehemently!

Mr. GESELL. It is a discussion that has been going on for years, is it not?

Mr. HOWE. It is. There is nothing new about that.

Mr. HENDERSON. Is there anything, Mr. Howe, in financial organization that is at all like this set-up of the mutual companies, this cost-plus arrangement, you really might say? There is no such thing, is there?

Mr. HOWE. Not that I know of in any financial field. You can say to some extent that a mutual savings bank is similar, but only to a limited extent.

Mr. GESELL. It really results from the whole theory of mutuality, doesn't it?

Mr. HOWE. Certainly. Of course you are familiar with cooperative merchandising and all that kind of thing.

Mr. HENDERSON. But on a scale like this, where the dominating element, you might say, the overwhelming proportion of assets are on a mutual basis, there is nothing like that in a financial organization at all, is there?

Mr. HOWE. I don't think that there is any concentration of assets on a mutual scale anywhere in the world comparable to these American mutual life insurance companies, as far as my knowledge is concerned.

Mr. PIKE. There are mutual companies in the fire field, in no way near the same scale, with a dividend policy, again not on the same scale.

Mr. HOWE. That is right, but fire companies by the very nature of their business do not accumulate reserves in the same manner life-insurance companies do.

In order to form a correct impression of relative net costs even on the basis of the foregoing assumptions, the operating policies of management must be surveyed. Some companies may improve the relative appearance of their net-cost figures by paying more dividends than current earnings would seem to justify. On the other hand, other companies, by realistically valuing their assets, conservatively calculating their liabilities, adding to contingency reserves, and paying out smaller amounts in dividends than are currently being earned may in a given year or period of years appear in a less favorable light than their less conservative competitors.

For this reason it is necessary to examine company policies with respect to writing off asset losses, and strengthening policy reserves, contingency reserves, and surplus. Account must also be taken of losses past, present, and prospective from unprofitable contracts outstanding or being written.

Mr. GESELL. Let me see if I get this point; as I see it you are about to go into a new line of discussion. So far you have been talking about the straight mathematical computations.

Mr. HOWE. That is correct.

Mr. GESELL. You have said that if you compute it this way, this is the way it looks; if you compute it that way, that is the way it looks.

Mr. HOWE. That is correct.

Mr. GESELL. Now you intend to present for the committee's consideration some of the operating problems in the business which affect net cost calculations that you have in these tables, and operating factors which must be taken into account in looking toward the future?

Mr. HOWE. That is right.

Tables 86 and 88 show the write-offs of asset value which have been made by the various companies during the 10 years ended December 31, 1938.[1] These write-offs have amounted to $893,839,000 for the 26 companies. Offset against these write-offs are gains based upon difference between book value and sales or redemptions price of bonds, stock, and real estate in the aggregate amount of $174,520,000. This makes a net asset loss (part of which is an unrealized loss) of $719,-319,000 for the 10-year period. The extent to which greater write-downs might be made in the cases of some companies has been discussed in previous hearings and does not need to be reviewed again, but should be borne in mind in this connection.

An outstanding example of conservative valuation of assets, as has already been brought out, is found in the case of the New York Life Insurance Co. Not only is that company outstanding in the conservatism of its admitted asset values but a further step in that direction

[1] See Hearings, Part 10–A, pp. 86 and 88.

has been taken by the company in 1939. This has been done by the establishment of a contingency reserve which on December 31, 1939, amounted to $50,000,000.

The break-down of this reserve is as follows:

a. Difference between the actual market value December 31, 1939 ($44,450,000) and the value carried in assets ($72,273,000) of all bonds quoted at 70 or lower on December 31, 1939............ $27,823,000

Mr. PIKE. That was merely reducing that classification to market?

Mr. HOWE. That is right. In other words, these marginal bonds that I talked about in my earlier testimony—they have said, "In case any of those bonds in the border-line classifications get below 70, although we will continue to carry them among our assets at the investment value, we will set up a reserve for any of them which are selling under 70." That is a new departure in conservatism in that direction.

The second portion of the reserve:

b. Allowance for a 10% depreciation in market value of Preferred and Guaranteed Stocks (Market value December 31, 1939, $86,064,795)............ $8,606,000

c. Reserve for possible losses in Bond and Mortgage Loans held December 31, 1939.

Those are mortgage loans. It has nothing to do with the bond account. This reserve was $12,000,000.

d. Miscellaneous Reserve including possible losses due to depreciation in Canadian Currency............ $1,571,000

Mr. GESELL. That reserve for possible losses in the bond and mortgage-loan account is particularly interesting. Do you know of any other company which has set up a reserve which is specifically earmarked as a reserve against losses which may arise from mortgage loans?

Mr. HOWE. There is no other example which has come to my attention with the exception of one relatively small one. In the annual statement of the Connecticut General in the year 1938 there was a very unusual item, namely, a deduction of $235,000 as against valuation of mortgages, but, so far as I know, that is the only other effort which has been made to revalue mortgages at a lower amount than their face value.

Mr. GESELL. Of course, companies do have general reserves against which losses in the mortgage-loan account might be charged?

Mr. HOWE. Their surplus, of course, is available for any contingency which may have developed.

Mr. PIKE. Among one or two earmarked things, there was the $15,000,000 of the Metropolitan against mortgage losses.

Mr. HOWE. That is a lump-sum reduction in the book value of the real estate. Please don't let me be misunderstood, Mr. Pike. It has been very customary to write down the value of real estate, but here the New York Life Insurance Co. not only has gone pretty far in reducing valuations of their real estate, but now they are reaching back another step.

Mr. PIKE. For contingent losses?

Mr. HOWE. Contingent losses on the mortgage account, and that is the thing which is somewhat of a new departure.

To set up, as the New York Life Insurance Co. has done, as indicated by item a, the difference between actual market value December 31, 1939, and the value carried in the assets of all amortized bonds selling at 70 or lower in the form of a contingency reserve—so far as my knowledge goes—is a new and highly commendable departure in post-1929 methods of bond valuation, although the Prudential for some years has carried certain bonds at market which they might have amortized, thus achieving a somewhat similar result.

Item c, which is a reserve for possible losses on mortgage loans, is also a new departure. In general, mortgages are carried at their face amount irrespective of the value of the underlying security or the amount or character of their delinquency. While there was apparent justification for this practice before moratorium legislation relieved many mortgages of the necessity of paying amortization, events of recent years indicate the desirability of reconsidering this practice. By the establishment of this contingency reserve the New York Life pioneers in recognition of a possible impairment in underlying mortgage security. Obviously companies employing such conservative practices may appear less favorably than they deserve in net cost comparisons. It should be pointed out, however, that a part of the reserves mentioned above have been set up since the 1939 dividends were declared, and to that extent do not affect the net cost calculations in "Exhibit No. 2250."

In addition to asset valuations, the basis upon which reserves are calculated is an important factor in the determination of operating earnings available for dividend distribution. In this connection two factors are significant, the original basis upon which reserves were set up and the extent to which they have been increased or strengthened by change in basis.

The increases in reserves due to change in basis during the 10 years ended December 31, 1938, are shown on Table 79. These increases in reserves are largely the result of voluntary action by the companies. There is not even a line in the Gain and Loss Exhibit as it was used prior to 1939 which requires that these data be given. Some companies, however, realizing the importance of the information, have inserted it in their convention blanks. In the case of other companies, the information was obtained by direct questions from the Securities and Exchange Commission in its investment questionnaires. It will be seen from the table[1] that during this period of 10 years, the companies have increased their reserves due to change in basis in the amount of $241,969,000. This has, of course, penalized their operating earnings during the period by a like amount. It is evident, therefore, that companies which have increased reserves materially will show poorer earnings records than those which have not adopted as conservative a practice in this regard. The fact should constantly be borne in mind when considering the operating results of the companies.

It may be interesting to note that of the $45,858,000 increase in reserves due to change in basis set up by the Metropolitan during this period, $22,794,000, or approximately 50 percent, is the amount applicable to industrial business. In the case of the Prudential,

[1] See Hearings, Part 10-A, p. 79.

which has increased its reserves due to change in basis in the amount of $67,565,000, $64,655,000, or 95.7 percent, has been set up on account of industrial business. In the case of the John Hancock, which has increased reserves $2,123,000 due to change in basis, $1,712,000 of the amount was for industrial business. This is 80.5 percent of the amount set up. In the case of the fourth industrial company, the Western and Southern, of the $624,000 increase in reserves due to change in basis, $410,000, or 65.7 percent, was set up on account of reserves on industrial business.

Mr. HENDERSON. I don't know whether I have quite got this. You say "the increase in the reserves." From what account did they come, surplus?

Mr. HOWE. You can say they came out of surplus or you can say they came out of current earnings, just as you can say a dividend is paid out of surplus or paid out of current earnings.

Mr. HENDERSON. Of course, in paying out a dividend you carry it to earned surplus, usually, before you make the charge.

Mr. HOWE. This is the same thing. It is an income deduction.

Mr. PIKE. These companies never show earnings statements, do they? They always just show comparative balance sheets—I mean to policyholders.

Mr. HOWE. They have a statement which is called the gain and loss exhibit. In general I think it is true that gain and loss exhibits are not distributed to policyholders. That is my understanding.

Mr. PIKE. As a policyholder, I have never seen one.

Mr. HOWE. I don't think I ever saw one in a policyholders' annual statement. They are, of course, in the statements to the insurance commissioners.

Mr. PIKE. More or less like banks. They really publish comparative balance sheets.

Mr. HOWE. That is right, but nevertheless in figuring out the amount of money which they have available for dividend distribution, this increase in reserves is a deduction against earnings.

Mr. GESELL. These reserves are charged to income in the year they are set up, isn't that the fact?

Mr. HOWE. That is right, unless there happens to be less income, and then they would be charged to surplus. In ordinary procedure they are charged in——

Mr. HENDERSON (interposing). Take the Prudential. In that case they increased their reserves 67 million plus.

Mr. HOWE. That is right.

Mr. HENDERSON. And 64 million of that was on account of the industrial business.

Mr. HOWE. That is correct.

Mr. HENDERSON. Does that mean that in one year, out of the total income which they got from all policyholders and all other income, they allocated or set off $64,000,000 more than they had in the year previous?

Mr. HOWE. No; this is the total figure, Commissioner, for the 10-year period.

Mr. GESELL. You are speaking from table 79, are you not, Mr. Howe? [1]

---

[1] See Hearings, Part 10–A, p. 79.

Mr. Howe. I am, and if you want to see the detail of the thing——

Mr. Gesell (interposing). Table 79 would show that there was an amount set aside, in the case of the Prudential in all but 2 of the years, in the case of Metropolitan in all but 1 of the years for the period shown on the schedule.[1]

Mr. Howe. These increases have not been made all in 1 year, but have been made gradually over the period, but if you will look at the tables which follow page 265, you will see a classification of these increases in reserves by lines of business.[1] Table 265 shows the amount for industrial insurance, table 266 shows disability benefits in industrial policies, table 267 accidental death benefits in industrial policies. The total of those three tables is the figures which are given here for the amount of increase in reserves due to change in basis on industrial business.

Mr. Henderson. Getting down where a layman can understand it, what does it mean? Why did they do this? What would be the common assumption of why that was done?

Mr. Howe. Well, of course, it struck me as an interesting fact, and I don't know enough about the basis on which they set up their reserves to justify it. There is this, however, to be said.

The Chairman. What do you mean when you say "to justify it"?

Mr. Howe. I probably used the wrong word, Senator; I mean to fully explain it.

It is true, Commissioner Henderson, that during the last 10 years, as I understand it, the Prudential has extended retroactively certain benefits to industrial policyholders, and as they have done so, it may be that they have felt that it was desirable to strengthen their industrial reserves. That may be the explanation of it.

Mr. Gesell. That applies in the case of all of the industrial companies. They have made retroactive benefits to their policyholders, have they not?

Mr. Howe. To a greater or lesser extent, I think that is true.

Mr. Henderson. You mean, they have added to what the original contract called for?

Mr. Howe. Yes; they have changed the policy in some instances, extending benefits to the new policyholders who come in. Then they have said, "We will also extend those same benefits to all the policies on our books."

Mr. Henderson. That is a more liberal policy, and then this is the conservative practice to offset that?

Mr. Howe. To offset that; that is correct.

Mr. Pike. Put in enough funds to meet those extra benefits?

Mr. Howe. As much as they can do.

Mr. Gesell. One of those retroactive benefits that has been granted quite frequently in the industrial companies has been a liberalization of the cash values, surrender values?

Mr. Howe. That is my understanding; yes.

Mr. Gesell. The committee will recall that when Mr. Williams, of Western and Southern, was on the stand there was introduced a schedule showing all retroactive benefits granted by that particular company, and I think if anyone is interested it will give some idea of the nature of those provisions.[2]

---

[1] Ibid., pp. 265, 266, and 267.
[2] See "Exhibit No. 1016," Hearings, Part 12, appendix, p. 6301.

Mr. HENDERSON. I still want to know where that money came from. Did it come out of the common income? Take this 67 million of Prudential over this period. Did that come out of the money received on industrial policies?

Mr. HOWE. I think so, yes; because the industrial business has shown a surplus.

Mr. HENDERSON. Does that reduce the amount available for dividends?

Mr. HOWE. Yes; definitely. When you set up these policy reserves you definitely reduce the amount which is available for dividend distribution.

Mr. HENDERSON. Does it reduce the amount available for dividends only for the industrial? I know it naturally would reduce the amount available for all policies if it were done on a common-pot basis. Would this particular increase in reserves apply to the dividends that might be paid on industrial policies only?

Mr. HOWE. Of course, it is a problem that is almost impossible to answer categorically, but I believe that is true, Commissioner Henderson, for the reason that if you will look at table 24, which shows the net change in total surplus from industrial insurance after the payment of dividends, you will see that there was an increase in surplus and contingency reserves on the part of the Prudential over the 10-year period of $32,448,000.[1] Now, that is after setting up this $67,000,000 reserve, 64 million of which came out of the industrial business, so that in view of the fact that they have a residual surplus there, I think it is very safe to assume that this $64,000,000 came out of the income from industrial policyholders exclusively.

Mr. PIKE. Is there an abrupt change in the dividend policy or the rates on industrial between '32 and '33? There seems to be an absolute break-off on all those companies at that point. That is on 24.[1]

Mr. HOWE. If you will look on table 23, Mr. Pike, you will see the amounts of dividends which were paid by the companies on industrial insurance,[2] and you will see that the amount is a fair amount.

Mr. PIKE. I see no break there, but following back I find the same break between '32 and '33 in table 22; that is, the Metropolitan went up in those 4 years, 47, 51, 67, 74, abruptly down to 59 and then to 46.[3] It looks as though somewhere early in '33 there had been either a drop in rates or there had been something happen in that field.

Mr. HOWE. I think you will find that a partial explanation of that is the asset situation. I believe that they took some asset losses during the years following 1933, and that that may account in some measure for the difference between those figures during that later period and the figures in the earlier period.

Mr. PIKE. It shows up in the other large industrial companies.

Mr. HOWE. On the other hand, if you will examine again those gain-and-loss exhibits, you will see that during the years '32, '33, and '34 there were rather large gains from surrenders.

Mr. PIKE. It seems the industrials had a break-off that I didn't see through the other policies.

---

[1] See Hearings, Part 10-A, p. 24.
[2] Ibid., p. 23.
[3] Ibid., p. 22.

Mr. HOWE. I'm sorry I don't know the definite explanation.

The CHAIRMAN. In any event, you are pointing out that the reserves themselves have been increased?

Mr. HOWE. Yes; and strengthened is another way of looking at it.

Table 89 shows the increase or decrease in contingency and special reserves.[1] Except in cases in which detail has been supplied, this is one of the most troublesome items on the entire gain-and-loss exhibit. It is often entirely impossible to tell whether these reserves are simply for accrued or unpaid taxes, whether they are designed to supplement policy reserves, whether they are asset valuation accounts, or whether they are merely earmarked surplus. Some companies, indeed, show no surplus at all on their balance sheets, classifying the entire amount of their surplus as contingency reserve. In spite of questions specifically designed to elicit the information which were contained in the investment questionnaires, we are not able in all cases to classify these reserves satisfactorily as liabilities, asset deductions, or surplus. All of the 26 companies except the Equitable of Iowa had contingency or special reserves at some time during the 10-year period. In the aggregate the amount of these reserves increased $188,891,000 during the period. Of this sum $92,526,000, or approximately 49 percent, represented the 10-year increase in contingency reserves of the Prudential alone.

Table 90 shows that the amount of all surplus, other than that classified as contingency reserves, increase $199,461,000 during the 10-year period. Of this increase, $132,314,000 was the increase in the surplus of the Metropolitan.[2] This was 66 percent of the total increase in surplus reported by all 26 companies.

Mr. PIKE. That just means really that one company carried this increase and called it surplus and another carried it and called it contingency?

Mr. HOWE. That is right. The Prudential carried $92,000,000 to contingency reserves and the Metropolitan carried $132,000,000 to surplus.

Mr. PIKE. Operating in different States there might be some legal requirement.

Mr. HOWE. There is a legal requirement with respect to contingency reserves in New Jersey. I am not familiar with the detail of it, but that is true.

Mr. KADES. In connection with your analysis here, in which you say that the increase or decrease in contingency and special reserves is a very troublesome item, do you get any help from reports of independent auditors or don't these companies have them?

Mr. HOWE. That is an interesting subject. Of the 26 companies whose figures are considered in this book, 13 have auditing firms come into their offices. Of those 13 some merely check the cash and the bonds and mortgages and pay no attention whatsoever to the liabilities. In other cases the auditors correspond with the State insurance departments, and judging from their certificates obtain a certificate from the State department saying that the liability reserves are all right. They also get a certificate from the actuarial department of

[1] See Hearings, Part 10–A, p. 89.
[2] Ibid., p. 90.

the respective companies. When it comes to income accounts, in general the auditors don't bother with that. They simply concern themselves either with the assets alone or with the assets and liabilities. Sometimes they do go into the income and disbursements account, but very seldom into a true income account for the business. The result is that these contingency reserves which are all right on the balance sheet don't bother them because it is in the income end of the statement that they commence to cause their trouble.

Mr. PIKE. There is where you wonder if most auditing firms would be competent to do this particular job, that is, to go much farther. As you know, in the industrial company the auditing firm will come in and look and go through very carefully, and in the end will be left with a doubt as to that most important item of depreciation, and in this case the auditing firm could come in and do a good job on the valuation of assets. It is a real question whether it would be competent, whether any auditing firm would be competent, to give a good judgment as to the proper valuation of reserves, that is to handle the actuarial figures, reserves being somewhat similar to the depreciation and other reserve set-ups that an industrial company would have.

Mr. HOWE. Yes; in connection with the supplemental investment questionnaire we asked the companies to supply copies of any audits which they might have had made during recent years. I was very interested in perusing those audits, and I didn't find any case in which an auditor had done anything whatsoever with respect to the actuarial liabilities, the reserves, except to refer to the actuarial department and the State insurance commissioner, and they take his word for that.

Mr. PIKE. A very important function they either didn't cover or couldn't cover, one of the two.

Mr. HOWE. I assume that they don't have actuaries to do that work independently.

Mr. PIKE. We have found in two or three cases fairly recently that a certificate of an auditor is not a conclusive statement, conclusive proof, that a company is in good shape.

Mr. HENDERSON. Yes; we have found a couple at the S. E. C. [Laughter.]

What I am interested in, Mr. Howe, on this net cost, is this. You are the one who has been all through this. Do you know what is the cheapest policy to buy?

Mr. HOWE. It is a most difficult thing to determine.

Mr. HENDERSON. That answers part of my difficulty but it doesn't answer my question. I asked you something you ought to be able to give a yes or no answer on.

Mr. HOWE. Yes; I think I can figure out from this book what companies I would like to purchase additional insurance in.

Mr. HENDERSON. What he says is, he can figure out. I ask him, does he know.

The CHAIRMAN. When he says he can figure out, he evidently means he could make an argument that would satisfy him. That is really what you mean, isn't it?

Mr. HOWE. That is right.

The CHAIRMAN. And you wouldn't pretend to say that somebody else couldn't make an argument that would end in the selection of a different company?

Mr. HOWE. I certainly would not, Senator. It is a matter of judgment, after all, in the final analysis.

The CHAIRMAN. In other words, we are still leaving a little room for the agents to sell their own wares.

Mr. HENDERSON. In the main, you stand by your computations using the 1939 basis?

Mr. HOWE. I think that is the best that can be done. Of course, it should be said, Mr. Henderson, that these net cost figures are produced from the point of view of an individual policyholder. Now, if you want to commence to compute net costs from the point of view of a group of policyholders, then adjustments must be made for mortality and for lapse and surrender, but that is a different problem from this one.

Mr. HENDERSON. Then the additional item is this, that even given these net cost figures, you have to be thinking in terms of the company, you have to be thinking in terms of its practice in valuing assets?

Mr. HOWE. Right.

Mr. HENDERSON. You have to be thinking in terms of how it takes its trusteeship?

Mr. HOWE. Right.

Mr. HENDERSON. You have to be thinking in terms of what its policy of investment has been in recent years?

Mr. HOWE. Right.

Mr. HENDERSON. In other words, the quality of management is still quite a factor in the purchase of insurance?

Mr. HOWE. It is a tremendous factor, and I hope to have a chance to elaborate the respective operating losses for certain unprofitable lines of business, which is a further extremely important consideration.

Mr. HENDERSON. I suggest we take that up tomorrow and probably finish by noon, can we not?

The CHAIRMAN. The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, the committee recessed at 3:30 p. m., until 10:30 a. m., Friday, March 1, 1940.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, MARCH 1, 1940

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to adjournment on Thursday, February 29, 1940, in the Caucus Room, Senate Office Building, Representative Hatton W. Sumners presiding.

Present: Representative Sumners (vice chairman); Senator O'Mahoney (chairman); Representative Williams; and Messrs. Pike, Henderson, Kades, and Brackett.

Present also: James V. Hayes, Department of Justice; Gerhard A. Gesell, special counsel; and Helmer Johnson, attorney, Securities and Exchange Commission.

The Vice Chairman. The committee will pleace come to order.

Mr. Gesell. Mr. Howe, will you resume the stand, please, sir?

The committee will recall that yesterday evening Mr. Howe completed a portion of his statement with respect to the net cost of insurance policies, and today his statement continues with a discussion of operating results by lines of business.

TESTIMONY OF ERNEST J. HOWE, CHIEF FINANCIAL ADVISER TO THE INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.—Resumed

Mr. Howe. During our discussion yesterday there were some questions directed to me on the subject of independent audits made of these 26 leading life-insurance companies, and so I thought that it might be interesting to let the committee know which of the 26 companies employ independent auditors and which ones do not; in other words, which ones rely exclusively on the examination of the State insurance departments.

The Aetna has an audit by Stagg, Mather & Hough, in which they count the cash and count the securities, check the real-estate deeds, and examine the mortgages, and they obtain a certificate from the insurance department with respect to the liabilities.

The Bankers' Life of Iowa does not have an audit. The Connecticut General employs Mr. Waterman and Mr. Smith, whose certificate as to what they do with respect to counting cash securities, real estate, mortgages, and so forth, is not specific, and no statement is made in their certificate whatsoever with respect to having verified in any way the liabilities or income and disbursements of the company.

The Equitable of New York employs Haskins & Sells, who make a general examination, count and test the assets, and confer with the insurance department with respect to the liabilities.

The Equitable of Iowa has no audit. Guardian Life has no audit. The John Hancock has no audit. The Lincoln has no audit. The Massachusetts Mutual employs Scovell, Wellington & Co., who verify the assets and correspond with the State insurance department with respect to the liabilities.

The Metropolitan Life Insurance Co. has no audit. The Mutual Benefit has no audit. The Mutual of New York employs Haskins & Sells, who count the cash and securities, examine the real estate and mortgages, and verify the liabilities with the State.

The National Life of Montpelier, Vt., does not have an audit. The New England Mutual employs Patterson, Teele & Dennis, who examine the assets but make no mention of the liabilities.

The New York Life does not have an audit. The Northwestern Mutual employs Peat, Marwick, Mitchell to test assets and check with the State insurance department with respect to the liabilities.

The Pacific Mutual uses Peat, Marwick, Mitchell & Co., but the extent of the audit is not clear from the certificate.

The Penn Mutual uses Lybrand, Ross Bros. & Montgomery, which although the scope of the audit has changed somewhat in recent years the latest audit includes a count and check of all the assets as well as a verification of the liabilities through correspondence with the insurance department.

Phoenix Mutual has no audit. The Provident Mutual employs Lybrand, Ross Bros. & Montgomery, who check the assets and correspond with the insurance department with respect to the liabilities.

The Prudential uses Stagg Mather & Hough, which makes a pretty thorough check of cash securities, real estate, mortgages, premium income, interest, and policy loans, and corresponds with the insurance department with respect to the liabilities. They also make a rather extensive check of income and disbursements.

The State Mutual uses Cooley & Marvin, who examine the assets and check the liabilities.

The VICE CHAIRMAN. I am sorry to have interrupted, but my inquiry of counsel was why you couldn't have put it in the record, but I understand you are giving it in response to some request made yesterday.

Mr. HOWE. That is correct, Mr. Chairman.

The Travelers Insurance Co. of Hartford, Conn., does not employ auditors. The Union Central employs Haskins & Sells, and has also employed at different times Stagg, Mather & Hough. They count the cash and securities, examine the real estate and mortgages, but no mention is made of premium income, interest, policy loans, policy reserves, or income and disbursements.

The Western and Southern does not use an auditing firm.

Mr. HENDERSON. Do you recall any financial grouping that does not have a greater amount of audit than insurance companies?

Mr. HOWE. No; I really do not.

Mr. HENDERSON. It is customary in the case of financial houses to have even more audit than you do in an industrial concern, is it not?

Mr. HOWE. I think that is customary. Of course, the offset to it is that they do h- [illegible]ese triennial or more frequent examinations, and in response to our questions some companies said they didn't wish to go to the expense of an independent audit in view of the job which the States were doing.

Mr. HENDERSON. In other words, it gets down to the place where there is a tremendous responsibility resting on the public audit?

Mr. HOWE. A very great responsibility rests on the public, or on the officers representing the public.

Mr. KADES. Mr. Howe, I want to make sure I understand what you mean when you say an insurance company has no audit. By that do you mean that the insurance companies which you mentioned as not having had an audit, have never had an independent audit, or don't have it regularly?

Mr. HOWE. Well, so far as our records go they have never had an audit. Now, of course, when you commence to say "never" that implies a very long period of time and I am not prepared to testify what may have happened a long time ago, but I think the figures which I have given here would certainly be typical of the last 10 years.

Mr. PIKE. There is something in the idea that a State examination is an independent audit of a sort.

Mr. HOWE. Why, certainly.

Mr. PIKE. So when you say you have never had an independent audit——

Mr. HOWE (interposing), It is not parallel to the situation of an industrial company which is not supervised by State authorities.

Mr. PIKE. Not at all, it is more comparable to that of a bank.

Mr. HENDERSON. Do banks have independent audits?

Mr. HOWE. Some of them do.

Mr. HENDERSON. How about investment banking firms?

Mr. HOWE. So far as I know they almost all have independent audits.

The CHAIRMAN. What is the significance of the statement, what is the impression that is desired to be conveyed by the statement that there are not independent audits when we all know that there are State examinations?

Mr. GESELL. Mr. Chairman, this information is submitted in response to a specific request by a member of the committee, and there is no argument involved.

The CHAIRMAN. I am not arguing, I am trying to find out what is presented.

Mr. HOWE. I just think, in view of the practical question that was raised, it is interesting that some companies seem to regard an audit as essential and others do not. It is a matter of management policy, so far as I can see.

The CHAIRMAN. This audit of which you are speaking was an audit which is independent of the examination by the public authorities appointed by the several States?

Mr. HOWE. That is correct, and these auditors are hired by the respective companies.

The CHAIRMAN. Then it is not intended by the answer to convey the impression that there is no examination in the public interest?

Mr. HOWE. No such implication is intended, and I think I stated that they are examined by the State. However, Senator, these companies which have audits have a more frequent examination, I think in general, than companies which do not have audits, because the State examines them in the ordinary course only once in 3 years, whereas the audits in general are annual or sometimes semiannual affairs.

Mr. GESELL. And it is true, is it not, Mr. Howe, that a State examination is not an audit? There isn't any question about that, is there? Have you ever seen a State examination that was an audit?

Mr. HOWE. Well, I think there is some degree of parallel object in an audit and a State examination, but they are, after all, different things.

Mr. PIKE. I would like to bring up the point I tried to make yesterday, that it seems to me the most important thing in the examination of a life insurance company is not counting its assets. The real story in a life insurance company is on the liability side in their great item of reserves which make up most of their liability.

Mr. HOWE. That is correct.

Mr. PIKE. I doubt seriously if there is an independent auditing firm in this country that is really capable of giving a proper estimate of those reserves. There may be, but I think that is where the efficiency of an examination is, either good or bad, right in that item of reserves, not in counting physical assets or checking petty cash, that sort of stuff. That is my belief. I just state that as a personal opinion.

Mr. GESELL. It is true that there are other liabilities, other than reserve liabilities, that someone ought to check.

Mr. PIKE. Yes; there are other liabilities, but the real story is in the reserve figure.

Mr. HOWE. There are other liabilities than the policyholders' reserves, they do not bulk as large in proportion to the total liabilities as the reserves do.

Mr. HENDERSON. Doesn't it get down to about two things? You have this triennial audit or examination and in the cases of the fringe companies such as we had yesterday, without any real notice to stockholders or any certificate of an auditing firm; if they are interested in manipulation or rinky-dink of any kind they have 3 years practically to get away with it unless somebody picks it up out of the annual report.

Mr. HOWE. Well, or unless the State Insurance Department elects to go in there more frequently.

Mr. HENDERSON. That is what I said, unless they pick it up out of some complaint. On the other hand, it does emphasize the tremendous responsibility laid upon an actuary, and also it emphasizes the extraordinary professional character of the actuary and further exemplifies the real integrity of the actuarial profession. Isn't that about it?

Mr. HOWE. Well, certainly. I mean, there is nobody else who can figure these liabilities except the actuaries.

Mr. HENDERSON. And they are employees of the company?

Mr. HOWE. For the most part, except the actuaries which are employed by the State department. The accounting firms in general do not have actuaries. There are some consulting actuaries, but as far as these audits are concerned I find no reference to the fact that an independent actuary has been employed to check the liabilities. It may have been done, but there is no reference to it in any of these audits which I have checked.

The VICE CHAIRMAN. Mr. Howe, what becomes of the report of the auditor? What happens to the report of the concern that audits the books?

Mr. HOWE. Two things may happen to it, Mr. Sumners. It may go to the auditing committee, so-called, which is a committee of the board of the insurance company; or it may go to the president of the insurance company, but so far as my knowledge goes, it is never circulated among policyholders or stock-company stockholders.

The VICE CHAIRMAN. So the only advantage of an independent audit would be to advise those in responsibility as to the condition of the company, speaking generally?

Mr. HOWE. That is about right. As was testified earlier, in the case of the Northwestern Mutual, they call in a committee of policyholders who select an auditing firm to audit the company, and in that case the audit report is given to that committee of policyholders, but I think that is unique. The general rule is the other one which I started.

The VICE CHAIRMAN. When was this testimony with reference to the Northwestern?

Mr. HOWE. I think that was in the first series of hearings.[1]

The VICE CHAIRMAN. I identified that. These stockholders that are called in—my recollection is, they were recommended in the first instance by agents of the Northwestern in the field.

Mr. HOWE. I think that is correct.

The VICE CHAIRMAN. And they went up to headquarters and stayed 2 or 3 days. I remember very well that testimony.

Mr. GESELL. I think it was testified that the audit report that was prepared under those circumstances was sent to the policyholders.

The VICE CHAIRMAN. I don't remember that.

Mr. HOWE. At least the summarized report was sent to the policyholders.

The VICE CHAIRMAN. I wasn't impressed that those stockholders that were brought out of the field, recommended by the agents of the company, and who went up to headquarters for 2 or 3 days, ever really were able to have very definite and well-advised, independent judgment as to what they were doing after they got there.

Mr. HOWE. They did have the right, however, or at least it was so testified, if I remember it correctly, to select the auditing firm, and there is some advantage in that.

The VICE CHAIRMAN. Was it that?

Mr. HOWE. That is true; yes, sir. They selected the auditor and a different auditor is selected quite frequently.

The VICE CHAIRMAN. I would like to ask whoever is in charge of the testimony to get that for us, before the close of the hearing, if you have somebody who can do that?

Mr. HENDERSON. Not to pursue this matter relentlessly, because I think we are all agreed that a tremendous technical responsibility has been met in this interval audit—that is what it amounts to——

[1] See Hearings, Part 4, p. 1500.

Mr. Howe (interposing). Plus the type of state supervision——

Mr. Henderson (interposing). A thing such as happened in the case of one insurance company with those policy loans—you remember those policy loans of a company which had a reinsurance deal——

Mr. Howe (interposing). I don't know that I identify the company.

Mr. Henderson. I don't recall the series of transactions, but they had them twice in the assets, and I think I can easily demonstrate that. I missed calling attention to it at the time. They may have had the note from the policyholder and another item, but I mean it escaped for about 3 years. Of course, the better companies, most of the companies, wouldn't carry it that way. That is about the size of it.

Mr. Howe. Well, auditors generally perform a function, it seems to me; many privately owned businesses have independent auditors for the purpose of informing the chief executives as to what might possibly have escaped in the ordinary routine of internal recording.

Mr. Henderson. When Mr. Stedman was talking about what they wanted in the case of industrial loans, he said they wanted not the certificate which was made public, but the reports of auditors to the chief executives, so that they would get an appraisal of operating results.

Mr. Howe. I think that is a usual desire on the part of the people who are lending money.

Mr. Kades. Could you tell us a little bit more about the extent of the examination by the State supervisory authorities? I am not at all clear as to what they do. Is it analogous to the post audits of the Comptroller General?

Mr. Gesell. If I may interrupt, I don't believe Mr. Howe should undertake to testify with respect to the character of examinations conducted by State insurance departments, not only because there is tremendous variety as between departments——

Mr. Kades (interposing). I think you are right.

Mr. Gesell. I might say that we are making an analysis of examination reports made by States, and that analysis will be available for the benefit of the committee.

Mr. Kades. I think you are right.

The Vice Chairman. We have got testimony now, if it has any object at all, that would seem to bear upon the question as to whether or not these companies were sufficiently and properly examined, and there is testimony here that two sorts of examinations are had. One is by private auditors and one is by governmental agencies. He may not know about that and I may be wrong about it.

Mr. Henderson. Mr. Chairman, I take it Mr. Gesell meant that we have questionnaires which have been sent to the State insurance commissioners with the request that they answer if they so wish. A number of them have taken advantage of that, and from that there will be information as to the State audit, which will be made in the form of a report, but I think it is not available now for any testimony by the current witness.

The Vice Chairman. Well, that would be important.

May I ask this question: Do you know whether or not the States that have jurisdiction with reference to these insurance companies have more frequent audits than the 3 years which you mentioned, if those in responsibility in those States deem that there should be more frequent audits?

Mr. Howe. Oh, they have the option to make more frequent audits if they wish to, is my understanding, Mr. Chairman.

The Vice Chairman. Do they have any preliminary reports of any sort which would guide them in the determination as to whether or not a more frequent audit should be made, do you know? If you don't happen to know this——

Mr. Howe (interposing). Of course, you are familiar with the fact that statements like this are filed every year by the companies so that the State insurance commissioner has information supplied by the companies to him annually, and in some cases semiannually in less detailed form.

The Vice Chairman. Would you state for the record in as few sentences as you can conveniently do it, what that rather voluminous document is that you exhibited?

Mr. Howe. That is the convention form of annual statement, together with the schedules which are attached thereto, which includes a statement of assets and liabilities, a statement of income and disbursements, a statement of gain and loss, appended to which is an exhibit of changes in surplus, and then there are the schedules which show the purchases and sales, book value, and so forth, of real estate, a schedule of mortgages, a schedule of bonds and stocks owned, a schedule of bonds and stocks purchased and sold, and then officers' salaries, and a variety of other schedules.

The Vice Chairman. To what degree would that schedule differ from what you would expect to be the report of an auditor who had examined an insurance companiy?

Mr. Howe. That is largely a compilation of figures, whereas the examination reports are usually more narrative in form, analyzing the material which appears in the annual reports and which has developed as a result of the examination of the State departments.

The Vice Chairman. You mean the auditor's report would be more voluminous and more in detail than that?

Mr. Howe. It wouldn't be a larger, heavier volume. It is more narrative in form.

Mr. Henderson. It would represent an examination and clarification, also.

The Vice Chairman. What would be the difference in informative value of the two, this report and the auditor's report?

Mr. Howe. I think, for instance, of one situation with respect to which I testified a while ago. In one State examination of the Metropolitan, the examiner went into the costs of handling policy loans from the point of view of the company and broke the interest down to show that three-fourths of 1 percent was cost, and all that sort of thing. There is a great deal of analysis which goes into——

The Vice Chairman (interposing). That is the auditor's report you speak of?

Mr. Howe. No; I am speaking of the State examination report.

The Vice Chairman. But I was directing your attention at the moment to this document which you have just exhibited, and which is the annual report, I believe you said——

Mr. Howe (interposing). That is correct.

The Vice Chairman. Of the company to the agency to which it must report in a State.

Mr. Howe. That is correct.

The VICE CHAIRMAN. Now, my question was: As I understand these questions and this statement, it bears upon the question of the sufficiency of supervision, or the sufficiency of audit from the standpoint of public interest. Otherwise, I can't see any reason for the testimony at all, and what I am trying to find out is whether or not, and to what degree, that report or that statement is defective insofar as the information given is concerned, and I would like to say that I do appreciate the difference between that statement which would be regarded as somewhat ex parte and the statement of an independent auditor—I can appreciate that.

Mr. GESELL. Judge Sumners, perhaps some of the difficulty arises from the fact that Mr. Howe spent almost a day on the stand discussing the inadequacies of the convention form annual statement. It is something of a technical subject, and if you wish, we can review that.

The VICE CHAIRMAN. No; I don't. I will back out.

Mr. GESELL. We have presented certain deficiencies which we consider in the convention form annual statement.

The VICE CHAIRMAN. That is the difficulty of coming into a hearing after a good deal has gone on. I withdraw the last question.

Mr. HENDERSON. I think we can cover some of that in our report, and will do so. I might add just as a clincher on this—you referred to the annual statement, the convention form, as an ex parte statement. It is certified by the officers of the company. Now, an independent auditor would go in and undertake as far as possible to verify the accuracy of the postings of the assets and the liabilities, and then under his own signature would give you an independent certificate, you see, on which reliance could be placed. That is the difference with the insurance auditor. We require at the S. E. C., as you know, that there be not only the information supplied by the company that is seeking registration, but that there be an independent auditor's certificate of the accuracy of the statements.

The VICE CHAIRMAN. Mr. Howe, I won't pester you any more. You just go ahead.

Mr. GESELL. I have the testimony here, while we are on this subject, Judge Sumners. You requested Mr. CLEARY's testimony and I have the volume and the pages marked on this sheet for you.

Mr. HOWE. If the committee wishes, we might revert to the matters we were discussing yesterday. I had arrived at the point where I said that the losses which have been or may be realized in various lines of business are an important consideration for prospective policyholders, as well as for existing policyholders.

The annual statements of life-insurance companies classify their operations into not more than eight lines of business. This is an arbitrary and unsatisfactory classification. Ordinary insurance, for instance, is subdivided into three types of operations designated "ordinary," "total and permanent disability included in ordinary policies," and "accidental death benefits included in ordinary policies." Industrial insurance, which carries similar provisions, is accorded only one omnibus classification. The statements provide no division between annuities arising out of settlements of life-insurance policies and other individual annuities and lump together in indissoluble totals the operating results of immediate annuities, fully paid deferred annuities, and annual premium deferred annuities. Both life insurance and annuities are dividend in the statement between individual contracts and group contracts, but no segregation between individual and group contracts is given for accident and health.

It should be stated, in the case at least of the Metropolitan, they have, although it is not called for in the form, segregated their exhibit of changes in surplus between individual and group accident and health business. On the other hand, the Equitable Assurance Society of the United States, which does both individual and group accident and health business, or did at least, and has some individual accident and health policies remaining on its books, and is also active in the group accident and health business, does not show either of these lines of business in their exhibit of changes in surplus.

In the case of the Travelers Insurance Co. of Hartford, Conn., which is extremely active in the accident and health business, which they designate as the casualty business, a curious form of annual statement is presented in which the casualty business and the life business is divided into two separate departments, irrespective of the fact that the full assets of the company are liable for all of their policies, and certain assets are carried in the casualty department which might not be appropriate as life-insurance investments, and even such matters as the salaries of executives are disclosed only in part.

As one turns to schedule G of the life-insurance form, you find a schedule of officers' salaries. It is immediately evident that those are not the full officers' salaries, and that they are only the portion of the officers' salaries which are applicable to the life department, so that the natural implication is—well, let's turn to the miscellaneous blank which covers casualty business and see what the rest of the salaries are. But when you turn to the miscellaneous blank you find there is no schedule for salaries there, and so you are up a blind alley.

There are many other factors in respect to this convention form which could stand elaboration, but I won't take any further time on that.

In spite of this classification of business, it will be necessary to follow it for the reason that it would be virtually impossible to reconstruct the companies' records on the basis of a new classification of lines of business so that information so classified for the preceding 10 years could be had.

While it is interesting to examine these operating results classified by lines of business, it must be borne in mind that the results of any given company are based to a large extent upon methods of expense allocation which are not standardized by the companies, even more important, by the method of allocation adopted by the various companies in absorbing asset losses as between lines of business, anl also by the extent to which individual companies have increased their reserves due to change in basis. The often-referred-to paradox of the accounts is that those companies which have been most conservative in the valuation of their assets and in the strengthening of their reserves will appear at a disadvantage as compared with companies whose assets are less conservatively stated and whose reserves have not been strengthened to the same degree. Furthermore, companies which have set up contingency reserves to offset valuations or to increase policy reserves will appear to better advantage than those which have directly revalued assets on the asset side of the balance sheet or who have increased their reserves by change in basis.

Tables on pages 22, 30, 36, 42, 50, 57, 64, and 69 show for the respective lines of business the "Net change in total surplus before deduction of dividend payments to policyholders." [1] The words "total surplus" are used in a special sense to indicate the sum of surplus and contingency and special reserves, but refer only to the change in surplus, contingency, and special reserves resulting from the operations of the line of business under consideration. In layman's language, these tables are designed to indicate the annual earnings of each line of business available for the payment of dividends. It is believed, however, that these figures in some instances overstate the earnings available for such distribution because of the fact, as previously stated, that contingency reserves and special reserves in some cases should be classified as asset valuation accounts or additions to liabilities rather than surplus. This would result in a corresponding decrease in earnings. As we wish to avoid any understatement of earnings in the tables and as the proper subdivision of contingency reserves between true liabilities, asset valuation accounts, and surplus proved to be impossible to make, contingency and special reserves were included as though they were all surplus in the data used in the preparation of tables from 18 to 71.[2]

In spite of these qualifications, certain broad impressions of the operations, however, certain broad impressions of the operations of the respective companies may be had from the tables showing operating results, by lines of business.

Mr. Henderson. I think you have to do a little better than that. You say "in the technical," and then you say "in the layman's language," and I still am not quite clear on what you are saying.

Who determines what the special surplus item is to be for each line of insurance? The company itself?

Mr. Howe. The company itself.

Mr. Henderson. It has some standards to go on by reason of whether or not the insurance departments in previous years have permitted that type of allocation. Is that correct?

Mr. Howe. Well, the insurance departments have certain standards with respect to the valuation—some of them have with respect to the valuation of certain assets, and the companies must follow that.

Mr. Henderson. Do you mean that you could have a valuation of an asset in X state different from that in Y state?

Mr. Howe. In some cases that is true on border-line bonds.

Mr. Henderson. I mean in some types of assets.

Mr. Howe. That is right.

Mr. Henderson. Is there a large leeway? Is that what you are saying, that there is a large leeway within the individual company as to how it will set up this surplus item as between contingency reserves and special reserves and surplus?

Mr. Howe. That is right. It is virtually entirely in the discretion of the company as to how they will set those things up.

Mr. Henderson. That means, then, if I gather correctly, if a company is ultraconservative, shall we say, as far as the general statements are concerned it appears at a disadvantage?

[1] See Hearings, Part 10-A.
[2] Ibid., pp. 18 to 71.

Mr. HOWE. Yes; because if their assets are valued lower and their liabilities are valued higher that would obviously penalize the operating earnings.

Mr. HENDERSON. And therefore leave less for dividends?

Mr. HOWE. Right.

Mr. HENDERSON. What I am thinking about is that by the time that gets out to the insurance agent with his rate book, practically all he has is the figures; he hasn't any qualifying statement that "we are more conservative than anybody else," has he?

Mr. HOWE. No; he doesn't have any possibility of breaking down, in most cases, contingency reserves. In spite of specific questions to the companies, we haven't been able to get an adequate idea of it.

Mr. HENDERSON. In other words, our staff couldn't get them?

Mr. HOWE. We haven't been able to. That doesn't apply to all companies. In some cases we have had very adequate replies.

Mr. HENDERSON. But in order to get a comparative picture which would be fully realistic, we haven't been able to do it?

Mr. HOWE. That is right. In discussing the various lines of business we might refer first to industrial insurance, which will be found in "Exhibit No. 2250" in the tables beginning with table 18.

In examining the tables on industrial insurance, it will be observed that the number of policies in force has decreased 8.37 percent since 1929 and that the industrial insurance of the Metropolitan has declined 9.22 percent and that of Prudential has declined 12.4 percent, while in the John Hancock and the Western & Southern, the number of policies has increased 12 percent and 5 percent, respectively.[1] Probably the most striking thing about the table is the fact that out of 70,309,000 policies, 61,000,000, or 85 percent, are in the Metropolitan and Prudential.[2]

Mr. HENDERSON. You didn't find out how many people that represented, did you?

Mr. HOWE. No.

Mr. HENDERSON. Insurance companies themselves usually do not know; isn't that correct?

Mr. HOWE. My understanding is that they have to estimate that.

Mr. HENDERSON. They keep it on a policy basis.

Mr. HOWE. That is true.

Mr. HENDERSON. And not on an individual basis.

Mr. HOWE. That is right; so that a given individual may own several policies, and without an immense amount of tabulation they couldn't determine it.

Mr. HENDERSON. It may run as high as 20 in 1 family?

Mr. HOWE. Yes.

Mr. HENDERSON. I don't suppose that is an average.

Mr. HOWE. There are cases of that kind which have come to our attention.

Mr. PIKE. You remember that several of the Metropolitan people in their testimony mentioned 29,000,000 policyholders where they show here 41,000,000 policies. That might give us a possible idea.

Mr. GESELL. I was going to say that we have the estimates. If I may have that green book a moment, I can give you the policyholders estimated by the Metropolitan and Prudential.

[1] See Hearings, Part 10-A, pp. 18-24.
[2] Ibid., p. 18.

I have those policyholders' figures from "Exhibit No. 255." [1] In 1937 the Metropolitan estimated that it had 27,111,000 policyholders; Prudential estimated that it had 21,300,000 policyholders; and the New York Life, the third largest company, estimated it had 2,000,000 policyholders.

Mr. HAYES. Industrial insurance only?

Mr. GESELL. No; total.

Mr. HOWE. Industrial insurance in force increased 11 percent during the period from 1929 to 1938. The increase in the Metropolitan was 12 percent; the Prudential, 8 percent; the John Hancock, 12 percent; and the Western & Southern, 8 percent.

It will be noted that the amount of industrial insurance in force was $7,641,000,000 in the Prudential, as against $7,550,000,000 for the Metropolitan. The Metropolitan, however, collected $3,248,000,000 in premiums, as compared with $3,030,000,000 for the Prudential.

Mr. PIKE. How do you clear that in your mind?

Mr. HOWE. The only explanation—I am guessing——

Mr. PIKE (interposing). But you have been around a bit, and your guess would be probable.

Mr. HOWE. A possible explanation lies in different methods of dividend distribution which are used by the companies. The Metropolitan uses a cash-dividend system, and the dividends are usually applied to the payment of premiums on the policies, whereas a common method used by the Prudential is that the dividend is applied to the purchase of additional insurance.

Mr. PIKE. One thought came to me—that possibly the Metropolitan went in a little bit more heavily for endowment types.

Mr. HOWE. That may be also. It is a complicated question. It would have to be analyzed in great detail to know exactly what it is.

Of the $996,000,000 paid in dividends to industrial policyholders during the period, $431,000,000 was paid by the Metropolitan and $495,000,000 by the Prudential.

The contribution of the industrial department to the combined surplus of the four companies writing industrial insurance was $163,967,000. Of this amount, $101,986,000 was added to the surplus of the Metropolitan.

Mr. HENDERSON. Mr. Howe, the four companies had one hundred and sixty-three million over and above contingency and special reserves and regular reserves?

Mr. HOWE. Contingency reserves, special reserves, and surplus; that is right.

Mr. HENDERSON. What do you mean? This was added to the surplus. That is what I am getting at.

Mr. HOWE. The balance of $163,000,000 remained in surplus, contingency reserves, and special reserves after the payment of dividends on industrial policies for this period.

Mr. PIKE. And after the setting up of these additional reserves I believe you referred to yesterday?

Mr. HOWE. Yes; after setting up reserves due to change in basis, which are added to the liabilities, as distinguished from these contingency reserves, some of which are of the same nature.

[1] See Hearings, Part 4, p. 1552.

Mr. Pike. Sometimes unidentifiable, say?

Mr. Howe. That is right.

Mr. Henderson. Suppose this $101,000,000 of the Metropolitan had been in a stock company. Would that represent $100,000,000 of earnings?

Mr. Howe. Yes; I think so; that is right, I think so.

Mr. Pike. To be declared in dividends?

Mr. Howe. It could have been declared in dividends to the policyholders had they wished to declare it.

Mr. Henderson. In other words, they made this amount of money in this period?

Mr. Howe. That is right, after the payment of the dividends to their policyholders.

Mr. Henderson. The industrial business is a profitable line of business?

Mr. Howe. Well, I don't see any losses here. There were some losses in the case of the Prudential in '33, '35, '36, '37, and '38, in the case of the Metropolitan in '37 and '38, but rather than losses that is an excess of dividend payments over earnings.

Mr. Henderson. That is, they chose to keep on paying the regular type of dividend rather than reduce it?

Mr. Howe. That is right, yes; they just drew down on surplus to this relatively slight extent during these periods.

Mr. Pike. You note that practically all this surplus was built up in the four years '29 to '32 inclusive?

Mr. Howe. That is right.

Mr. Pike. It is almost exactly equal to the total, from '32 on it broke about even.

Mr. Howe. That is right, but on the other hand you must realize this is the balance after dividends.

Mr. Pike. Yes; but I am still curious about that break in '32 and '33, from '32 on, in the industrial list.

Mr. Howe. I wish I could give you an adequate explanation.

Mr. Pike. I don't suppose it is available. But there it is.

Mr. Howe. There is this same question in the various lines of business—furthermore, the problem of distinguishing between costs incurred by the ordinary department and the industrial department is a difficult one, and the figure for surplus earned respectively by the industrial and ordinary departments must be qualified by the statement that it involves such allocations as the companies have made.

Mr. Henderson. As they have chosen to make?

Mr. Howe. Yes; they have chosen to make. I suppose there are some limits within which they are directed as to the allocations they will make, but in a very large extent I think they are within the discretion of the management.

Mr. Pike. You remember that came up in what was the cost of gasoline in the oil hearings.[1] Allocation always presents difficulties when you don't want to be responsive.

Mr. Howe. In the case of the Prudential Insurance Co. of America, for instance, an analysis of the contingency reserves established for the purpose of asset valuation shows the following allocation between

[1] See Hearings, Parts 14 to 17A.

ordinary and industrial business: 1931, ordinary, $733,000; industrial business, $9,267,000; total, $10,000,000.[1]

Mr. HENDERSON. That is about 14 times as much for the industrial.

Mr. HOWE. Yes; that is right.

Mr. HENDERSON. Was the industrial about 14 times as much as the ordinary?

Mr. HOWE. About equal, 50-50, in the reserves.

Mr. HENDERSON. Is this from the income in that year?

Mr. HOWE. These amounts appear in the contingency reserves and are not a deduction so far as these tables are concerned; but in the actual accounts of the companies this allocation, being an asset deduction although set up in the form of contingency reserve, is definitely a deduction from earnings.

Mr. HENDERSON. But does that represent a single year?

Mr. HOWE. Yes; it represents the year 1931.

Mr. HENDERSON. What I am trying to get at is that here is the allocation for asset valuation, 14 times as much for the industrial as for the ordinary.

Mr. HOWE. Yes.

Mr. HENDERSON. Now, in the current business of that year on any basis, income or whatever it happened to be, did their industrial outrun the ordinary by a ratio of 14-to-1?

Mr. HOWE. You say "income." Let's look at the total premium income. The total premium income from industrial insurance for the Prudential in 1931 was $326,578,000. The total premium income from the ordinary department in the year 1931 was $209,386,000.

Mr. HENDERSON. Roughly, a 3-to-2 ratio.

Mr. HOWE. The reserves are about 50-50.

Mr. HENDERSON. That is the reserves that have been established in previous years?

Mr. HOWE. Yes; the reserves at the year-end.

Mr. GESELL. This means in effect, does it not, that there is money being taken from the industrial-policy holders to assist the ordinary-policy holders?

Mr. HOWE. Well, there is inference to that effect.

Mr. HENDERSON. Well, wait a minute. Why do you say "inference"?

Mr. HOWE. There may be some logical basis for this allocation, but I can't see it.

Mr. HENDERSON. It is posted on the company's books this way?

Mr. HOWE. No, no; liabilities don't get on the company's books.

Mr. HENDERSON. I remember now, you said they didn't get on the company's books. Where is this?

Mr. HOWE. This is a memorandum which gets into the annual statement in the form of a contingency reserve. I mean, when they make up the annual statement they just put it in the annual statement, and when they work out the gain-and-loss exhibit they put it there; but those things don't reflect the books.

Mr. HENDERSON. That is between 10 and 11 million dollars set up as a contingency reserve because of the potentiality of a reduction in the valuation of certain assets?

[1] In connection with discussion of allocation between the Ordinary and Industrial departments of the special contingency reserve for fluctuation in security values set up by Prudential. See letter under date of March 5, 1940, from Valentine Howell, vice president, Prudential Insurance Company of America, to the Committee, which appears in appendix, p. 15633-15634.

Mr. HOWE. That is right.

Mr. HENDERSON. And 14 times as much was taken from the industrial as from the ordinary?

Mr. HOWE. As from the ordinary.

Now, in the year 1932 the contingency reserve was $46,000,000, of which 5 million was allocated to the ordinary and 41 million to the industrial business—a total of 5 million to the ordinary and 41 to the industrial. That is a total of 46 million.

In the year 1933, 2 million was allocated to ordinary and 30 million to industrial, making a total of 32 altogether.

In 1934, 39 million was allocated to the industrial and 2 million to the ordinary.

Mr. HENDERSON. Thirty-nine and two?

Mr. HOWE. Which is a total of 41.

Mr. HENDERSON. That is 20 to 1, roughly.

Mr. HOWE. Then, in 1935, 2 million was allocated to ordinary and 23 to industrial.

In 1936, 2 million was allocated to ordinary and 4 million eight to industrial.

Mr. HENDERSON. Two to one.

Mr. HOWE. Then, in the following years, this method of handling contingency reserves was discontinued.

Mr. HENDERSON. So it runs from a ratio of 2 to 1, to 20 to 1, roughly?

Mr. HOWE. Roughly, that is right. Now, in addition——

The VICE CHAIRMAN (interposing). Is that right or wrong? Should it or should it not?

Mr. HOWE. Judge, I can't figure out any reason why there should be such an allocation of asset losses. One would normally suppose that asset losses would be allocated approximately in proportion to the reserves on the various lines of business.

Mr. HENDERSON. What you mean is, if the industrial reserve and the ordinary reserve are about the same——

Mr. HOWE (interposing). One would expect that the asset losses would be allocated about that way.

Mr. HENDERSON. One more thing. This is their segregation of assets for the reserve?

Mr. HOWE. No; segregation of assets.

Mr. HENDERSON. But this shows that in some cases as much as 20 times a contingent loss was assessed against the industrial as was assessed against the ordinary.

Mr. HOWE. That is correct.

Mr. PIKE. It looks like the way the Pennsylvania charges rent to the Long Island in the station in New York.

Mr. HENDERSON. It may be, Mr. Howe, because here is where they had their money. Isn't that it? If you are going to do this, you would look to the thing that was a good earning.

The VICE CHAIRMAN. Let an ordinary person get hold of Mr. Howe for just a minute. Let's see if we can't find out for us. My friend Henderson and they all understand what you are talking about, but translate that into just plain ordinary English, and let's see if we can get at what you are talking about. Here are two classes of insurance.

Mr. HOWE. That is correct.

The VICE CHAIRMAN. Ordinary insurance and industrial insurance.

Mr. HOWE. That is correct.

The Vice Chairman. Does the company make a greater or less percentage of profit out of its industrial or out of its ordinary insurance?

Mr. Howe. The trouble with answering that question is, it depends on how equitably the allocations are made from one——

The Vice Chairman (interposing). No; it doesn't. Here is a fellow that goes out in the field and he brings in 10 policies of industrial and another one brings in 10 policies of ordinary, and that is carried on the books, and that results in profits or loss.

Mr. Howe. Well, the industrial business has, so far as the figures which we have are concerned, been uniformly profitable. The ordinary business has too, but some of the lines of business attached to the ordinary have proved unfortunately unprofitable.

The Vice Chairman. Wait a minute; let's not leave where we were until we start from there to somewhere else. Do I understand now that, speaking generally, the industrial insurance is more profitable than ordinary insurance, speaking generally? That is to say, you write some insurance and you get some premiums and you have some losses. Now, from which do you have the greater net profit?

Mr. Howe. I think in general the industrial business.

Mr. Pike. It certainly looks that way.

The Vice Chairman. Now, then, let's go on from there. I can understand that, and I believe my friend, Williams, understands it.

Representative Williams. I am not sure whether I do or not. I still don't understand whether or not you claim that the books tell that.

The Vice Chairman. Now, wait a minute.

Mr. Howe. No; you can't tell it from that.

Representative Williams. There you are again. You can't tell as to whether or not they make a better and a greater profit out of the industrial than they do the ordinary.

Mr. Howe. You can't tell conclusively, but the figures would certainly indicate that the industrial business is the more profitable.

The Vice Chairman. Well, all right. We have got that. Is there any difference in the element of hazard, where the thing is set up properly, between conducting an ordinary insurance business and an industrial insurance business?

Mr. Howe. The differences in hazard are all adequately collated. I mean the industrial mortality is higher than the ordinary mortality, and so on, but the margins of the business——

The Vice Chairman (interposing). Then the answer is, "no," isn't it?

Mr. Howe. No.

The Vice Chairman. Then that is that, isn't it? There are two answers.

Now, what are these insurance companies doing with reference to those two classes of insurance that they ought not to do, or what are they failing to do with reference to those two classes of insurance which they ought to do?

Mr. Howe. Judge, I would love to be able to answer that question, but I certainly think it would take——

The Vice Chairman (interposing). You can't?

Mr. Howe. It is certainly far beyond me.

The Vice Chairman. That is an answer. You check out on that.

Mr. Pike. You still think there is something, though?

The Vice Chairman. Wait a minute; don't take my witness.

Well, now, what else ought we to know about it?

Mr. Howe. I think that in looking at these figures, one must bear in mind that the results——

The Vice Chairman (interposing). You don't want us to go crazy, man, so we can't do anything at all. We want to get now from you some usable stuff.

Mr. Howe. You are just sympathizing with me. I have been testifying as to the difficulty of making sense out of these statements.[1]

The Vice Chairman. Yes. We know that. I wouldn't tackle that thing over there at all.[1]

Mr. Henderson. I think we have got that much out of it, Judge.

The Vice Chairman. What—two answers?

Mr. Henderson. No; I think you have the further thing in what Mr. Howe has said. I think it just sums up what he spent a day of testimony in saying, that even if you had that tremendous report over there, and you were a qualified statistician, and you were a qualified analyst, and you had the supplemental memos, such as we were able to get, those statements would not represent an exact picture of the status of insurance company assets and particularly would not represent to the public which lines of business are profitable because they do not show which lines of business carry the heavy and the light allocation of losses and expenses. Isn't that correct, Mr. Howe?

Mr. Howe. That is right.

Representative Williams. What are we going to do about it? I don't know what we are going to do about that.

The Vice Chairman. May I ask one more question? Let me keep my witness, and brother, keep Witness Henderson off the stand there.

Now for the next question: We fully appreciate the difficulty. What ought to be done—let me ask it this way: Is it necessary, in the public interest, that there be a different system of bookkeeping, a different system of allocation, or different sorts of reports made from those which are ordinarily found with reference to the insurance business?

Mr. Howe. I am very strongly of that opinion.

Mr. Gesell. Mr. Howe has very definite opinions on that, but I think it is a matter on which we are presenting facts, and not stating opinions.

The Vice Chairman. It is true, and that question probably would involve a statement of an opinion that might not be proper at this stage of the hearing. I can appreciate that. At the same time, if there is anything further that can be put in the record in this connection, that would be beneficial—and I state this in all seriousness—to those of us who do not claim to be experts at all with reference to insurance matters, I personally and my colleagues here would like to have that—just a plain statement, a helpful statement to us, visualizing the thing that wouldn't be embarrassing to you.

Mr. Howe. I greatly wish that this immensely complex subject could be reduced to simple terms. I confess I am utterly unable to do it. The ramifications of the thing——

[1] Convention form of annual statement.

The VICE CHAIRMAN (interposing). You are doing fine. You are making a very helpful witness this morning and I appreciate it.

Mr. HOWE. But to get the vaguest outline, Judge Sumners, as to what is happening to $24,000,000,000 worth of assets is a very difficult job.

Representative WILLIAMS. Are these annual statements that are filed by the different insurance companies in general along the same lines? Are they all of the same kind and character, or do they vary over a wide field in the form?

Mr. HOWE. There is a uniform form which is provided by the National Association of Insurance Commissioners, and then they have, however, no legal standing with respect to their right as an association to enforce the use of their form. However, the commissioners themselves, with minor modifications, do require the use of that form of annual statement. The companies, however, in certain cases, add additional information not called for in the form, and in some cases don't fill out the form completely. I mean——

Representative WILLIAMS (interposing). Well, then, it seems to me that in following this recommendation of the national association is where the trouble is, and it looks to me like that being the foundation of it, there is where the trouble lies if it is a trouble in filing these—what appear to me, of course, to be such statements that not only the ordinary layman cannot understand them but perhaps the specialist himself doesn't thoroughly understand them.

Mr. HOWE. There is great difficulty in understanding them, I will tell you that.

Mr. PIKE. I think it is fair to say that I worked for a group of insurance companies 4 or 5 years, and except for the two or three pages that covered the subject I was familiar with, I never was able to get within shooting distance of understanding them. There were apparently two or three people in the shop who did, and I don't think anybody else did—well, perhaps the president knew what those statements meant.

Representative WILLIAMS. To me it is an almost unbelievable situation to have statements filed that the men who are engaged in the business themselves don't seem to thoroughly understand, much less the outside world. How can they expect us to understand them or know anything at all about them?

Mr. HOWE. Not only is it necessary to understand them, Congressman Williams, but in order to get the significant figures which an ordinary businessman would want from a report of this kind, it would take a statistical staff of about a dozen men about a week to add up the figures and arrange them in such form as to give you simple business answers to your questions.

Mr. KADES. Didn't a witness testify that of these companies, one showed four different surpluses to four different State commissioners of insurance?

Mr. HOWE. That occurred in one case. So it really becomes quite difficult to be specific about it.

Mr. HENDERSON. You have been in the investment-banking business and had to analyze a lot of financial statements. If it were a case of buying a piece of property, or a case of buying a going concern, information such as is in that memorandum on the application to the contingency reserve for asset valuation would be almost necessary, would it not? It runs in one case there $41,000,000.

Mr. HOWE. Certainly it would be necessary.

Mr. HENDERSON. And it does represent even for large organizations a tremendous sum?

Mr. HOWE. Yes.

Mr. HENDERSON. There is no suggestion that there has been "rinky dink" in this?

Mr. HOWE. Not at all.

Mr. HENDERSON. It does emphasize, however, that those for whom the insurance companies are trustees have a tremendous job in getting over to those policyholders what the exact status of their investments are?

Mr. HOWE. That is right.

Mr. HENDERSON. Suppose we go on to some of these other lines.

The VICE CHAIRMAN. Let's get this. Here is an insurance company—let me just make this one try—that has outstanding policies. I assume their actuaries have been able to give them a pretty clear notion as to what premiums they must charge and what reserves they must set up.

Mr. HOWE. That is right.

The VICE CHAIRMAN. All right. Now, then, they have certain investments, and I assume probably there is presented the greatest difficulty in knowing just what those investments are worth. Possibly there have been some tests, especially of those investments that are listed on the stock exchanges; and then they have farms and all that sort of thing. Well now, it seems to me as a layman that the major facts which any examining agency would want to know would be whether or not their structure was sound from the standpoint of reserve to insurance that is outstanding; and then it would want to know the value of their holdings. Now, what other big, comprehensive fact would be necessary for an ordinary person to know in order to have a pretty fair notion of the solvency of the concern and how it is carried on. Of course, the overhead would cut some figure there.

Mr. HOWE. Yes, Judge; and it seems to me in addition to a balance sheet with the assets and liabilities stated in a conservative manner, most people are interested in an earning statement of a business, whether it be a life-insurance business or any other business, to determine whether losses are being incurred.

Mr. GESELL. To determine where the losses are being incurred, is that what you mean?

Mr. HOWE. To determine whether and where.

The VICE CHAIRMAN. Their earnings are from two sources, aren't they? The income from premiums I assume you would class as earnings, and then the revenue derived from their investments.

Mr. HOWE. That is correct.

The VICE CHAIRMAN. And of course anybody would want to know about that.

Hr. HOWE. Then you want to know about the disbursements and the expenses.

The VICE CHAIRMAN. Yes; the overhead; you would want to know about that.

Now, then, you start out here and I assume there wouldn't be very much difficulty in determining whether there was a proper relationship between reserve and outstanding business. You have certain tables that pretty well——

Mr. HOWE (interposing). The actuaries have a way to work that out.

The VICE CHAIRMAN. So it would present very little difficulty to a trained actuary?

Mr. HOWE. It would present no difficulty to a trained actuary.

The VICE CHAIRMAN. And then the next question would be the value of the assets; I, as just a layman, would want to know what they had.

Mr. HOWE. That is right.

The VICE CHAIRMAN. Then of course you would want to know the stability of those investments. Probably I don't use the proper term, but I mean whether you would expect to come back month after next and find them pretty stable.

Mr. HOWE. Yes; the relative security of the investments.

The VICE CHAIRMAN. Yes; that is what I am trying to say, the relative security.

Then, as you have mentioned, and as everybody would want to know, you want to know the relationship between overhead and income.

Mr. HOWE. That is right.

The VICE CHAIRMAN. Why wouldn't those big blocks of facts make up about what the ordinary layman would want to know?

Mr. HOWE. Don't you think, Judge Sumners, that the ordinary layman would also want to know, in view of the fact that these people are engaged in, depending on how you classify them, from 8 to 12 lines of business, in which lines of business they were making money and in which lines they were losing money?

The VICE CHAIRMAN. Yes; you would. I assume there would be two angles of interest there. One would be the general public interest, the person who was interested as a policyholder, a stockholder, whatever that is.

Mr. PIKE. We had a good example yesterday, where one line of business broke the Pacific Mutual. The disability business broke the Pacific Mutual. It was losing its shirt while making good in the life business.

The VICE CHAIRMAN. In a way that is true of all business, because all businesses may lose on one account and make on another. Presumably, a conservative management would try to get away from the thing they were losing on, or make a higher charge for that service, or balance it up as far as possible.

Mr. HOWE. Yes.

Mr. GESELL. And it is correct, Mr. Howe, that your testimony today, with the portion you are just starting, is directed toward examining what lines of business have been profitable, what lines have been unprofitable, perhaps whether or not one group of policyholders is carrying too big a load for another group of policyholders, and whether there has been proper allocation between these various types and lines of businesss?

Mr. HOWE. That is the main thrust of the testimony I have in mind.

The VICE CHAIRMAN. Let's have it.

Mr. HAYES. Mr. Howe, there is one thing that isn't at all clear to me—I suppose I am dense—but I am curious to get the practical effect of this rather wide variation in ratio between the amount of contingency reserve taken from ordinary and the amount taken from industrial insurance. Did I understand you in answer to a question by Congressman Williams to testify that those figures do not appear on the books of the company but are only used for statement purposes?

Mr. HOWE. Yes. You see, I testified awhile ago that insurance companies use double-entry bookkeeping only for their so-called ledger assets, and that the nonledger assets, the not admitted assets and the bulk of the liability accounts do not appear within the structure of the double-entry bookkeeping. They are simply memoranda which are set off over here, and when statement time comes, they are inventoried to determine their amount, which is, of course, entirely different from the general accounting control which is established over liabilities in other lines of business. In other lines of business if there is to be a change in any one of the liability accounts as well as the asset accounts, that change must be supported by a written memorandum or the bookkeeper won't make it, but here the fellow who makes up the statement on the order of the officers is not under that same accounting procedure.

Mr. HAYES. All right, now, following that, assume these contingency reserves are set up for the purpose of taking care of any losses in asset valuation, not provided for by specific reserves, such, for example, as the reserve for depreciation?

Mr. HOWE. That is right. This is just something in addition. There are eight different spots where they can handle this asset valuation business, you see, and this is the last one.

Mr. HAYES. Now, when such losses not specifically provided for by particular reserves occur, are they anywhere, either for statement purposes or on the books of the company, charged against these contingency reserves?

Mr. HOWE. No; I don't think so. However, contingency reserves are sometimes changed from year to year and you will see a reduction in contingency reserves; I mean, you will see a decrease in contingency reserves one year and an increase in other years, so they are not static.

Mr. HAYES. So it is not a question in the year 1937, then, of adding to a reserve that had been put up in 1936, or taking from it; it is a question in 1937 of setting up what then would be a proper contingency reserve regardless of what the figures were in 1936?

Mr. HOWE. That is right, and the difference, you see, will appear as either an addition to income or as a deduction.

Mr. HAYES. What is the practical effect of that, speaking particularly of the difference in percentage taken from industrial as against ordinary revenues? What is the practical effect of that on the industrial policyholder as against the ordinary policyholder, if any?

Mr. HOWE. Well, it tends to show a lower income from the industrial business than would have appeared had the allocaton been made, on the basis, say of 50–50—50 percent on the ordinary and 50 percent on the industrial.

Mr. HAYES. Is that used for fixing the rates on insurance or for calculating dividends.

Mr. HOWE. That has a bearing only on dividends.

Mr. GESELL. It means, does it not, that the industrial policyholders get less dividends than they would have had they not made such a large contribution, perhaps a disproportionate contribution to these contingency reserves?

Mr. HOWE. It seems to me that is likely to be the practical effect.

Mr. HAYES. That is what I am curious to get at, what is the practical effect. Is that the only effect?

Mr. HOWE. Yes; I think that is the only one.

Mr. HENDERSON. Industrial policies are usually the small policies and the policies of low-income people, isn't that correct?

Mr. HOWE. That is right.

Mr. HENDERSON. So if there is any heavier burden of allocation on them, they are in effect carrying part of the load for the higher income brackets?

Mr. HOWE. Well, they are carrying it for the ordinary policyholder, and he certainly is usually in a better financial position than the industrial policyholder.

Mr. GESELL. Can you continue with your statement, Mr. Howe?

Mr. HOWE. In connection with these allocations, I just want to add this one further thought, that this particular apportionment of the contingency reserve which I have been alluding to was an apportionment only as between the ordinary business and the industrial business, and that there was no apportionment of that asset loss at all to annuities, group insurance, disability, accidental death.

Mr. HENDERSON. What?

The VICE CHAIRMAN. Will you state that again? That is a most interesting statement.

Mr. HOWE. Of these apportionments which I have been mentioning, the total amount was divided between so-called ordinary business and industrial business, and there was no apportionment of any part of this asset loss to group insurance, to annuities, to disability reserves, to accidental-death reserves, or, of course, to accident and health, which reserves are quite small.

The VICE CHAIRMAN. Were they in any way taken care of? I am afraid I can't ask that question just as I have it in mind.

Mr. HENDERSON. Do you want me to try to ask it for you?

The VICE CHAIRMAN. I don't know. What I am trying to find out is this: Is there any comparable arrangement or protection with reference to these groups of insurance which you have just mentioned as not having been taken care of at all in that allocation?

Mr. HOWE. No; they just don't share any of the deduction——

Mr. PIKE (interposing). You didn't mean not taken care of; you meant they didn't bear any of the burden.

Mr. HOWE. That is right.

Mr. GESELL. In other words, there were set up contingency reserves from money of ordinary and industrial policyholders against which all types of policyholders might have recourse in case there were asset losses.

Mr. HOWE. That is right.

Mr. HENDERSON. It means that the lines other than ordinary and industrial do not carry a part of that burden?

Mr. HOWE. That is correct.

Mr. HENDERSON. Although the assets representing these reserves did include the reserves for those lines of business?

Mr. HOWE. That is correct.

Mr. GESELL. Now you come to ordinary insurance.

Mr. HOWE. I will try to get along a little faster.

The VICE CHAIRMAN. You are doing fine.

Mr. HOWE. The predominance of the Metropolitan and the Prudential is also shown in the number of policies in force in the ordinary department. These two companies had 12,971,000 ordinary policies in force December 31, 1938, or 46.68 percent of the total number of ordinary life-insurance policies outstanding in the 26 companies.

In examining the table of ordinary insurance in force, one is immediately struck by the more rapid growth of the companies writing industrial insurance.[1] Whereas ordinary insurance in force for the entire 26 companies increased 4.3 percent during the period, the Metropolitan's ordinary insurance increased 33.6 percent; the Prudential's, 38.8 percent; the John Hancock's, 17.8 percent; and the Western & Southern's, 23.8 percent. The only company writing exclusively ordinary insurance which approached the record of the great industrial companies was the New England Mutual, which increased its ordinary insurance in force 28 percent during the period.

Table 27 shows that the first-year-premium income from ordinary insurance for the 26 companies for the year 1938 amounted to $224,646,000 compared with $275,261,000 for 1929.[2] This is a decline of 18.83 percent.

Mr. GESELL. Let me see, Mr. Howe; we are again discussing this unique feature of the insurance business, are we not, whereby growth can continue though new business written declines?

Mr. HOWE. That is correct.

Mr. GESELL. And that results from the accumulation of the reserves against the persistent policies?

Mr. HOWE. Yes.

Mr. GESELL. In other words, the sale of new industrial insurance has been declining to the amount of 18.83 percent, as you indicate?

Mr. HOWE. New ordinary insurance, Mr. Gesell.

Mr. GESELL. New ordinary insurance—whereas there has been still a growth in the size of the companies?

Mr. HOWE. That is right.

Mr. GESELL. And I remember from your over-all figures, there was a 10-percent increase in insurance in force in these 10 years as against a 63-percent increase in assets.

Mr. HOWE. That is correct.

Two companies—the New England Mutual, whose first-year premium income increased 71.85 percent during the period, and Mutual Benefit, whose first-year premium income from ordinary insurance increased 62.99 percent in the period—have shown a much more rapid growth of first-year premium income than most of the companies shown in the tabulation. It is interesting to note, however, from table 28, that while the total premium income of the New England Mutual increased 58 percent during the period, the total premium income of the Mutual Benefit declined 10.6 percent.[3]

It will be noted that total premium income from ordinary insurance

---

[1] See Hearings, Part 10-A, p. 26.
[2] Ibid., p. 27.
[3] Ibid., p. 28.

of the 26 companies amounted to $18,823,789,000 during the 10-year period from January 1, 1929, to December 31, 1938.

Mr. GESELL. In other words, in that period, from the sale of ordinary insurance alone, these 26 companies took in over 18 billion dollars?

Mr. HOWE. That is correct.

Mr. PIKE. Of which about 9 billion something stuck with them—about 9 billion four. That is their net increase in admitted?

Mr. HOWE. Oh, yes; that is right; but of course they had industrial premium income.

Mr. PIKE. Oh, yes; that is right.

Mr. HOWE. This is only a portion of the premium income.

Of this amount, 27.94 percent was collected by the Metropolitan and the Prudential, and 57.03 percent was collected by the first five companies.

In dividends paid to policyholders, however, the two leading companies paid only 21.41 percent of the total paid by the 26 companies. The first 5 companies, however, paid 57.50 percent of the total dividends paid. It should not be concluded from these figures, however, that the dividend records of the Metropolitan and Prudential are less satisfactory than those of the New York Life, Equitable, and Mutual. These last 3 companies have the highest gross premium rates of any of the leading American companies and they are, therefore, in a position to return a larger proportion of gross premiums as dividends.

The table on page 32 shows that the increase in surplus after payment of dividends on ordinary insurance amounted to $546,796,000.[1] This figure, however, should not be compared with the increase in surplus from industrial insurance because of the fact that consolidated in the figure for industrial insurance are the results of industrial disability contracts and industrial accidental death provisions. If the results of disability and accidental death benefits are combined with those of ordinary insurance, of which they are a part, the increase in surplus from operations of ordinary insurance becomes $196,000,000 as compared with $163,000,000 for industrial insurance.

Mr. PIKE. That is largely due to the great loss in disability?

Mr. HOWE. That is largely due to the great loss in disability.

Mr. HENDERSON. I didn't get the total of that allocation to contingency reserves. Did you have a footing on that?

Mr. HOWE. I am sorry, I don't have these figures added here. They can be prepared for you very quickly.

Mr. HENDERSON. Let me ask this. If this had been done, say, on a 50–50 basis, which is the relative reserve position, or a 3–2 basis, which was the income basis for one year, would the surplus have been increased? Would the surplus for industrial insurance be increased?

Mr. HOWE. The surplus with respect to industrial insurance would have been increased providing the same dividends were paid, or more dividends might have been paid on industrial insurance.

The VICE CHAIRMAN. May any part of this increase on industrial insurance be traced directly or indirectly to intervening legislation?

Mr. HOWE. I am afraid I can't answer that.

Mr. HENDERSON. In this period, I think it was testified the industrial companies were increasing the benefits paid to the old policy-

[1] See Hearings, Part 10–A.

holders by reason of the fact that they were writing new industrial policies with more liberal provisions, and they made them retroactive.

Mr. Howe. That is right. That was brought out yesterday.

Mr. Henderson. In other words, the industrial insurance carried a heavier burden so far as the benefit provisions are concerned, in addition to all these things?

Mr. Howe. That is right. There is one thing I can say in response to Judge Sumners' former question which I think is purely factual. That is, that the sales of industrial insurance have fallen off in startling fashion in 1939. I mean, they are down, if I recall the figure, something like 30 percent as to sales as compared with the year before, and some students have ascribed that unusual action of industrial insurance as compared with the action of ordinary insurance, for instance, to the recent laws in New York having to do with the sale of endowment policies of an industrial type, and so forth.

The Vice Chairman. What I was particularly inquiring with reference to was whether or not legislation having to do with the relationship between the employer and the employee had had anything to do with the volume of insurance, industrial insurance, but I withdraw that question.

Mr. Howe. I am sorry I can't answer that.

The Vice Chairman. I will withdraw that.

Mr. Howe. Now, the fact that some lines of business occasionally turn out to be unprofitable has been mentioned, and the great historic example of that is disability, disability benefits as they are spoken of, included in ordinary policies, from which the business has suffered a loss of some $408,000,000—that is, these 26 companies—during the last 10 years. That loss has fallen rather unevenly upon the companies, and it seems to me that in view of the magnitude of the loss it might be well to digress here for a moment and give the committee some idea of the history of disability coverage which may give them some idea or some clues as to the causes for this very important phenomenon in the insurance business in the last 10 years.

To get a broad picture of the losses which most life-insurance companies have experienced in writing what is known as total and permanent disability benefit, it is necessary to keep in mind the nature of the coverage which it is intended to offer and to survey the historical development of the coverage from the time it was first issued by a legal-reserve life-insurance company.

Total and permanent disability as strictly construed implies a condition which completely prevents the affected individual from engaging in any occupation whatsoever for compensation, gain, or profit, and does not permit any possibility of recovery from the condition.

In these respects it differs from the usual form of accident and sickness policy, principally issued by the casualty companies, which generally grant indemnities for other conditions that disable the insured only partially; that is, do not stop his income completely or merely disable him temporarily.

If the phrase "total and permanent disability" were construed literally, there would be relatively few conditions that would fall within the scope of its meaning, but it has acquired with the passage of time a far broader meaning, partly through the action of the companies themselves, which at first interpreted the language liberally and later extended its meaning in the wording of the contracts, and particularly through the decisions of the courts, which, in the opinions of certain observers, went far beyond the intent of the contracts in their constructions of the language.

The fraternals were the first to issue the total and permanent disability benefits in connection with life-insurance polices. The benefit they provided was quite limited, consisting of payment of half of the face amount of the policy at the time of disability, with the payment of the balance being deferred until death. Total and permanent disability was construed literally.

It was in 1896, almost 20 years after the total and permanent disability clause had first been adopted by the fraternals, that it was first adopted in this country by a life insurance company, the Fidelity Mutual. Rates were based upon Hunter's Disability Table, which had been prepared from the experience of three fraternals. The benefit was a nominal one, consisting merely of the waiver of premiums under the policy or, in lieu thereof, at the option of the insured, payment of the face amount of the policy in the form of an annuity based upon the mortality of disabled lives.

No other company adopted this disability benefit until almost 10 years later, when the Travelers began to issue a clause that provided merely for waiver of premiums. In 1910, other companies began to adopt the same disability benefit being issued by the Travelers. It was 2 or 3 years later that the trend toward liberalization of disability benefits first manifested itself. A few companies began to provide what is known as installment disability benefit. There were several variations of this plan, but basically it provided that upon disablement the insured would become entitled to annual payments each in the amount of 5 or 10 percent of the face amount of the policy, such disability payments being deducted from the benefit payable at death or maturity of the policy. Hence, if the disability continued for 20 years, if 5 percent annually were being paid or for 10 years if 10 percent annually were being paid, the entire face amount would be paid out, and there would be no further disability payments, nor would there be a death or maturity benefit. However, in one variation of the plan, the disability payments were continued even though they aggregated more than the face amount. This was a further extension of the benefit, indicating the form of disability coverage which, after great elaboration, was to be adopted generally.

The first income disability benefit that did not reduce the amount payable at death or maturity was introduced in 1915 by the Penn Mutual. It constituted a radical innovation. The income-disability payment was an annual payment of 10 percent of the face amount, the first payment to be made a year or more after proof of disability was filed with the company.

In 1920 the benefit was extended considerably when the income-disability payment was changed to 1 percent per month and the payments were made to begin 1 month after proof was filed. Further liberalizations followed quickly. In 1921, companies began to use what is known as the 90-day clause. This was the point at which large losses began to be incurred. The 90-day clause, in effect, provided that the insured would be deemed permanently disabled if total disability had continued for 90 days, even if it were evident that the total disability were only temporary and there was little or no possibility of its being truly permanent. The value of the income-disability benefit thus was increased considerably.

Mr. PIKE. They certainly wanted business badly when they wrote that in.

Mr. HOWE. It is a very interesting process to see how they start and put in a few more.

Mr. PIKE. We see that in veterans' pensions, service-connected disabilities.

The Vice CHAIRMAN. It is really more difficult to get well when you are being paid a pretty big premium.

Mr. HOWE. That is brought out very definitely; it is very much harder to get well.

Soon thereafter it also became customary to provide that the first income disability payment be made immediately when proof was filed. The year 1922 saw the introduction of a disability clause in which the income disability payments were increased as duration of the disability increased. One type of increasing-indemnity clause provided that the payments would be increased 10 percent for each completed year of disability, reaching a maximum of 10 percent for the sixth year of disability and thereafter.

Another type adopted by two large companies, the New York Life and the Mutual Life of New York, provided that the payments would be increased 50 percent after 5 years of disability, and another 50 percent after 10 years of disability, so that the payments made in the eleventh year of disability and thereafter were double the amount initially paid.

Mr. GESELL. That made it even harder to get well, didn't it?

Mr. HOWE. Very much harder.

Mr. PIKE. A premium on staying in bed.

Mr. HOWE. These clauses proved very costly to the companies. Later a number of companies began to issue a disability provision which provided for payments covering the 90-day waiting period. Throughout the entire period prior to 1922, rates for disability benefits had, in general, been based on Hunter's Disability Table derived from the experience of the fraternals. So long as the benefits provided were payable only in the event of true total and permanent disability, the net premiums, based on Hunter's table, were generally sufficient. But, with the adoption of the 90-day clause, followed by liberal interpretation of total and permanent disability, premiums based on Hunters table became clearly inadequate. Premiums had been increased, but the additional premium was usually more than offset by the extension of benefits. This became evident when, in 1926, a study was made of intercompany disability experience. As a result of the study, premiums were increased once again, but the losses on disability continued to increase and further changes were clearly necessary. A committee of actuaries appointed in part by the superintendent of the New York Insurance Department and in part by the National Convention of Insurance Commissioners, after studying the problem of disability recommended standard provisions which would result in more uniform practice and make it possible to assemble statistics which would be suitable for premium and reserve calculations.

Most of the large companies followed the recommendations and changes which were effected in 1930.

Mr. GESELL. These losses you have talked about of $406,516,000 have all taken place since——

Mr. HOWE. January 1, 1929.

Mr. GESELL. Almost since the time of your study.

Mr. HOWE. This is just the history of the background, as to how they got these contracts outstanding.

Mr. PIKE. You can see they apparently peaked in '32 and '33, and they are gradually getting over the hill in getting those contracts paid out.[1] They dropped off substantially in the last 5 years.

Mr. HOWE. The principal changes effected in 1930 were (1), an increase in the waiting period from 90 to 180 days; (2) the elimination of disability payments for the first 3 months of the disability; (3) the reduction of a limiting age by which disability must occur from 65 to 60; (4) limitation of disability income benefits to 1 percent per month without any increase by duration of time; (5) adoption of stringent election rules in regard to women, such as elimination of income disability, and restriction in amount of coverage granted; (6) withdrawal of disability clause providing indemnity merely if the insured were unable to perform the duties of his own occupation. This had proved particularly costly when issued to professional men, such as doctors, lawyers, dentists, and so forth.

Along with these changes in benefits, increases in disability premiums were also made. The basis for the rate change was the 1926 intercompany study. This study was not an altogether satisfactory guide, since it had been based on both limited and rather heterogeneous data. The companies which contributed their experience to the study had offered widely different types of coverage, and in addition had differed substantially in interpreting the disability clause selecting risks and adminstering claims. As a consequence, the data had been divided into three broad classifications, one of which, called class 3, showed the experience under the 90-day clause of those companies which had been most liberal in administering disability coverage.

Premium rates adopted in 1930 were based on this class 3 experience. Furthermore, most of the companies began to charge female risks either one and one-half or two times the disability premium rates charged for males, since the experience with respect to women had been so bad.

The drastic changes made in 1930 did not bring the desired results. Losses continued to mount. Hence, in 1932, many further changes were made. A number of companies eliminated the income disability benefits altogether, and thereafter restricted their disability coverage to the premium waiver benefit.

Mr. HENDERSON. That is the new business. They couldn't eliminate it on the contracts outstanding.

Mr. HOWE. No; they can't eliminate it on the contracts outstanding.

---

[1] See Hearings, Part 10-A, p. 36.

Of those that continued to write income disability, many reduced the benefit to one-half of 1 percent per month, some provided for the payment of 1 percent for only a limited time, and one-half percent thereafter, while some provided that the monthly income should cease altogether after a limited period.

In addition, other provisions of the disability clause were restricted generally. The waiting period was increased from 4 to 6 months. The limiting age of the coverage was reduced from 60 to 55 if income disability was granted, and virtually all companies stopped issuing income-disability benefits to women.

Finally, new premium rates were adopted. They were based on the class 3 experience, increased by 65 percent or more in the case of the income benefit, and increased by 50 percent or more in the case of the premium-waiver benefit.

Also, the charge for premium waiver issued to women was generally adopted as double the rate for men.

Along with the drastic changes in coverage and rates which had resulted from the companies' study of their costly disability experience, there had been a growing realization of the special underwriting problem inherent in the writing of disability benefits. This had manifested itself in many ways. It had become evident that the issuance of disability benefits to women had been especially costly. In addition, overinsurance of risks had been common, and especially costly when excessive income-disability benefits had been issued. Hence, eventually there were drastic limitations upon the amount of disability coverage granted.

Furthermore, as the companies' own disability experience accumulated and was analyzed, it became apparent that the writing of disability benefits involved certain occupational and moral hazards which were either lacking or operated with less effect in the underwriting of death benefits alone.

(Off-the-record discussion.)

The Vice Chairman. What we were just saying, Mr. Howe, and I hesitate to make the suggestion; is, we have to go back to the House in a few minutes, and these gentlemen who are to remain here are very much more familiar with the details of matters with regard to which you are testifying than we are, and the suggestion was that if in, say, the next 10 minutes, there was something from this study which you feel would be helpful to us, if you would interrupt this narrative of yours, and tell us about it, we would appreciate it. I appreciate the difficulty.

Mr. Howe. Well, Judge Sumners, the situation with respect to annuity contracts of life insurance companies is a very interesting one.

The Vice Chairman. May I ask a question, too, about how these insurance companies who issued these annuities, at a time when they were getting a great deal more money in return on their investments, are able to carry on now, who have these permanent obligations?

Mr. Howe. Well, of course, they are very strong. The situation which I was about to point out is right along that line. A large proportion of the immediate annuities, those are the ones where you put in $10,000 and immediately start to draw so many dollars per month for life——

The VICE CHAIRMAN (interposing). Would you permit me to ask a question so we can get started? They take $10,000 and they agree to give you so much per month, or they agree in certain contingencies to begin to give you so much per month. Now, those agreements, I assume, were based originally upon the assumption that they would continue to earn a certain amount of money on their investments.

Mr. HOWE. That is right, they were, definitely.

The VICE CHAIRMAN. How are they doing about the thing when the earnings on their investments have proportionately shrunk?

Mr. HOWE. They have no option except to pay those contracts, because in most cases they are firm contracts, not participating contracts, but they are straight nonparticipating contracts. They are firm contracts, even in the case of mutual companies, so that if a loss results from this thing, all they can do is to take it from the earnings of the other departments of the business.

The VICE CHAIRMAN. Now may I ask you another question. Have they been compelled in practice to draw upon earnings from other activities of the business?

Mr. HOWE. Table 57 shows the net change in surplus before dividend payments by loss of $42,452,000 from its annuity business for these companies in the last 10 years.[1]

Mr. PIKE. That is before dividends, and in 59 it shows 65,000,000 after dividends.[2]

Mr. GESELL. And that loss has come from other lines of business, has it not?

Mr. HOWE. That is right.

Mr. KADES. Does that $42,000,000 that you refer to on page 57 mean that $42,000,000 that might otherwise have gone out in dividends to reduce gross premiums to life-insurance policyholders did not go out in that form?[3]

Mr. HOWE. I think so, yes.

Mr. PIKE. Money that they didn't have.

Mr. HOWE. Money which otherwise might have been distributed for dividends or used for other purposes, to increase surplus.

The VICE CHAIRMAN. Was there a considerable period of time when this was a profitable sort of insurance?

Mr. HOWE. Judge Sumners, it has always been the case that as interest rates go down and mortality improves they are working against the profit in the annuity business. In the life-insurance business the improvement of the mortality increases the profit, but the improvement of the mortality in the annuity business works against the business, so it has never been a very profitable line of business at any time.

Mr. GESELL. The point you were emphasizing which perhaps Judge Sumners has not quite realized is that in most of these companies the insurance is participating. Annuities, however, are nonparticipating.

Mr. HOWE. That is correct as far as certain types of contracts are concerned.

Mr. GESELL. As a result in those cases the policyholders in these mutual companies are engaged in the annuities.

---

[1] See Hearings, Part 10–A, p. 57.
[2] Ibid., p. 59.
[3] Ibid., p. 57.

Mr. Howe. That is right, they are virtually stockholders in a nonparticipating annuity business.

Mr. Gesell. When that has a loss they take a loss.

The Vice Chairman. When it has a profit they get a profit. I assume there must have been some time in the history of the business when it must have been profitable or they wouldn't have continued it.

Mr. Howe. We have made a study of it since the Roman Empire. First the Dutch Government got burned in it and then the British Government got burned in it. It hasn't been very profitable at any time.

Mr. Pike. I can't get it in my head how they paid dividends after net losses.

Mr. Howe. That results from the different kinds of annuities, as I understand it. The immediate annuities are one kind of thing, the deferred annuities are something else.

Mr. Gesell. I believe, Mr. Pike, it also results from the fact that for a while companies were under the apprehension that they were required to pay dividends on annuity business when they suffered a loss because of the necessity of equally distributing dividends among all classes of policyholders. There has been a recent case which has upset that theory.

The Vice Chairman. We are very much obliged to you, Mr. Howe. You have been a very interesting and helpful witness and I am sorry I can't be here this afternoon.

The committee will recess until 2 o'clock.

(Whereupon, at 12:45 p. m., the committee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:10 p. m. upon the expiration of the recess, Mr. Sumner Pike presiding.

Acting Chairman Pike. Are you ready to proceed, Mr. Gesell?

Mr. Gesell. Yes; I am.

Mr. Howe, I think it would be well for you to return to your discussion of the history of disability insurance and continue with your prepared statement.

Mr. Howe. The advent of the depression accentuated the underwriting hazards implicit in disability insurance, and no doubt was an important factor in the substantial increase in disability claims which occurred during the thirties. As earned income shrank or completely vanished, companies found that in many instances the potential monthly benefit of an individual in event of disablement exceeded his actual monthly earnings. Meanwhile the public had become insurance wise, and quite aware of the potential benefits of the disability coverage. As a result, an increasing number of claims began to be filed, many of them of doubtful validity.

The decisions of the courts were also of great influence. Their interpretations of the contracts were quite liberal, exhibiting a tendency to give——

Acting Chairman Pike (interposing). May I ask there, Mr. Howe, were perhaps the juries a little liberal too?

Mr. Howe. I think possibly if you want to divide it, the juries were also liberal.

Acting Chairman Pike. That is the usual reaction.

Mr. HOWE. I think that is a fair statement.

As a consequence, the companies found themselves liable on claims which they had no intention of covering in their disability contracts. Even where they were able to defend dubious claims the costs of such defense were no inconsiderable item and, together with the mounting costs of administering claims under the payments which were being made, with the necessity of regular check-up and review in order to verify the continuation of total disability, they added to the substantial disability losses incurred.

The depression had not only increased the incidence of claims but also their duration. There was a tendency for claimants to malinger and extend their claims as long as possible, all of which required more thorough and hence more costly investigations on the part of the companies.

In the development of their disability business companies had undoubtedly been led through severe competition to adopt the increased benefits and liberalized clauses which subsequently proved so unfortunate.

In many instances it was probably the disability benefit, not the death benefit, which the insured was purchasing.

The effects of competition were greatly reduced in 1930 when the standard provisions for disability coverage which had been promulgated by the National Association of Insurance Commissioners were adopted generally by the companies, but the errors in judgment which had been made previously resulted in a continuation of the unfavorable disability experience which in 1932 caused most of the companies to eliminate the income benefits altogether and further modify severely the disability benefits which they continued to offer.

Since then some of the large companies which discontinued issuance of income disability in 1932 have resumed the issuance of the benefit in a modified form and today 10 of the 26 largest companies are issuing income disability benefits on a restricted basis. Two large companies, the Mutual Benefit and the Northwestern Mutual, have consistently refused to issue disability benefits on the basis adopted by the other companies, and have shown a profit on this coverage over the 10 years, 1929 to 1938. The Northwestern Mutual has been issuing disability benefits since 1916, but has never issued income diability. The Mutual Benefit did not issue any disability benefits whatever until 1929 and, when it did enter the field at that time it adopted provisions which, while permitting both income and premium waiver benefits, differed substantially in terms from the clauses offered by other companies.

The Mutual Benefit disability provision is unique in many respects. The most important are two distinctive departures from the practices of other companies: (1) The definition of total disability in terms of loss of earned income rather than mere inability to work; and (2) the prorate clause which enables the company to reduce the disability benefits payable under the contract if and to the extent that the disability coverage carried in all companies exceeds the earned income of the insured during the stipulated period immediately prior to the occurrence of disability.

(Senator O'Mahoney took the Chair.)

Mr. HOWE. Through the use of these two provisions the Mutual Benefit apparently has been successful in eliminating a substantial part of the moral hazard involved in the writing of income disability coverage and thus has avoided the serious losses incurred by other large companies.

Among the other companies of the 26 largest, there are extensive differences in the amount of loss sustained on disability during the 10-year period, 1929 to 1938, inclusive. The variations in experience are to be expected in view of the wide diversity in coverage, especially during the period prior to 1930. However, by comparing the various disability clauses and published rules which were being used on January 1, 1929, by the different companies, it is possible to get some indication of the factors that have contributed toward minimizing or augmenting the losses sustained.

It is significant that the New York Life and Mutual Life, the only companies of the group that issued an income disability clause providing for benefits which increased with the duration of the claim, show the greatest loss ratio over the period 1929–38. Undoubtedly the incentive for greater ultimate disability benefits attracted especially unfavorable risks and has resulted in the accentuation of the hazard of malingering.

It is also worthy of note that two of the companies which showed moderate loss ratios, the Massachusetts Mutual and the New England Mutual, were virtually the only companies of the group that as late as 1929 had not yet adopted the 90-day clause but were still using the earlier, more literal clause, requiring total and permanent disability and were commencing the disability payments as of the date of proof rather than the date of the beginning of disability.

It is also significant that the two companies mentioned as having comparatively moderate loss ratios both limited the maximum amount of disability coverage below that granted by the larger companies. Those companies which imposed the lower limits of coverage show substantially lower loss ratios as a group than the larger, more liberal companies. Among the latter group were the five largest companies, Travelers and Aetna, all of which show high-loss ratios in the aggregate. The most favorable loss ratio of these larger companies is shown by the Prudential, and a possible explanation may be found in the fact that in 1929 this company was the only one of the group that was not dating back the income payments to the inception of disability. The Prudential was also including the premium waiver and installment disability benefits in all policies issued at that time and has since continued to include a restricted disability benefit in all policies issued. This practice has apparently operated to reduce to some extent the force of selection against the company which is likely to be more pronounced when the entire choice lies with the insured.

Another of the large companies, the John Hancock, shows a high loss ratio, even though the limit of coverage was restricted. A possible explanation is suggested by the fact that in 1929 it was the only company among those using the 90-day clause that continued the income disability coverage to age 65. The others terminated it at age 60. The difference in age limit possibly affected the John Hancock experience to an appreciable extent, since the incidence of claims rises very steeply at the older ages and particularly so when a 90-day clause is used.

The foregoing analysis of individual company practices and probable effect of its loss ratio should be considered merely as affording a clue to the explanation rather than the explanation itself of the diverse experience. As previously indicated, a great many factors have entered into the determination of the resultant loss ratio and the explanation offered must necessarily be incomplete.

In 1932 and subsequently, changes were made in coverage and rates. These changes seem to have placed the issuance of disability benefits on the basis whereby the rates were apparently adequate for the coverage. Companies have continued to show large losses, but that was to be expected in view of the substantial amount of disability benefits issued during the twenties when coverage and practices were liberal and rates inadequate.

Mr. PIKE. They have fixed their rates so they come out all right, but they haven't much business yet?

Mr HOWE. That is right; there hasn't been a great deal of business done since the rates were moved up and the restrictions made more severe.

Mr. PIKE. There is a sharp break that looks as though it took effect in 1931.[1]

Mr. HOWE. You will notice that in 1931 the first year premium income for disability benefits in ordinary policies for these 26 companies amounted to $8,108,000, whereas in 1932 it had dropped to $3,900,000.

Mr. PIKE. That is what I meant; it looked as if the rule they had fixed up in '30 hadn't gone into effect until some time in '31 or early '32.

Mr. HOWE. That is right; and then you see there is a further decline in 1933 as compared with '32, for in 1933 the first year premium income from disability benefits in ordinary policies amounted to $1,821,000, which may be compared with $8,108,000 2 years earlier in 1931.

It will be seen from table 36 that the total loss from disability of the 26 companies amounts to $408,516,000 for the period.[2] The New York Life and the Mutual of New York show by far the largest losses in this connection. This has been explained by their use of a provision which increases the amount which the assured may receive if his disability has been established for 5 years and again increases if the disability has been established for 10 years.

It will be observed from table 37 that with the exception of the New England Mutual for the period from 1929 to 1934, and the Mutual Benefit for the period 1932–38, no dividends were paid by any of the 26 companies upon disability provisions of their contracts.[3] In fact, a negative dividend factor has been included by nine companies in the dividend formula on account of disability. It is not known how much difference this negative dividend adjustment on account of disability has been in the case of all companies.

It is evident from the operating losses even after this dividend adjustment that the losses on disability benefits have been one of the major operating misfortunes of the decade. The amount lost on disability is an amount equivalent to over 56 percent of the $719,319,000 of asset losses experienced by the companies as a result of the depression.

Mr. PIKE. This is in addition to those losses?

Mr. HOWE. Oh, this is in addition to those losses. Those are asset losses. I am comparing two quite different things but merely in order to give some concept of the magnitude.

[1] See Hearings, Part 10–A, p. 33.
[2] Ibid., p. 36.
[3] Ibid., p. 37.

Mr. PIKE. It might have sounded as if that were a part of a larger total business.

Mr. HOWE. It is in addition.

Mr. KADES. Did I understand you to say 56 percent?

Mr. HOWE. Yes; the disability losses were an amount which was equivalent to 56 percent of the asset losses as shown by the companies during this period.

Accidental death benefits in ordinary policies, which are frequently referred to as double indemnity for accidental death, have made a steady contribution to surplus with minor exceptions. It should be stated, however, that there seems to be some doubt as to whether this section of the company's business will ultimately prove to be profitable due to the fact that there has been noticed a tendency for loss to increase with the age of the assured. This tendency has been recognized by many companies and additional reserves to the extent of $22,483,000 have been set up since 1932.

Group life insurance: The leading purveyor of group life insurance is the Metropolitan with $3,505,000,000 of group life insurance in force on December 31, 1938. This is 30.4 percent of the total group life insurance outstanding among the nine companies which are actively engaged in this business.

In order of importance the Metropolitan is followed by the Aetna with 17.55 percent, the Equitable with 17.29 percent, the Travelers with 16.60 percent, and the Prudential with 11.96 percent of the group life insurance in force.

Total premium income from group life insurance has increased from $84,000,000 in 1929 to $129,000,000 in 1938. This is an increase of 54 percent as compared with an increase of 6.06 percent for industrial insurance and 2.9 percent for ordinary insurance.

Mr. PIKE. The first-year premium, however, has dropped in half during the period?

Mr. HOWE. That is right.

Group life insurance has proved profitable for all companies active in the field during the last 10 years. The largest profit, amounting to $8,161,000, has been made by the Travelers. Other companies making substantial profits are:

Metropolitan	$7, 135, 000
Aetna	6, 772, 000
Equitable	5, 262, 000

Accident and health insurance includes group accident and health, and is called casualty by Travelers, accident and liability by Aetna, and accident and health and corporate by Pacific Mutual.

Of the $996,000,000 premium income received during the 10-year period ended December 31, 1938, $536,000,000, or over 54 percent was premium income to the Travelers Insurance Co. Other leading companies in the business were Aetna, which collected 21.8 percent, and the Metropolitan, which collected 15.75 percent. The accident and health business has in general been profitable to all participants except the Equitable and Connecticut General.

I have left the discussion of annuities to the last of the discussions of the lines of business because I wish to develop to some extent the history of the annuity business in order that a better appreciation of the significance of the annuity figures may be had. The extensive development of the annuity business as a branch of the legal reserve life-insurance companies in the United States is a phenomenon of comparatively recent times. While the amount of annuity premiums received by the companies has shown in general a consistent increase from year to year since 1866, the first year for which the amount of annuity premiums is available, it was not until about 15 years ago that the volume of annuity premiums began to attain significant proportions. Moreover, the real mushroom growth has taken place only during the latter half of the 15-year period. Starting with an aggregate of only $41,000 in annuity premiums in 1866, the volume rose to a temporary high of approximately $11,000,000 in 1904, but during the period 1905 to 1915 it dropped off substantially, with the result that it did not pass the 1904 high until about 1916.

Following more or less steadily a rapid growth until 1931, during which year approximately $100,000,000 of annuity premiums were received by the companies, it began to skyrocket in an unprecedented manner, reaching a level of almost half a billion dollars in 1935.

Since then it has tapered off somewhat to approximately 400 millions in 1928. The amazing increase in annuity premiums is brought out forcibly by the fact that the annuity premiums of the 1 year, 1935, approximated, in fact slightly exceeded, the total annuity premiums for the period 1866 to 1927, inclusive, while the aggregate annuity premiums 1928 to 1938, inclusive, were more than 6 times as large as the aggregate annuity premiums during the period from 1866 to 1927.

Similar statistics for life-insurance premiums show a quite different history. While the amount of life-insurance premiums increased steadily and quite uninterruptedly throughout the entire period from 1866 to 1928, the period of greatest growth was the 1920 decade. In 1866 annuity premiums were only about one-tenth of 1 percent of the amount of insurance premiums. During the next 50 years, annuity premiums averaged about 1½ percent of life-insurance premiums, and in no year amounted to as much as 5 percent of life-insurance premiums. In 1920 annuity premiums had fallen to less than 1 percent of life-insurance premiums, but in 1935 they rose to a point where they amounted to over 15 percent of life-insurance premiums. Since 1935, annuity premiums have declined somewhat.

By 1920 it was generally recognized that there was need for a new table of annuitants' mortality to replace McClintock's Table, prepared in 1896, which had been more or less used generally by American companies up to that point. Consequently, there was a study made by Dr. Arthur Hunter of the mortality experience solely on American annuitants up to 1918, and the result was the publication of the American Annuitants Table. Compared with the early McClintock Table, the new table indicated increases of 6 to 12 percent in the value of annuities issued to males at the older ages and up to 20 percent increase in the female values, but only at the very old ages. For the most part, female rates were not affected. The new experience had included only immediate single life annuities without any guarantee or refund provision, the type of annuity which apparently had largely predominated up to that time; and since this kind of annuity was almost always issued at the older ages, the results of the 1920 study were of considerable importance.

Many interesting commentaries emerged in the discussion of the 1920 mortality table and the resultant tables. It was noted that the mortality had been more favorable to companies when considered in terms of the amount of annuity rather than the number of annuitants. This phenomenon was to be repeated in later annuity investigations and indicates an important divergence from life-insurance mortality experience, which has consistently shown a less favorable result from the standpoint of the company, namely, higher mortality, by amounts of insurance than by lives.

Mr. HENDERSON. I am not quite sure I get that.

Mr. HOWE. There are two ways, Commissioner Henderson, to figure mortality. One is in terms of number of individuals and the other is in terms of the amounts of their contracts.

Mr. HENDERSON. I see. Which of them has the longer life? Which group?

Mr. HOWE. In the case of annuities the mortality has been more favorable when figured on the amount involved in the contract rather than the number of annuitants.

Mr. PIKE. You mean rich people die quicker?

Mr. HOWE. Apparently; but in life insurance the experience has been the other way.

Mr. PIKE. They last longer?

Mr. HOWE. No; they are on a different side of the risk in the annuity business than in the life-insurance business, but in the life-insurance business the same tendency manifests itself in the fact——

Mr. PIKE (interposing). Yes; they still drop out.

Mr. HOWE. That is right; the people with the larger policies die sooner.

Mr. GESELL. In other words, it is better for a company to write a life policy on someone who dies sooner than an annuity?

Mr. HENDERSON. It would be better for them to write a life policy on the rich and the endowment on the poor; is that it?

Mr. HOWE. No; the mortality on the large life insurance is heavier; therefore we have had this discussion about the elimination of jumbo risks and all that kind of thing. That same characteristic manifested in terms of annuities reflects itself in increased earnings to the company on the annuity contracts because the possessor of the large contracts die sooner, so the liability of the companies is less.

The CHAIRMAN. What is the reason for that tendency? Of course, I understand that is altogether outside of the scope of your inquiry.

Mr. HOWE. Senator, I don't know. In discussing it with the presidents of some companies with whom I talked, they say that the big executives, for instance, who carry large amounts of insurance, work very hard, burn themselves out, and they just simply discover from their statistics that they have a less favorable mortality from the point of view of the companies than the average-sized policies.

Mr. PIKE. I am glad I quit work.

The CHAIRMAN. Well, of course, it is generally felt that when security is obtained by an individual, the tendency to longevity is increased.

Mr. HOWE. Oh, that has been very noticeable in annuitants' mortality, Senator, that when they have the assurance, particularly people who must rely exclusively on the annuity—when they have the assurance of an annuity income for life, it seems to increase their comfort, and also their longevity.

The CHAIRMAN. Yes; but the greater the assurance they have, the more quickly they die, according to this tendency.

Mr. HOWE. That is right.

Mr. PIKE. It probably means that those larger annuity holders had other resources; they would probably get along pretty well, anyway.

Mr. HOWE. I assume that is the way; but, anyway, they have discovered that fact in computing these tables.

The CHAIRMAN. Mr. Howe, may I interrupt? I am very sorry that it is necessary for me to leave again. I wanted particularly to be present throughout the entire presentation of this testimony of yours, because I know how valuable it is and I know how much work you have given to the preparation of this data. But it is absolutely essential for me to be in attendance on the Appropriations Committee this afternoon because certain matters are coming up with respect to the Sugar Control Act, which is of profound importance to the people of my State, and of the West, so I must be there.

But I am taking advantage of this interruption to express my personal appreciation of the splendid work that you have done, and I want also to speak of Mr. Gesell. I don't know when I have seen a case better presented, when I have seen facts better marshaled and more lucidly developed than this insurance study has been under your leadership, Mr. Gesell, and I do feel that the record should contain this inadequate tribute to what you and the members of your staff have done. I think that this work will stand for quite a little while. I think it will stand analysis, too. Already it has been subjected to some considerable analysis—we all know that—and it has certainly to date stood the test. And I feel that your personal presentation of the entire study is one of which you should personally feel rather proud, and I am glad to have had the opportunity of presiding during most of the presentation.

Mr. GESELL. Thank you very much, sir.

The CHAIRMAN. The compliment goes to you and to all the members of your staff.

Mr. HENDERSON. Mr. Chairman, before you go, I wonder if you could help me a bit on a matter of these letters which we have gotten from the agents. I don't believe you were here when I spoke about them. The letters are still coming in, and they are all very full and all very frank. I think we have over 2,000 of them by now.

We have had less than five, I believe, which I would call sarcastic letters. I don't mean that out of the other 1,997 there haven't been some sharp statements, but I mean taken as a whole there have only been three or four which have been sarcastic in content.

We expect to make an analysis of them and make it a part of our report. But I am in a little bit of a difficulty because I picked out about 50 which I felt were truly representative—that is to me they were—and I don't think I picked those entirely because they were favorable or critical or anything like that, but those I felt were giving an honest, frank, and complete statement.

I was going to suggest that we put about 10 letters in the record and put the other 40 into the committee files for future students.

The CHAIRMAN. How many have you received in all?

Mr. HENDERSON. About 2,000. I am wondering whether we could decide this afternoon that some of them would be admitted, and if I could get your help in this selection of what should go in.

The CHAIRMAN. I would suggest that probably the best way of handling that would be to have these letters presented to a subcommittee which will analyze them and then choose some to be published in the record.

Of course it is obvious that you can't print them all in the record, and I understand from your statement that you merely desire to have some representative letters appear.

Mr. HENDERSON. One of the main reasons I suggest that, is in my readings of the Armstrong report it is plain to see that Chief Justice Hughes rested very heavily in some instances on the full and complete statements of agents, and naturally we have not. We have had a greater reliance on the economic and financial material, but these are refreshing letters.

The CHAIRMAN. Suppose we have a subcommittee examine them and make the selection.

Mr. HENDERSON. All right.

The CHAIRMAN. With the understanding that the letters which this committee will offer will be printed in the record.[1] That will relieve the S. E. C. of any possibility of criticism on the ground that it is taking only certain special letters to put in, and the committee as a whole will review those that are to go in.

If that is agreeable we will proceed that way.

I am sorry to have to leave.

(Mr. Pike took the Chair.)

Mr. HOWE. It was also noted that up to 1920, there had been little active solicitation of annuity business, that as a consequence most of the annuities had been purchased by rather than sold to annuitants. This had resulted in a definite selection against the companies and had necessitated an increase in rates.

Up to this time, the annuity business was still comparatively negligible in amount and the life insurance company officials properly noted that not much additional experience of a favorable nature was needed to offset the unsatisfactory results of the past.

However, there were several warnings against undue optimism with respect to the future. The experience of the Sun Life of Canada was cited. It had actively canvassed for annuity business in Great Britain at low rates but showed a low mortality and significantly, according to the Sun Life experience, the mortality on female annuitants had run lower than that shown by the new American Annuitants' Table.

Then, too, there was the problem of anticipating what improvement in mortality, especially at the older ages, might be expected in the future. Following the publication of the American Annuitants' Table, it served as the basis for new rates that were adopted. It is interesting to observe that the interest rate observed in this connection was usually 4 percent, it being assumed that with new investments then returning at least 5 percent, the entire consideration of a single premium imme-

[1] The letters selected by the subcommittee were entered in the record as "Exhibit Nos. 2587 to 2604," and are included in the appendix on pp. 15634–15641.

diate annuity being invested directly, that there would be a margin of excess interest to serve as a backlog against further unfavorable mortality which might arise.

It was recognized that this was not a very satisfactory method, that companies did not know definitely how much they had gained or lost thereby in the past, and that it was essentially unsatisfactory in the light of the revelation that the Sun Life experience on British female annuitants showed even then significantly lower mortality than that indicated by the new American Annuitants Table.

At this time, too, there began to be a growing awareness of the liberality of the annuity option included in the settlement provisions of life insurance policies then being issued and previously issued. The usual option selected embodied a life annuity with a minimum number of payments guaranteed, varying from 60 to 240 at the option of the payee, and the choice could be exercised either by the insured in advance or by the beneficiary at the time of the claim settlement. Most of the companies were allowing this option in 1920 on the basis of the American Experience Table derived from the experience on insured lives and in addition greatly overstating such mortality, altogether an unsatisfactory basis.

Acting Chairman PIKE. You mean the annuity options were based on the American Experience Table?

Mr. HOWE. Yes; the American Experience Table.

Acting Chairman PIKE. What is the date of that? I would like to refresh my memory on it.

Mr. HOWE. 1868, I believe it was.

And in addition, they were granting the same return whether the payee were male or female, notwithstanding the fact that female annuitants' mortality was substantially lighter than male mortality, that most beneficiaries were females, and that these female beneficiaries could select against the company by exercising their choice at the time the claim became payable.

It was true that there was an offset on the side of conservatism in the low interest rate of 3 or 3½ percent which was usually assumed, and in the fact that because of the guarantee provision, the effect of the annuity mortality would be deferred for an average of 10 years or more, thus reducing the force of selection against the company.

Reported discussions of actuaries in 1924 reveal an increasing sentiment for the revision of the annuity option provision. It was admitted that the option was chosen in only a negligible percentage of policies, but the possibility of future popularity was implied, and the element of discrimination was cited, namely, that those who selected the option were benefitting at the expense of those who did not. Criticism was directed against the use of a low interest rate to offset adverse mortality, confirmed by most individual company experiences, and it was pointed out that improvement in annuity mortality was continued, perhaps accentuated by medical advances, increased by self-selection and by freedom from anxiety on the part of annuitants. As the American Experience Table was being used for the annuity settlement option, it was evident that the error would be even greater since the deferred life annuity portion was at the older ages, where the variation in the American Experience Table from true annuity mortality is the greatest.

Sentiment at this time apparently favored the adoption of a modern annuity table, such as the American Annuitants, with a distinction between males and females and a moderate rate of interest, in view of the uncertainty of the future, but reference was made to the hesitation on the part of the companies because of the competitive situation.

Acting Chairman PIKE. That was done about 1924—years later?

Mr. HOWE. Yes.

Acting Chairman PIKE. Of course, a lot of those contracts are still running with options still open.

Mr. HOWE. Oh, yes. There was also somewhat of a reconsideration in 1924 of the proper rate basis for life annuities that were being sold. One Canadian company, the Sun Life, doing a substantial volume of annuity business, but mainly on British lives, indicated that it found the business profitable, but only because of the interest differential, and suggested caution in calculating earnings for the future. The Northwestern Mutual stated that it had begun the sale of annuities in 1894 and at the end of 25 years had had only 224 annuities in force.

The company had sustained only a small loss on this business, but because of the bother attendant upon the small volume, and particularly because of its fears as to ultimate annuity mortality, it had discontinued the sale of immediate annuities. However, it expected to resume the sale of these annuities, apparently for competitive reasons.

The first group-annuity contract had been written in 1921. Together with the private pension plans which had had an accelerated growth from the end of the nineteenth century, the group-annuity business gave promise of ultimately attaining sizeable proportions, but already it was noted that none of the existing annuity tables, including the modern American annuitants, properly reflected the experience under retirement plans, which provided annuities taken out at younger ages and, in general, with long-deferred periods.

The underwriting aspects of this branch of the annuity business are also different in that the coverage is on a group basis with part of the premiums contributed by the employer.

Acting Chairman PIKE. And practically no selection?

Mr. HOWE. Practically no selection.

By 1930 recognition of the peculiar characteristics of retirement plans had manifested itself in the adoption of a new mortality table known as a combined annuity table, which had been constructed empirically by combining insured lives mortalities at the younger ages with annuitants' mortality at the older ages. The American annuitants table had been derived from experience on American annuities issued primarily to the older ages. It understated the mortality on the younger ages substantially. But the sale of deferred annuities to a significant degree—both through group contracts and on an individual basis—was developing, and the need for a better mortality guide resulted in the preparation of the combined annuity table. It was necessary to construct it on an empirical basis, since there was no real experience available.

The trend toward increased sale of deferred annuities was only one manifestation of the general trend toward emphasis on security, which, if not altogether the result of the disillusioning experiences of the early depression years, was given impetus by the depression.

There began a boom in the sale of annuities of all types, not only the old standard form of single-premium, immediate annuity but also annual and single-premium, deferred annuities and endowment insurances combining substantial life coverage to a specified age and retirement annuity thereafter.

Acting Chairman PIKE. This was about the same time? These are the sorts of things that bring large amounts of cash to companies. They began to press on these forms of insurance about the time that the investment business, including foreclosures and drops in interest rates, and so forth, having to keep liquid to meet surrender values and borrowings, hit them?

Mr. HOWE. That is right. The peak was in 1935, which is a year in which some of these investment difficulties were manifest.

Acting Chiarman PIKE. That suggests that at least during that period the sales tail was wagging the insurance dog in a way where salesmen had got control of the sales influence and had been allowed to take control of the policy of the company, because the company as an investment institution should not be trying to encourage the receipt of large amounts of funds which it couldn't invest profitably. That would be my off-hand interpretation of that.

Mr. HOWE. That seems to be the fact.

Acting Chairman PIKE. You have seen it in a great many large businesses, where salesmen get control and hit for volume, and in the long run, the company doesn't make as much money as they did when they didn't let the sales boys take charge.

It seems perhaps indicated by new forms of policies that they brought in a lot of money that they didn't use.

Mr. HOWE. They brought in a great deal of money which our previous testimony has shown they have had some difficulty in investing.

Acting Chairman PIKE. Yes.

Mr. HOWE. In addition, a greater proportion of life-insurance policies began to be written with a continuous monthly income benefit which operated to guarantee the beneficiary a fixed income for life regardless of her age at the time of the death of the insured, and selection of the life annuity options by either the insured or the beneficiary showed a decided increase. One company, the Penn Mutual, reported that in comparing 1931 with 1930, it found that single premium retirement annuities had increased 3 times and annual premium retirement annuities 10 times. The retirement annuity had replaced the old-style deferred annuity and had proven much more attractive, because it involves merely a sinking fund accumulation of net premiums before deduction of loading during the deferred period, with cash values and participation in dividends and various forms of optional annuities offered at the retirement age, whereas, the old deferred annuity had included none of these features designed to attract investments and had been a much more rigid contract.

As a consequence, another company, the Prudential, was able to report that whereas from each thousand quotations given on the old-style deferred annuity contract only one or two sales resulted, in 1934 it was issuing 100 retirement annuities a week. With this development came all sorts of complications. Companies were divided in their opinions as to whether it was a healthy development and should be encouraged or if, on the other hand, it would ultimately prove disastrous and should be restrained. All seemed to agree that it was a peculiar outgrowth of the depressed state of the investment market, and that in effect, the retirement annuities were being purchased to a considerable degree merely for the purpose of providing a haven for idle money, and without any real intention of ultimately procuring an annuity.

In other words, the retirement annuity was being used as a savings account. On the other hand, it was felt that it reflected at least partially a real growth of a desire for old-age security. In any event it was evident that the growth was coupled with a fear of most other types of investment. Other aspects of the problem added to the confusion. The companies were passing through a period of strain occasioned by the unprecedented volume of cash withdrawals and loans. The retirement and other annuities provided a ready source of liquid funds.

But they paused when they considered how it might prove a boomerang at a later date when, if higher interest rates and more favorable investment opportunities returned, they might be faced with heavy withdrawals of cash values under retirement annuities.

Acting Chairman Pike. Those annuity things contain, usually, cash-surrender values?

Mr. Howe. Oh, yes; these retirement annuities contain, for the most part, cash-surrender values.

Acting Chairman Pike. It is interesting to see how a person who sees that he has no good outlet for an investment feels he has solved his problem when he has shoved that thing off on somebody else.

Mr. Howe. That is right.

Acting Chairman Pike. It is the same thing.

Mr. Howe. They were swayed, also, by agency considerations. The depression had materially reduced the volume of new life insurance, and they were concerned with the problem of somehow maintaining the income of their agents so far as possible, hence the companies that emphasized the sale of annuities had developed elaborate sales material and granted liberal production credits for annuity business. Ultimately the agents became so annuity-conscious the companies felt they were neglecting on that account the full possibilities of selling life insurance, and restraints of various sorts were imposed. Tax advantages of the annuities were no longer stressed, limitations were imposed on the amount of annuities issued to one person, and as far as possible, the conversion of retirement annuities to life-insurance policies was encouraged.

Acting Chairman Pike. I think they also got out of, say, single premium annuities, or at least tried to.

Mr. Howe. They would reduce the amount which we would accept from an individual.

Acting Chairman Pike. I remember a year ago, an agent coming to me and saying, "If you don't get under the wire you can't do it in one premium, you will have to do it in five." I didn't intend to do it in either.

They were going to stop that.

Mr. Howe. I think that is right. They commenced to set maximums of the amount they would accept from any one individual. While these restrictions acted somewhat as a brake on annuity sales, the volume of new issues remained at a relatively high level. Moreover, there were two increasingly important actuarial aspects of the annuity problem, one of which had always existed and the other of which cropped up because of the new developments.

The interest calculation was reappraised in the light of decreasing investment yields, mounting investment losses, and high rate of refundings. There was some doubt of the wisdom of basing the rate for a single premium immediate annuity on the long-term interest rate prevailing at the time of issuance, and there was a special problem posed in a determination of the proper interest assumption for the annual premium retirement annuity involving as it did the investment of small sums over a long period of time, as in the case of a life-insurance contract.

The result was the adoption of more conservative interest assumptions, the substitution of participating retirement annuities for nonparticipating contracts which had been based on higher guaranteed rates, and in a few instances the replacement of nonparticipating single premium immediate annuities by similar contracts on a participating basis.

Acting Chairman Pike. Throwing some of the risk back on the assured.

Mr. Howe. That is right, on the regular mutual life insurance theory.

There was considerable reluctance to place immediate annuities on a participating basis since it was felt that they would then be less salable because the annuitant is interested in obtaining the largest possible guaranteed return, but a few companies, including the two largest in point of individual annuity business, the New York Life and the Equitable of New York, adopted the participating forms.

The other important actuarial phase of the annuity problem was again the matter of annuity mortality. Even before the onset of the boom in annuity sales there had been a growing realization that the earlier experiences were becoming somewhat out of date due to progressive lightening of annuitants' mortality. During the 1920's studies made by the individual companies had indicated a lighter mortality than that indicated by the American Annuitants' Table, the mortality being more pronounced in the case of females. As a consequence consideration was given to the matter of annuity reserves. A study of annuitants' mortality made in 1933 and representing an extension of an earlier study made in 1928 confirmed the general feeling as to the improvement of both male and female mortality.

Apparently, as a result of this study, rates were revised upward through adoption generally of a 3¾ percent interest rate and the use of a modification in respect to the American Annuitants' Table where male annuitants were rated 1 year younger than their true age. A male annuitant age 35 under this method would pay a rate of age 34, which, of course, would be higher. This in itself had the effect of increasing rates about 7½ to 8 percent. Female annuitants were rated 5 years younger than the true age, 5 years being deemed the measure of differential between male and female annuitants.

Acting Chairman PIKE. Did they ask the girl how old she was and subtract 5 years from that?

Mr. HOWE. Evidently that was the procedure.

In the meantime studies of the experience under life-annuity operations of insurance policies had finally led to the general adoption of a modern annuity table as a basis for the guaranteed return, with lower returns in the case of female payees and further restrictions to minimize the selection against the company on the part of beneficiaries.

After the 1933 change in annuity rates, two additional changes were made in 1935 and 1936. As interest rates continued to decline the mortality showed up even less favorably. The American Annuitants' Table continuedto be used but with further modifications and a lower rate of interest was assumed.

In 1937, a further investigation was made of the experience on over 100,000 annuities. It revealed again the continuing trend toward lower mortality, especially in the case of females. It was found that the experience under immediate annuities involving a guaranty (refund or cash refund) in the event of early death—a form which had sprung up comparatively recently and had enjoyed a rapidly increasing popularity, probably because of its greater investment appeal—was more favorable than under the immediate annuities without refund.

In 1938 a new annuity table made its appearance. It will be seen that this is just a series of one table after another.

Acting Chairman PIKE. They take a lot of bites at this cherry.

Mr. HOWE. This was the 1937 Standard Annuity Table which had been constructed empirically by merging the experience on certain group life policies at younger ages with a modified American Annuitants' Table at the older ages.

As finally adopted generally by the large companies, it was further modified by rating males 1 year and females 6 years. That is, a 5-year differential was assumed to reflect the difference in annuity mortality between males and females. The new table was adopted by most large companies as the mortality basis for all types of annuities, annual premium or single premium, immediate or deferred, with refund or without refund, group or individual.

It was also adopted with some modification as the basis for life annuity operations on life insurance contracts. An interest rate not exceeding 3 percent was generally assumed.

Despite the many limitations and rate increases imposed on annuity business from 1933 to 1938 the volume remained substantial. Perhaps, as was suggested, the changes in rate always lag somewhat behind the change in the investment market, so that annuities were always relatively attractive. Today the rates charged by most of the large companies on single premium immediate annuities without refund are 25 to 29 percent higher on males, 31 to 33 percent higher on females, in comparison with the 1929 rates charged by most of the companies.

It is interesting to observe also that the current rates compared with those charged in 1814 by an early American corporation, The

Pennsylvania Co. for Insurances on Lives and Granting Annuities, reveals an increase based on respective ages from 55 to 71 percent in the case of males and from 77 to 116 percent in the case of females.

As the sale of annuities has become general the hope of actuaries that selection against the companies would thereby diminish has not been definitely realized, but only the future can reveal the ultimate effect of this growth as well as the ultimate level of annuity mortality.

Acting Chairman PIKE. Is it a fair question to ask if from the result of your studies the future looks very bright, or would you rather not express an opinion on that point?

Mr. HOWE. It depends, of course, largely on the trend of interest rates, but it doesn't look so very bright to me.

Acting Chairman PIKE. Let's leave the matter of interest rates out. There seems to be room for plenty of opinions there. The trend of mortality is continuous and unmistakable as far as we have any record.

Mr. HOWE. That is right.

Acting Chairman PIKE. You would think that in trying to adjust year by year, some bright fellow in the actuarial business instead of taking those figures would have done a little projecting as they used to do in the stock market, discounting.

Mr. HOWE. I don't know what the process is. At any rate, they apparently felt it necessary to increase their assumption.

Acting Chairman PIKE. This business of taking a revision five times a decade looks as though they hated to interfere with the sales department in selling what was a very fine article of goods apparently, they hated to have themselves brought up to realities which they must have felt were there all the time.

Mr. HOWE. Of course, I don't know what the actuarial process was.

Mr. GESELL. You undoubtedly recall testimony on this subject in which we traced the intercompany agreements held to bring about these rate increases, and the desire for noncompetitive rates and uniform rates seems to have been, from that testimony, one of the dominant considerations.

Acting Chairman PIKE. But it is such a serious thing here; the amounts are large, they took a terrific beating in disability, the moral hazard came in, much to their surprise and disgust, plus the legal thing, but here is a purely physical trend. I assume these companies, like doctors, have available to them all the statistics of longevity that they have been making profit of in the life insurance side for a good many years. It seems almost incredible that in such a short period they would have to change their minds five or six or seven times in the same direction, which seems to reflect a pretty obvious trend. I don't mean to do injustice to the openness of their minds, but it is evident that their minds were not very open to what seemed a very clear thing.

Mr. HOWE. There were always certain actuaries in the business who were concerned about the trend in annuity mortality. That shows clearly in the record.

By looking at the tables we see that as of December 31, 1938, as shown in table 53, there were outstanding annuities providing for annual payments to annuitants of $431,619,850.[1] The amounts shown

[1] See Hearings, Part 10-A, p. 53.

included $103,000,000 per year, now payable under contracts fully paid for by annuitants, $54,000,000 per year payable after future dates under deferred annuity contracts fully paid for by annuitants, and $274,000,000 per year payable after future dates under deferred annuity contracts which have not been fully paid for by annuitants.

Of the individual annuities in force December 31, 1938, 36.5 percent had been issued by the Equitable of New York, 11.5 percent by the New York Life, 5.04 percent by the Mutual of New York, 4.75 percent by the Prudential, and 4.74 percent by the Travelers. Other companies accounting for more than 4 percent of the total amount of annuities in force were the Penn Mutual and the Massachusetts Mutual.

It is worthy of note that in the years 1934, 1935, and 1936, first-year premium income on individual annuities exceeded first-year premium income on ordinary insurance for the 26 companies as a whole.

Mr. GESELL. That means they took in more money on annuities than selling ordinary insurance in those years?

Mr. HOWE. Yes.

Acting Chairman PIKE. That is where it differs from your statement a little while ago, which was 15 percent.

Mr. HOWE. That is right. In 1934 the first-year premium income from ordinary insurance was $227,000,000; individual annuities, $288,000,000. In 1935, ordinary insurance first-year premium income was $286,000,000; individual annuities, $323,000,000. In 1936, ordinary insurance, $243,000,000; individual annuities, $250,000,000.

Mr. GESELL. I think we might request that there be inserted in the record at this point the exact figure for those years according to the schedule that we have in front of us.[1]

Mr. KADES. Mr. Howe, how do you classify the so-called retirement policies, as ordinary insurance or annuities?

Mr. HOWE. The word "retirement" has two meanings in this connection. There was one type of policy which is referred to as the retirement income policy. The other is the retirement annuity. Retirement income policy starts off to be insurance, and it is essentially an endowment contract. Then as the reserve increases, it forms a transition and becomes a deferred annuity for awhile.

Acting Chairman PIKE. But you do carry full protection in insurance?

Mr. HOWE. Carry full protection in the early period. A retirement annuity, however, is simply a deferred annuity contract which pays the annuitant an income for life after a stipulated retirement age.

Mr. PIKE. He will get nothing if he dies in the meantime?

[1] See the following table:

—	Ordinary Insurance	Individual Annuities
1934	$227,636,000	$288,218,000
1935	286,400,000	323,920,000
1936	243,177,000	250,986,000
1937	247,481,000	182,506,000
1938	224,646,000	173,327,000

Mr. HOWE. Nothing, except the beneficiary frequently gets the premiums back, or something like that.

Mr. KADES. The latter type you would classify as annuity and the former type as ordinary insurance?

Mr. HOWE. That is right.

Now we might speak of group annuities for a moment. The Metropolitan alone has 56.8 percent of the $102,000,000 annual income group annuities in force December 31, 1936; Prudential holds 24.29 percent; and these two companies, together with Equitable, hold 92.86 percent of the group annuity business.

Acting Chairman PIKE. There is a question I would like to ask. This number runs well over a half million in 1938; does that mean the number of group policies, or more probably the number of people protected in the group?

Mr. HOWE. That is another one of the unusual features of the convention blank. In referring to group life-insurance contracts the number which is given is the number of contracts, master contracts, with the companies. When they come over to group annuities they give you that number of master contracts, but they also give you the number of certificates, which involves the number of individuals. The number given here is the number of individuals.

Mr. GESELL. What table are you referring to?

Acting Chairman PIKE. That is table 60.[1]

Mr. HOWE. The table is table 60.

Acting Chairman PIKE. I am interested in that and wonder if you happen to know whether most of those group annuities are the outcome of what had previously been company pension plans, or do you know?

Mr. HOWE. I don't know what the origin was, whether that has been the sales technique that has been used or not. I do know, of course, that in certain cases retirement plans initiated by industrial companies and carried by them have now been turned over to life-insurance companies.

Acting Chairman PIKE. You remember some years ago several of the old Standard Oil former subsidiaries of the pipe line were all ready to go out of business; they had pretty substantial book surpluses and no more use for their fixed property—they thought, at the time; they have changed their minds since—but they hadn't put on their books the actuarial liability from their pension plans and in some cases when they tried to reinsure the pension plans they found that surplus looked quite different, and I think in one or two cases couldn't do it. Luckily, I believe, most of them kept on going and now they are getting some business from the Illinois fields; but I wondered if you happened to know how typical that sort of thing is?

Mr. HOWE. The three major companies' aggregate amount of group annuity business in force has increased 86 percent from December 31, 1934, to December 31, 1938.

The group annuity business has contributed a gain in surplus in the case of the Metropolitan, Prudential, and John Hancock, the three great industrial companies, but has not in general proved profitable to other companies in the field.

[1] See Hearings, Part 10–A., p. 60.

A substantial portion of the annuity business written by mutual life insurance companies is written on the nonparticipating plan. With respect to this business, life insurance and other policyholders of mutual companies have a proprietary interest in the success of the annuity operations. To the extent that such nonparticipating annuity business produces a profit, other policyholders will be benefited in the form of reduced costs. To the extent that this nonparticipating annuity business may prove to result in losses, such losses must be borne in the case of mutual companies by the remaining body of policyholders. Thus, the annuity business and especially the nonparticipating annuity business takes on a unique importance to life insurance policyholders.

In view of these facts, it is appropriate to consider annuity reserves. The report of the Committee to Study the Need for a New Mortality Table and Related Topics, which is dated June 21, 1939, and was prepared for the National Association of Insurance Commissioners, makes the following statement with respect to reserves on annuities on page 121 thereof [reading]:

The Committee is not convinced that the adoption of any particular annuity mortality table would establish a safe annuity reserve basis for any fixed period in the future. The laws of most States actually permit the commissioner to value annuities on tables based on life insurance experience and which are not only obsolete but unsafe for annuity calculations. The recommendation of the Committee, therefore, is twofold. First, the Model Bill proposed specifies a minimum table and rate of interest for annuity valuation. The Combined Annuity table of mortality is specified therein as a level below which reserves must not fall. While this is recommended for adoption it is not regarded as adequate except in special circumstances but no higher standard is set because this is now the current requirement and the committee has made no studies on annuities.

Acting Chairman PIKE. In other words, they are looking after more bites in this same cherry?

Mr. HOWE. That is the way I understand this; yes. [Continuing:]

Second, the Committee recommends that each commissioner require, under the authority of the provisions of the proposed bill, increasingly stringent valuation bases to be specified in annuity contracts in conformity with improving annuity mortality experience as developed from time to time. At present, except in special circumstances, this should be the 1937 Standard Annuity Table hereinbefore mentioned.

Table 274 of "Exhibit No. 2250" shows annuity reserves for the 26 companies as they were carried in their annual statements on December 31, 1938, and also shows the amount by which annuity reserves were increased due to change in basis of calculation from 1929 to 1938, inclusive, as well as contingency reserves set up in connection with annuity contracts as shown by annual statements of December 31, 1938.

Compared with the total annuity reserves is a figure for estimated reserve which, according to figures supplied by companies answering the supplemental investment questionnaire, would result for annuity contracts in force on December 31, 1938, if all of each company's annuity contracts involving life contingencies (including original and supplementary annuity benefits but excluding disability contracts) were revalued on the basis of mortality, interest, and other assumptions under which each company is now issuing annuity contracts.

Acting Chairman PIKE. Here the Metropolitan and Equitable did not answer?

Mr. HOWE. That is correct.

Mr. KADES. Is there any reason for that; special reason?

Mr. HOWE. They said they didn't think the information was significant.

Mr. KADES. Do you think it is significant?

Mr. HOWE. I think so; yes.

Mr. KADES. That is why the question was asked, I suppose.

Mr. HOWE. That is right.

The total annuity reserves of the 22 companies replying to this question as shown by table 274 were $1,619,000,000, and the amount of estimated reserves under the assumptions referred to are shown as $1,800,000,000.[1] This difference of $181,000,000 is the increase which would result from such a method of valuation in the reserves of the companies which had 55.8 percent of the annuity business in force December 31, 1938. Although it seems clear that in the cases of some companies increases in annuity reserves appear to be desirable, the assumption is not justified that an increase in reserves of the magnitude shown in the table is necessary.

Mr. HENDERSON. What you mean is that somewhere between no increase and $181,000,000 is probably necessary as the increase to get the reserves on the existing basis of selling annuity contracts?

Mr. HOWE. That is right.

Mr. GESELL. Of course it would be more than $181,000,000, would it not, if we had the full information as to annuities, particularly since the Equitable is very prominent in that field and sells a type of annuity which I understand is most in need of this type of reserve heind it?

Mr. HOWE. Yes; it would seem the figure would be substantially increased if the Equitable had elected to answer the question.

Acting Chairman PIKE. They are by far the biggest annuity company?

Mr. HOWE. Yes; by far.

In furnishing these estimates, certain companies have stated that in their opinion reserves as high as those required on the basis used for valuing annuity contracts currently being sold are unnecessary for all annuity contracts in force. The reasons outlined for this opinion are that funds derived from the sale of annuities in the past have been invested at rates not now obtainable and that, therefore, the interest assumptions employed in computing reserves on the current basis are lower than those which are necessary for former assumptions. This reason seems to be subject to the qualification, as has previously been shown, that large amounts of funds invested in former years are not now earning interest at the original rates by reason of the large amount of refunding which has taken place in recent years.

Of the annuity contracts involving $431,000,000 annual income payable to annuitants which were outstanding in the 26 companies on December 31, 1938, over 63 percent were annual premium deferred annuities. With respect to these annuities it has been pointed out that it is possible that a considerable portion may be surrendered, in

[1] See Hearings, Part 10-A, pp. 274.

which case the companies will not be obliged to fulfill their contracts when the retirement age occurs. Furthermore, it is stated that it is not necessary to set up reserves on all outstanding annuity contracts on the basis of the 1937 Standard Annuity Table (modified) for the reason that this table was compiled from experience on newly selected lives and hence includes practically no impaired lives. There is, of course, some validity to these hypotheses.

It should be stated, however, that in the field of annual premium deferred annuities, it would seem that a special necessity for increasing annuity reserves occurs for the reason that payments are currently being accepted on contracts written in former years on the basis of premiums less than those charged for business currently being written.

Acting Chairman PIKE. That means they assume considerably higher interest returns on the premiums invested?

Mr. HOWE. That is right.

Acting Chairman PIKE. And, of course, high mortality, too?

Mr. HOWE. That is right.

Acting Chairman PIKE. In those cases they both work against the company, whereas in insurance one offsets the other to a great extent.

Mr. HOWE. That is right, that is the fundamental difference between the annuity business and the life-insurance business from the life-insurance company's point of view. In annuities the decline in the interest rate and the decline in annuity mortality both work to increase the cost, whereas in life insurance, the decline in mortality tends to decrease the cost and the decline in the interest rates tends to increase it, so there is an offsetting factor in life insurance and not an offsetting factor in annuities.

Acting Chairman PIKE. They add together, rather than subtracting from each other?

Mr. HOWE. That is right.

In connection with the discussions of annuity contracts, it may also be germane to point out that many life-insurance policies contain modes of settlement which give to the assured or the beneficiary the right to elect or accept annuity payments in lieu of cash or other method of settlement. As these modes of settlement have in many cases been drawn on a basis more favorable to the annuitant than are now obtainable from the company, it seems reasonable to inquire whether or not these annuity options do not constitute a contingent liability of which some recognition should be given in the balance sheet.

Acting Chairman PIKE. Those things won't come up until the maturity of the life-insurance policy in which they are incorporated, so it may be many years?

Mr. HOWE. That is right, they won't appear in the balance sheet until the option is exercised and the annuity goes on the books as the result of receipt of the proceeds of the life-insurance policy.

Acting Chairman PIKE. Of course, they will get some benefit from mortality until the deadline, and then they will begin to be hurt.

Mr. HOWE. That is right.

Mr. GESELL. Mr. Howe, since the Equitable failed to give this information, I thought perhaps you might wish to refer to that Convention Form annual statement that I hand you and give the committee some idea of just how their annuities are carried in the various tables used in evaluating the annuity reserve.

Mr. HOWE. There are several mortality tables and interest assumptions chronicled here involving total annuity reserves in the amount of $1,840,636,604. An analysis of the reserves as given in the 1938 annual statement is like this:[1] American Experience Table at 3½ percent—now, we remember the American Experience Table is a life-insurance table—$649,873; American Experience Table at 3 percent, $24,742,389; McClintock's Table at 3½ percent, $54,330,697; McClintock's Table at 3 percent, $2,036,117; the Combined Annuity Table at 3½ percent, $63,579,148.

Mr. GESELL. Those are all very old tables in the light of present experience, are they not?

Mr. HOWE. Yes; they are all tables not being currently used and as we read down we are getting further and further toward the newer tables.

The next classification is Combined Annuity Table at 3¼ percent, $14,482,607; the Combined Annuity Table (first modification) at 3½ percent, $56,810,962; Combined Annuity Table (second modification) at 3¼ percent, $13,613,806; Combined Annuity Table (second modification) at 3 percent, $109,365,461; American Annuitants' Select Table at 3½ percent, $240,445,802; American Annuitants' Select Table at 3 percent, $67,225,397; American Annuitants' Select Table (first modification) at 3 percent, $269,241; 1937 Standard Annuity Table at 3½ percent, $10,928,971; 1937 Standard Annuity Table at 3 percent, $27,883; 1937 Standard Annuity Table (second modification) at 3 percent, $823,360.

Mr. GESELL. On what table have they the greatest amount of their annuities valued?

Mr. HOWE. The American Annuitants' Select Table at 3½ percent, which is $240,000,000.

Mr. GESELL. I interrupted your statement. Will you proceed? I believe it is true, is it not, that no case has come to your attention in which reserves for annuity settlements have been established?

Mr. HOWE. That is correct.

It has been pointed out that the improvement in mortality which has been experienced in recent years has increased the factors of safety which are inherent in life-insurance contracts. In fact; in these contracts the gains from mortality, loading, and surrenders are such that even though the interest rate declines to the point where a gain from interest no longer appears in the gain and lose exhibit the companies will nevertheless be able to offset their losses in interest with gains from mortality and other sources. In the case of annuities, however, this same improvement in the mortality is an expense rather than a saving to the companies, and the decline of interest rates and the improvement in mortality instead of offsetting each other as they do in life-insurance contracts are working together to increase the cost of providing annuity protection on the part of the companies. This situation, of course, has been recognized and has resulted in several increases in annuity premium rates in recent years. The fact that these increases have been necessary, however, empha-

[1] From annual statement for the year 1938 of the Equitable Life Assurance Society of the United States, p. 5.

sizes the fact that the companies now find themselves to an important extent in the position of guarantors of interest rates as well as insurers against life contingencies.

Acting Chairman PIKE. With the loss, if any, to be assessed against the——

Mr. HOWE (interposing). Life-insurance policyholders.

Acting Chairman PIKE. Yes.

Mr. HOWE. In general.

Mr. HENDERSON. When you speak of the increase in rates, you mean an increase in the new business rates?

Mr. HOWE. That is right. The rates on the contracts in force, of course, remain at the original contract rate.

This situation may ultimately call for a revision of the present policy of issuing annuity contracts with guaranteed rates of interest and the substitution therefor of interest factors actually earned from year to year.

One further factor regarding the guaranty of fixed rates of interest may appropriately be considered. This is the practice of contracting to pay fixed rates of interest on supplementary contracts not involving life contingencies. These are contracts under which life-insurance companies undertake to pay beneficiaries the proceeds of their life-insurance policies in installments with interest over a fixed period of years. Although such optional modes of settlement whereby beneficiaries could leave funds with life-insurance companies were introduced at the close of the last century, little use was made of them until the twenties. Since 1929 such deposits have increased from $241,000,000 to $1,182,000,000, or 390 percent, in the case of the 26 companies under discussion.

Mr. HENDERSON. That represents the extent to which they have become investment trusts, does it not?

Mr. HOWE. With respect to these supplementary contracts, that is right, and, of course, a feature of them is that he is guaranteed the interest rate, but the holder of the supplementary contract in most cases, if he likes, may withdraw the funds. In other words, if interest rates go up, the beneficiaries may have a tendency to withdraw the funds. If interest rates go down they leave the money with the companies, as they may.

Mr. HENDERSON. It is in the nature, in part, of a senior security of an investment trust.

Mr. HOWE. Except that in a senior security of an investment trust you don't have the right to check out the money.

Mr. HENDERSON. If you check out, you get the value of the fund at that particular date.

Mr. HOWE. The senior investment in an investment trust, a bond or something, you sell and get what you can for it, but here is a firm contractual right. You can draw this money out and terminate the contract or leave it in and draw the interest.

Acting Chairman PIKE. There is a long-term option to get out or stay in, as you please, under conditions which nobody can foresee?

Mr. HOWE. That is right.

Mr. GESELL. It is a little as though savings banks were to guarantee an interest rate on deposits.

Mr. HOWE. That is right, for long periods of years.

Although in many cases this is unquestionably a socially desirable method of payment of life insurance claims, the question as to whether financial institutions should guarantee a fixed return on such funds for periods up to 59 years is a genuine one in view of the low prevailing level of interest earnings. It is doubtful, for example, whether any trust company would undertake to pay 3 or 3½ percent on such funds.

It is obvious from the foregoing that the question of life insurance reserves is one which should be given careful consideration by life insurance companies. Many companies have made increases in their policy reserves due to changes in bases in recent years. We have shown that during the period of the last 10 years, reserve increases due to change in basis have totaled $242,000,000. Great disparity, however, exists between different companies regarding the degree to which such reserves have been strengthened. The New York Life Insurance Co., for instance, has increased its policy reserves on individual annuities by the amount of $13,400,000 since 1935. The Equitable, however, with over three times as much individual annuity business in force, has increased its reserves $3,911,000 in the period since 1931. Other examples of important differences in reserve practice with respect to almost every line of business could be given. The responsibility of the actuary of the legal reserve companies in determining the amounts, if any, by which reserves should be increased is a very important one and it is to be hoped that the desire to pay liberal dividends to policyholders or stockholders will not deter the strengthening of reserves in cases in which the actuary's intimate knowledge of the facts indicates that such is the conservative course.

Mr. Gesell. Now, if the committee has no questions, that completes the presentation at this time.

Acting Chairman Pike. Are there any questions from any members of the committee?

Mr. Henderson. I wanted to get in the record, Mr. Chairman, these totals of what Mr. Howe was reading this morning of the allocations for contingency reserve by the Prudential for several years to provide for a contingency depreciation in asset valuation. How many years were they?

Mr. Howe. The years 1931 to 1936, inclusive—6 years.

Mr. Henderson. For 6 years the total was about $160,800,000, and from the ordinary the allocation was $13,733,000, and from the industrial $147,070,000.

One other observation: I don't believe we were quite clear, Mr. Howe, this morning when we were discussing the accounting and the auditing which is done by the States. The impression may have been created, which I am sure you didn't want to create, and I certainly would not want to allow to remain, that the audit performed by most of the State insurance commissions of which we have knowledge is perfunctory. It takes, in some cases, 3, 4, 5, and 6 months, does it not?

Mr. Howe. In some cases it takes over a year.

Mr. Henderson. It takes over a year to make one of these triennial audits, and at the end of that time undoubtedly the insurance department with a competent staff has arrived at a pretty accurate knowledge of the insurance company and where its assets are overvalued or undervalued or properly valued, isn't that correct?

Mr. HOWE. I want to answer the question affirmatively, Mr. Commissioner, that many of these estate examinations are very detailed and appear to be excellent jobs. With respect to the question of valuation which you mention, however, the standards of valuation which may be adopted are rather flexible with respect especially to certain types of assets. Take, for instance, the question of real-estate mortgages and real estate. On December 31, 1938, in these 26 companies, there were about $6,400,000,000 of real-estate mortgages and real estate.

Mr. HENDERSON. That is about one-quarter of their total assets.

Mr. HOWE. As shown on the books; yes. There is virtually no rule for the valuation of that section of the portfolio. Mortgages are ordinarily carried at their face amount, as I have pointed out, irrespective of the security under them or whether or not they are delinquent, and with respect to real estate, no firm rules of valuation are set down, so that these valuations may vary in important degrees.

It is only fair to say that the National Association of Insurance Commissioners has a committee on real-estate valuations which has done some things in certain real-estate valuations—spot checks have been made in the State of New York, and things of that kind, but there are no real standards with respect to valuation.

Mr. HENDERSON. I think that was brought out by the correspondence you and Mr. Gesell sent to me the other day, in which two State commissioners had issued a valuation on a sizable real-estate holding, and it varies—how much was it, Mr. Gesell, 40 or 50 percent, was it not?

Mr. GESELL. Substantially that, I believe; yes.

Mr. HENDERSON. There are no real standards of valuation. You don't get it, you can't get it, of course, as you do on bonds. You haven't got markets for them.

Mr. HOWE. That is right; it is a more difficult thing to value than bonds are in most cases.

Mr. HENDERSON. Perhaps I should have included, then, this matter on valuations, but a real insurance staff, however, examining the company for that length of time, would get to know the company's operations pretty well?

Mr. HOWE. Yes; there are very few cases where an audit by independent auditing firms will last for a year or more continuously without interruption.

Mr. HENDERSON. I just wanted to get that clear.

Mr. HOWE. There is one thing, Commissioner Henderson, that I want to say about these contingency reserves in order that there may be no misapprehension with regard to the totaling of these figures. The figures for contingency reserves which I gave are the balance-sheet figures as of December 31, so that the earnings will be affected only to the extent of the increase or decrease in these reserves from year to year. So it isn't fair to add up the total balance-sheet figures and assume that the effect on earnings has been the total of the balance-sheet figures for all these years; but the effect on the earnings has only been the difference between the reserve at the beginning of the period and the reserve at the end of the period.

Mr. HENDERSON. That is right.

Mr. HAYES. Those are not accumulations?

Mr. HOWE. That is right. In other words, I don't want to leave the impression these are increases or decreases in reserves.

Mr. HAYES. So I understood the testimony this morning, they were not accumulations?

Mr. HOWE. That is right. I wanted to be sure in adding up these figures we didn't obtain the other impression.

ACTING CHAIRMAN PIKE. If there is nothing more, I expect we had better adjourn.

Mr. HENDERSON. You say that with seeming reluctance.

ACTING CHAIRMAN PIKE. Yes. I am very sorry. I think Mr. Howe and Mr. Gesell have been commended enough.

The committee will adjourn to the call of the Chair.

(Whereupon, at 3:40 p. m., an adjournment was taken subject to the call of the chairman.)

APPENDIX

"EXHIBIT No. 2250", introduced on p. 14702, was printed separately as Hearings, Part 10-A.

"EXHIBIT No. 2251" appears in text on p. 14703

[Statistical data on which this chart is based are included in Hearings, Part 10-A]

"EXHIBIT No. 2252" appears in text on p. 14706

[Statistical data on which this chart is based are included in Hearings, Part 10-A]

"EXHIBIT No. 2253" appears in text on p. 14708

EXHIBIT No. 2254

[Chart based on following statistical data, "Exhibit No. 2253," appears in text on p. 14708]

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Total Premium Income—25 Largest Legal Reserve Life Insurance Companies for each Year 1929 to 1938, Inclusive

[In Thousands of Dollars]

Lines of Business	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	Total
Ordinary life insurance	1,849,599	1,930,378	1,988,516	1,901,652	1,790,456	1,803,637	1,862,601	1,856,142	1,895,502	1,903,719	18,782,202
Disability benefits	54,581	62,283	64,284	60,788	54,355	51,501	49,355	48,495	47,778	46,828	540,248
Accidental Death benefits	23,324	25,944	27,437	27,080	25,594	26,355	27,601	28,929	30,473	30,912	273,649
Sub Total	1,927,504	2,018,605	2,080,237	1,989,520	1,870,405	1,881,493	1,939,557	1,933,566	1,973,753	1,981,459	19,596,099
Industrial life insurance	692,795	738,354	747,864	731,763	671,148	669,004	663,288	692,837	737,831	733,885	7,078,769
Annuities:											
Individual	55,197	65,004	124,417	114,451	197,794	334,790	392,344	330,435	266,792	261,471	2,142,695
Group	27,165	26,553	34,810	52,503	40,118	42,392	61,602	79,268	80,014	99,241	543,666
Sub Total	82,362	91,557	159,227	166,954	237,912	377,182	453,946	409,703	346,806	360,712	2,686,361
Group life insurance	84,102	93,659	98,252	91,870	90,973	98,791	106,413	115,656	129,588	129,420	1,038,724
Accident and Health insurance	109,373	107,717	100,055	85,319	80,279	89,637	97,724	102,733	110,798	100,768	984,403
Total	2,896,136	3,049,892	3,185,635	3,065,426	2,950,717	3,116,107	3,260,928	3,254,495	3,298,776	3,306,244	31,384,356

PERCENTAGE OF TOTAL

Ordinary life insurance	63.86	63.30	62.42	62.04	60.68	57.88	57.12	57.03	57.46	57.58	59.85
Disability benefits	1.88	2.04	2.02	1.98	1.84	1.65	1.51	1.49	1.45	1.42	1.72
Accidental Death benefits	0.81	0.85	0.86	0.88	0.87	0.85	0.85	0.89	0.92	0.93	0.87
Sub Total	66.55	66.19	65.30	64.90	63.39	60.38	59.48	59.41	59.83	59.93	62.44
Industrial life insurance	23.92	24.21	23.48	23.88	22.75	21.47	20.34	21.29	22.36	22.20	22.56
Annuities:											
Individual	1.91	2.13	3.91	3.73	6.70	10.74	12.03	10.15	8.09	7.91	6.83
Group	0.94	0.87	1.09	1.71	1.36	1.36	1.89	2.44	2.43	3.00	1.73
Sub Total	2.85	3.00	5.00	5.44	8.06	12.10	13.92	12.59	10.52	10.91	8.56
Group life insurance	2.90	3.07	3.08	3.00	3.08	3.17	3.26	3.55	3.93	3.91	3.31
Accident and Health insurance	3.78	3.53	3.14	2.78	2.72	2.88	3.00	3.16	3.36	3.05	3.13
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.	100.00	100.00	100,00	100,00

Source: Income and Disbursements, Companies Annual Statements.

"EXHIBIT No. 2255" appears in text on p. 14709

EXHIBIT No. 2256

[Chart based on following statistical data, "Exhibit No. 2255," appears in text on p. ——]

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

New Paid-for Life Insurance—Exclusive of Revivals, Increases, Dividend Additions and Accepted Reinsurance—49 U. S. Companies (These companies had 82 per cent of the total business outstanding in all U. S. legal reserve companies on December 31, 1938)

Period	Ordinary	Industrial	Group	Total
1913	$1,651,162,000	$622,909,000	$20,828,000	$2,294,899,000
1914	1,616,833,000	662,600,000	45,474,000	2,324,907,000
1915	1,721,546,000	697,532,000	47,122,000	2,466,200,000
1916	2,127,075,000	703,743,000	78,720,000	2,909,538,000
1917	2,466,121,000	737,810,000	178,336,000	3,382,267,000
1918	2,571,508,000	793,187,000	246,656,000	3,611,351,000
1919	4,483,759,000	934,807,000	425,574,000	5,844,140,000
1920	5,417,908,000	1,116,522,000	425,737,000	6,960,167,000
1921	4,462,939,000	1,257,759,000	111,083,000	5,831,781,000
1922	4,913,464,000	1,418,801,000	276,428,000	6,608,693,000
1923	5,879,457,000	1,720,054,000	520,045,000	8,119,556,000
1924	6,256,029,000	1,963,554,000	597,765,000	8,818,348,000
1925	7,253,168,000	2,359,174,000	998,784,000	10,611,126,000
1926	7,667,645,000	2,566,059,000	1,050,605,000	11,284,309,000
1927	7,677,963,000	2,667,331,000	824,373,000	11,169,667,000
1928	8,083,910,000	2,692,520,000	1,336,329,000	12,112,759,000
1929	8,684,131,000	2,898,157,000	1,185,364,000	12,767,652,000
1930	8,396,968,000	2,851,129,000	1,092,165,000	12,340,262,000
1931	7,409,815,000	2,797,163,000	796,164,000	11,003,142,000
1932	5,931,327,000	2,477,268,000	627,140,000	9,035,735,000
1933	5,085,757,000	2,320,874,000	357,206,000	7,763,837,000
1934	5,528,884,000	2,527,227,000	497,037,000	8,553,148,000
1935	5,580,960,000	2,521,284,000	665,142,000	8,767,386,000
1936	5,371,239,000	2,695,602,000	584,795,000	8,651,636,000
1937	5,591,842,000	2,640,144,000	760,932,000	8,992,918,000
1938	4,867,428,000	2,176,620,000	476,451,000	7,520,499,000
1939	5,015,701,000	1,484,095,000	803,101,000	7,302,897,000

Source: The Association of Life Insurance Presidents.

"EXHIBIT No. 2257" appears in text on p. 14714

Exhibit No. 2258

[Chart based on following statistical data, "Exhibit No. 2257," appears in text on p. 14714]

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Total Income and Disbursements of Twenty-five Leading Legal Reserve Life Insurance Companies, 1929–1938

	Amount	Percentage of Total
Income:		
Premium Income	$31,384,356,000	73.54
Investment Income	8,473,264,000	19.85
All Other Income	2,822,263,000	6.61
Total Income	42,679,883,000	100.00
Disbursements:		
Dividends to Policyholders	4,576,819,000	14.26
Death Claims	7,784,283,000	24.25
Disability Claims	935,299,000	2.91
Matured Endowments	1,204,919,000	3.75
Annuities	573,009,000	1.79
Other Payments to Policyholders	762,572,000	2.38
Surrender Values Paid	7,384,823,000	23.01
Commissions to Agents	2,662,513,000	8.30
Other Agency Compensation	890,338,000	2.77
Other Operating Expenses	2,146,162,000	6.69
Investment Expenses	1,162,302,000	3.62
All Other Disbursements	2,011,862,000	6.27
Total Disbursements	32,094,901,000	100.00

From: Exhibit of the Changes in Surplus: Companies Annual Statements.

Exhibit No. 2259

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Long-Term Investments of 26 Life Insurance Companies in Relation to Long-Term Debts in the United States, 1930, 1934, 1937

	1930 (Millions)	1934 (Millions)	1937 (Millions)
Holdings of 26 Life Ins. Cos. (Admitted Asset Value):			
Public Debt:			
Federal	$297	$1,699	$4,264
State and Local	516	940	1,283
Total Public	813	2,639	5,547
Private Debt:			
Railway	2,432	2,360	2,276
Industrial	276	352	908
Public Utility	1,476	1,674	2,532
Farm Mortgage	1,749	1,075	746
Urban Mortgage	4,718	3,956	3,698
Total Private	10,651	9,417	10,160
Grand Total Held by 26 Ins. Cos	11,464	12,056	15,707
Estimated Total Long-Term Debts (Par Value):			
Federal	14,454	27,944	36,715
State and Local	17,437	18,823	19,152
Total Public	31,891	46,767	55,867
Railway	13,400	13,413	13,109
Industrial	10,800	8,800	7,762
Public Utility	14,000	13,597	13,874
Farm Mortgage	9,100	7,645	7,082
Urban Mortgage	37,200	30,845	28,508
Total Private	84,500	74,300	70,3[illegible]
Grand Total Long-Term Debt	116,391	121,067	126,202

Long-Term Investments of 26 Life Insurance Companies in Relation to Long-Term Debts in the United States, 1930, 1934, 1937—Continued

PERCENTAGE OF TOTAL LONG-TERM DEBTS OF VARIOUS CLASSES HELD BY 26 LIFE INSURANCE COMPANIES

	1930 (Millions)	1934 (Millions)	1937 (Millions)
Public Debt:			
Federal	2.1	6.1	11.6
State and Local	3.0	5.0	6.7
Total Public	2.5	5.6	9.9
Private Debt:			
Railway	18.1	17.6	17.4
Industrial	2.5	4.0	11.7
Public Utility	10.5	12.3	18.2
Farm Mortgage	19.2	14.1	10.5
Urban Mortgage	12.7	12.8	13.0
Total Private	12.6	12.7	14.4
Grand Total Long-Term Debt	9.8	10.0	12.4

Source: Based on figures submitted by the 26 companies and figures obtained from the Department of Commerce.

Exhibit No. 2260

[Prepared by the Securities and Exchange Commission Insurance Study Staff.]

Bonds and Debentures of Five Major Oil Companies and Four Major Rubber Companies: Total Outstanding Amounts Held by the 26 Largest Life Insurance Companies in 1929 and 1938. State at Par Value

Companies	Bonds and debentures [1]				Percentages of the Total Funded Debts Held by 26 Life Insurance Co's.	
	1929		1938			
	Held by 26 Life Insurance Companies	Total Outstanding	Held by 26 Life Insurance Companies	Total Outstanding	1929	1938
Oil Companies	*Thous.*	*Thous.*	*Thous.*	*Thous.*		
Gulf Oil Corporation (Pa.)	$7,064	$65,414	$50,000	$50,000	10.8	100.0
Shell Union Oil Corporation (Del.)	7,120	126,335	31,950	82,427	5.6	38.8
Socony-Vacuum Oil Company, Inc. (N. Y.)	5,726	69,000	83,200	125,000	8.3	66.6
Standard Oil Company (N. J.)	4,940	120,000	31,831	135,000	4.1	23.6
Texas Corporation (Del.)	6,220	100,000	4,950	60,000	6.2	8.25
Rubber Companies:						
Firestone Tire and Rubber Co. (Ohio)	0	0	12,497	48,500	0	25.8
Goodrich (B. F.) Co. (N. Y.)	311	21,572	100	44,047	1.4	(2)
Goodyear Tire and Rubber Co. (Ohio)	1,000	58,031	40,100	50,000	1.7	80.2
United States Rubber Co. (N. J.)	650	78,636	44,000	44,000	.8	100.0

[1] Exclusive of notes payable.
[2] Less than one-tenth of one percent.

Source: Poor's and Moody's Manuals.

"Exhibit No. 2261," appears in Hearings, Part 13, p. 7093

"Exhibit No. 2262," appears in Hearings, Part 13, p. 7095

"EXHIBIT No. 2263," appears in Hearings, Part 13, p. 7096

EXHIBIT No. 2264

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

SCHEDULE A. *Assets—Types Owned—Admitted Asset Value in % of Total Admitted Assets as of December 31, 1929 and December 31, 1938*

	Dec. 31, 1929	Dec. 31, 1938
Cash	.69	2.74
U. S. Government bonds	2.03	18.63
Other Government bonds	1.08	.88
U. S. political subdivisions	3.20	5.63
Other political subdivisions	1.60	1.14
Railroad bonds	15.78	9.38
Railroad equipment trust	2.47	1.17
Public utility bonds	8.73	12.22
Industrial & miscellaneous bo ls	1.43	4.92
Total bonds	36.32	53.97
Total stocks	2.48	2.17
Mortgages	41.70	19.17
Real Estate	1.87	7.30
Policy loans	12.91	11.62
Collateral loans	.03	.01
Other assets	4.00	3.02
	100.00	100.00

Source: Based on Insurance Investment Questionnaire.

EXHIBIT No. 2265

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

SCHEDULE B. *Investments of Life Insurance Companies as of Dec. 31, 1938, in Companies Whose Officers or Directors Interlock With the Insurance Companies*

	Number of Companies	Bonds		Shares
		Face Value	Book Value	
Metropolitan	24	$210,153,700	$203,252,513	228,600
Prudential	15	63,384,000	61,229,215	37,950
New York Life	21	114,949,800	104,453,856	124,770
Equitable of NY	13	89,028,000	86,400,555	58,860
Mutual of NY	24	129,487,000	108,595,785	36,600
Northwestern	10	26,455,000	25,875,870	0
Travelers	14	8,343,000	4,827,014	253,826
John Hancock	7	14,057,000	14,077,059	28,088
Penn Mutual	17	29,219,000	30,703,460	7,150
Mutual Benefit	2	1,995,000	1,903,534	6,185
Mass. Mutual	4	1,092,000	1,005,815	36,400
Aetna	14	7,559,400	7,289,621	673,871
N. E. Mutual	15	13,035,000	12,789,159	45,329
Union Central	3	300,000	305,952	1,060
Provident Mut	6	10,176,700	9,679,924	300
Conn. Mutual	13	0	0	35,030
Conn. General	13	83,000	70,216	16,453
Phoenix Mutual	6	829,000	737,309	13,576
Bankers Life	0	0	0	0
National Life	3	0	0	3,947
Pacific Mutual	14	956,500	884,325	97,468
State Mutual	9	617,000	629,333	21,166
Equitable of Iowa	0	0	0	0
Western & Southern	0	0	0	0
Lincoln National	0	0	0	0
Guardian Life	0	0	0	0
Totals		$721,726,100	$674,710,515	1,726,623

NOTE.—Investments in subsidiaries of companies interlocking excluded.

Source: Based on Insurance Investment Questionnaires.

Exhibit No. 2266

Schedule C. *Amount and Percentage of Total Assets Earning Less Than the Interest Required for Policy Reserves as of December 31, 1938*

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

	Ledger Assets	Amt. of such Assets earning less than Int. required	% of Ledger Assets earning less than int. required	Int. necessary to maintain reserves in % of Ledger Assets
Metropolitan	4, 871, 937	1, 556, 191	31, 94	3. 22
Prudential	3, 722, 474	1, 170, 635	31. 45	3. 18
New York Life	2, 576, 782	840, 133	32. 60	2. 81
Equitable of NY	2, 231, 391	602, 647	27. 01	3. 03
Mutual of NY	1, 390, 664	494, 244	35. 54	2. 92
Northwestern	1, 243, 786	252, 789	20. 32	2. 85
Travelers	831, 857	460, 477	55. 36	3. 49
John Hancock	911, 026	239, 922	26. 34	3. 09
Penn Mutual	682, 966	222, 361	32. 56	2. 98
Mutual Benefit	659, 740	191, 769	29. 07	2. 90
Mass. Mutual	632, 089	141, 667	22. 41	3. 13
Aetna	570, 296	237, 567	41. 66	3. 34
N. E. Mutual	428, 404	131, 744	30. 75	2. 96
Union Central	362, 594	100, 627	27. 75	3. 37
Provident Mutual	336, 918	108, 064	32. 07	3. 28
Conn. Mutual	326, 259	57, 786	17. 71	3. 08
Conn. General	243, 825	74, 957	30. 74	3. 27
Phoenix Mutual	231, 926	85, 622	36. 06	3. 26
Bankers Life	220, 768	65, 769	29. 79	3. 34
National Life	199, 588	46, 544	23. 32	2. 99
Pacific Mutual	197, 690	52, 195	26. 40	3. 47
State Mutual	177, 842	49, 071	27. 59	2. 89
Equitable Iowa	176, 651	47, 691	27. 00	3. 26
Western & Southern	167, 644	77, 490	46. 22	2. 90
Lincoln National	132, 888	28, 460	21. 42	3. 06
Guardian Life	129, 425	43, 802	33. 84	2. 96
	23, 657, 420	7, 378, 224	31. 19	----------------

Source: Investment Questionnaires.

Exhibit No. 2267

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Schedule D. *Policy Loans and Income Therefrom*

[In thousands of dollars]

	Policy Loans as of 12/31/38	Percent of Admitted Assets	Interest on Policy Loans in 1938	Percent of Investment Income	10-yr. total of interest on Policy Loans
Metropolitan	$526, 414	10. 65	$30, 178	16. 84	$240, 817
Prudential	333, 395	8. 78	17, 276	12. 65	136, 449
New York Life	349, 263	13. 19	20, 513	20. 75	199, 238
Equitable of N. Y	253, 869	11. 23	14, 645	18. 59	141, 121
Mutual of N. Y	159, 587	11. 40	9, 326	19. 72	97, 280
Northwestern	185, 535	15. 05	11, 395	23, 61	118, 745
Travelers	122, 216	12. 53	6, 549	19. 66	57, 623
John Hancock	91, 785	9. 96	5, 152	16. 01	44, 853
Penn Mutual	89, 176	12. 69	5, 254	21. 23	55, 530
Mutual Benefit	97, 264	14. 36	6, 139	25. 27	73, 146
Mass. Mutual	78, 963	12. 19	4, 835	20. 68	47, 720
Aetna	70, 458	11. 34	4, 252	19. 60	37, 540
N. E. Mutual	59, 681	13. 70	3, 495	23. 35	34, 291
Union Central	58, 360	15. 59	3, 670	25. 28	44, 259
Provident Mutual	44, 313	12. 79	2, 625	20. 17	26, 093
Connecticut Mutual	38, 963	11. 59	2, 257	17. 93	21, 068
Connecticut General	23, 612	9. 58	1, 383	15. 95	12, 075
Phoenix Mutual	29, 325	12. 35	1, 702	20. 85	15, 546

SCHEDULE D. *Policy Loans and Income Therefrom*—Continued

[In thousands of dollars]

	Policy Loans as of 12/31/38	Percent of Admitted Assets	Interest on Policy Loans in 1938	Percent of Investment Income	10-yr. total of interest on Policy Loans
Bankers Life	$39, 390	17. 25	$2, 339	26. 99	$19, 052
National Life	27, 059	13. 19	1, 669	21. 04	17, 218
Pacific Mutual	35, 695	15. 33	2, 505	29. 44	5, 344
State Mutual	27, 986	15. 34	1, 694	25. 64	17, 471
Equitable of Iowa	27, 866	15. 29	1, 619	23. 54	14, 501
Western & Southern	8, 694	5. 07	493	7. 48	3, 806
Lincoln National	22, 404	15. 14	1, 344	25. 66	11, 620
Guardian Life	21, 137	15. 90	1, 165	23. 51	10, 642
Totals	2, 822, 410	11. 62	163, 474	18. 66	1, 503, 048

Source: Investment tables #9, #102, #108, #109, "Exhibit No. 2250."

EXHIBIT No. 2268

[Prepared by the Securities and Exchange Commission Insurance Study Staff.]

SCHEDULE F. *Mortgages Owned as of December 31, 1938, Delinquent 3 Months of More as to Interest*

	Delinquent Farm Mortgages	% of all Farm Mortgs. Owned	Delinquent Urban Mortgages	% of all Urban Morgs. Owned	Delinquent Farm & Urban Mortgages	% of all Mortgs. Owned	Mort. Int. due & unpaid as of 12/31/38
Metropolitan	$14, 661, 000	20. 65	$193, 207, 000	21. 42	$207, 868, 000	21. 36	$21, 852, 633
Prudential	11, 626, 000	6. 91	39, 241, 000	5. 11	50, 867, 000	5. 43	6, 162, 751
New York Life	698, 000	11. 03	47, 756, 000	11. 14	48, 454, 000	11. 14	3, 890, 933
Equitable	12, 014, 000	16. 81	11, 553, 000	5. 45	23, 567, 000	8. 31	2, 344, 627
Mutual	None owned		22, 579, 000	10. 04	22, 579, 000	10. 04	580, 809
Northwestern	8, 165, 000	9. 94	7, 357, 000	3. 25	15, 522, 000	5. 03	1, 706, 689
Travelers	6, 244, 000	20. 12	3, 111, 000	8. 16	9, 355, 000	13. 53	1, 248, 768
John Hancock	15, 719, 000	23. 51	3, 114, 000	3. 29	18, 833, 000	11. 65	2, 026, 392
Penn Mutual	813, 000	19. 31	7, 573, 000	7. 33	8, 386, 000	7. 80	141, 133
Mutual Benefit	10, 695, 000	23. 19	7, 289, 000	9. 76	17, 984, 000	14. 88	2, 249, 569
Mass. Mutual	None owned		12, 411, 000	11. 51	12, 411, 000	11. 51	1, 093, 397
Aetna	2, 509, 000	9. 71	1, 110, 000	2. 73	3, 619, 000	5. 45	580, 660
New England Mutual			9, 318, 000	21. 48	9, 318, 000	21. 48	296, 421
Union Central	12, 166, 000	22. 51	2, 821, 000	4. 26	14, 987, 000	12. 45	1, 601, 954
Provident Mutual	655, 000	24. 60	6, 494, 000	11. 42	7, 149, 000	12. 01	72, 246
Conn. Mutual	1, 432, 000	9. 24	1, 495, 000	1. 59	2, 927, 000	2. 68	277, 310
Conn. General	1, 296, 000	12. 95	390, 000	1. 05	1, 686, 000	3. 59	57, 576
Phoenix Mutual	2, 129, 000	13. 93	2, 059, 000	5. 94	4, 188, 000	8. 41	93, 026
Bankers Life	5, 197, 000	16. 94	110, 000	. 87	5, 307, 000	12. 21	608, 467
National Life	1, 558, 000	12. 85	558, 000	. 89	2, 116, 000	2. 83	147, 954
Pacific Mutual	449, 000	20. 63	7, 721, 000	11. 11	8, 170, 000	13. 25	200, 387
State Mutual	None owned		3, 135, 000	8. 91	3, 135, 000	8. 91	45, 702
Equitable of Iowa	2, 111, 000	6. 73	None		2, 111, 000	4. 56	54, 527
Western & Southern	23, 000	1. 17	3, 865, 000	5. 72	3, 888, 000	5. 59	17, 652
Lincoln National	485, 000	14. 79	465, 000	1. 43	950, 000	2. 66	113, 294
Guardian Life	None owned		14, 968, 000	33. 68	14, 968, 000	33. 68	71, 844
Total	110, 643, 000	14. 71	409, 700, 000	10. 52	520, 345, 000	11. 22	47, 536, 721

Source: Tables 56, 57 and 58 of the Investment Questionnaire replies and 1938 Annual Statements to State Insurance Departments.

Exhibit No. 2269

[Prepared by the Securities and Exchange Commission Insurance Study Staff.]

Schedule G.—*Interest Due and Accrued on Bonds and Mortgages*

	(1) Interest due and accrued on bonds owned 12/31/38 which are in default as to principal or interest	(2) Interest due and unpaid on mortgages owned as of 12/31/38	Total Columns (1) & (2)
Metropolitan	$32, 824, 619	$21, 852, 633	$54, 677, 252
Prudential	16, 185, 513	6, 162, 751	22, 348, 264
New York Life	16, 406, 481	3, 890, 933	20, 297, 414
Equitable	13, 510, 245	2, 344, 627	15, 854, 872
Mutual of New York	8, 794, 372	580, 909	9, 375, 181
Northwestern	8, 283, 282	1, 706, 689	9, 989, 971
Travelers	1, 565, 259	1, 248, 768	2, 814, 027
John Hancock	3, 407, 867	2, 026, 392	5, 434, 259
Penn Mutual	1, 014, 534	141, 133	1, 155, 667
Mutual Benefit	2, 978, 667	2, 249, 569	5, 228, 236
Massachusetts Mutual	3, 117, 345	1, 093, 397	4, 210, 742
Aetna	3, 837, 641	580, 660	4, 418, 301
New England	2, 525, 410	296. 421	2, 821, 831
Union Central	None	1, 601, 954	1, 601, 954
Provident Mutual	920, 620	72, 246	992, 866
Connecticut Mutual	479, 751	277, 310	757, 061
Pacific Mutual	178, 665	200, 387	379, 052
Connecticut General	424, 526	57, 576	482, 102
Phoenix Mutual	790, 740	93, 026	882, 766
Bankers Life of Iowa	619, 066	608, 467	1, 227, 533
National Life of Vermont	None	147, 954	147, 954
State Mutual	487, 397	45, 702	533, 099
Equitable of Iowa	264, 115	54, 527	318, 642
Western & Southern	11, 106	17, 652	28, 758
Lincoln National	15, 883	113, 294	129, 177
Guardian Life	100, 827	71, 844	172, 671
Totals	$118, 743, 931	47, 536, 721	$166, 280, 652

Source: 1938 Annual Statements to State Insurance Departments

Exhibit No. 2270

[Prepared by the Bureau of Agricultural Economics]

Farm Mortgage Debt—Total Amounts Outstanding as of January 1, and Annual Interest Charges, for Indicated Years*

[Millions of Dollars]

Year	Total Outstanding	Total Interest Charges	Year	Total Outstanding	Total Interest Charges
1910	3, 208	203	1925	9, 913	612
1911	3, 522	225	1926	9, 713	598
1912	3, 930	252	1927	9, 658	593
1913	4, 348	276	1928	9, 757	590
1914	4, 707	296	1929	9, 757	582
1915	4, 991	314	1930	9, 631	572
1916	5, 256	341	1931	9, 458	559
1917	5, 826	378	1932	9, 214	534
1918	6, 537	417	1933	8, 638	483
1919	7, 137	476	1934	7, 887	446
1920	8, 449	574	1935	7, 786	411
1921	10, 221	653	1936	7, 639	385
1922	10, 702	680	1937	7, 390	370
1923	10, 786	679	1938	7, 214	357
1924	10, 665	647	1939	7, 071	------------

*Estimated.

Source: Bureau of Agricultural Economics.

Exhibit No. 2271

[Chart based on following statistical data appears in text on p. 14862]

Cash farm income and farm-mortgage debt, 1910–39 and value per acre of farm real estate, 1912–39

Year	Index of cash farm income (1910–14=100)[1]	Index of farm-mortgage debt (1910–14=100)[2]	Index of value per acre of farm real estate (1912–14=100)[3]
	Percent	*Percent*	*Percent*
1910	98	81	----------
1911	94	89	----------
1912	101	100	97
1913	106	110	100
1914	102	119	103
1915	108	127	103
1916	131	133	108
1917	180	148	117
1918	227	166	129
1919	244	181	140
1920	212	214	170
1921	137	259	157
1922	144	271	139
1923	161	274	135
1924	171	270	130
1925	185	251	127
1926	178	246	124
1927	181	245	119
1928	186	247	117
1929	190	247	116
1930	150	244	115
1931	106	240	106
1932	79	234	89
1933	91	219	73
1934	114	200	76
1935	127	197	79
1936	144	194	82
1937	154	187	85
1938	137	183	85
1939	140	179	84

[1] Calendar year. Including Government payments.
[2] January 1.
[3] March 1.

Exhibit No. 2272

[Chart based on following statistical data appears in text on p. 14863]

Average interest rates on outstanding farm mortgages, January 1, 1913, 1923, 1933, and 1939

State and geographic division	1913	1923	1933	1939
	Pct.	*Pct.*	*Pct.*	*Pct.*
Maine	7.3	6.6	6.1	5.2
New Hampshire	5.1	5.1	5.3	5.0
Vermont	5.3	5.3	5.4	4.9
Massachusetts	5.3	5.8	5.9	5.3
Rhode Island	5.6	6.0	5.9	5.0
Connecticut	5.5	5.9	5.9	5.3
New England	5.7	5.8	5.8	5.2
New York	5.5	5.7	5.9	5.3
New Jersey	5.5	5.9	5.9	5.2
Pennsylvania	5.4	5.7	5.9	5.2
Middle Atlantic	5.5	5.7	5.9	5.2
Ohio	5.8	6.2	6.2	5.1
Indiana	5.8	6.1	5.8	4.7
Illinois	5.4	6.0	5.7	4.7
Michigan	5.8	6.1	6.1	4.9
Wisconsin	5.4	5.8	5.5	4.7
East North Central	5.5	6.0	5.8	4.8
Minnesota	5.7	5.9	5.4	4.5
Iowa	5.5	5.8	5.4	4.7
Missouri	6.1	6.4	5.9	5.4
North Dakota	7.2	6.7	6.0	4.6
South Dakota	6.2	6.4	5.6	4.7
Nebraska	5.6	6.1	5.5	4.6
Kansas	5.7	6.4	5.9	4.9
West North Central	5.8	6.1	5.6	4.7
Delaware	5.6	5.9	5.9	5.3
Maryland	5.7	5.9	5.9	5.1
Virginia	5.9	5.9	5.9	4.7
West Virginia	6.1	5.9	5.8	4.8
North Carolina	6.0	6.0	5.9	5.0
South Carolina	7.8	7.2	6.6	4.9
Georgia	7.7	7.2	6.9	5.4
Florida	7.7	7.2	7.1	5.4
South Atlantic	6.6	6.6	6.3	5.1
Kentucky	5.9	6.0	5.8	4.8
Tennessee	5.8	6.0	5.7	4.8
Alabama	7.9	7.1	6.6	5.2
Mississippi	8.2	6.7	6.2	5.3
East South Central	7.0	6.4	6.0	5.0
Arkansas	7.8	7.2	6.6	5.4
Louisiana	7.6	7.0	6.4	5.3
Oklahoma	6.3	7.3	6.3	5.3
Texas	7.9	7.5	6.7	5.3
West South Central	7.4	7.4	6.6	5.3
Montana	7.6	7.4	6.8	5.6
Idaho	8.2	7.5	6.6	5.2
Wyoming	8.6	7.8	6.1	4.9
Colorado	7.0	7.0	6.6	5.4
New Mexico	8.4	7.5	7.3	5.6
Arizona	8.0	7.8	6.8	5.3
Utah	7.9	7.0	6.7	5.1
Nevada	7.8	7.0	6.5	5.7
Mountain	7.7	7.3	6.7	5.4
Washington	7.4	7.0	6.4	5.2
Oregon	7.5	6.8	6.2	5.1
California	6.5	6.7	6.6	5.6
Pacific	6.8	6.8	6.5	5.5
United States	6.1	6.4	6.0	5.0

"Exhibit No. 2273," appears in text on p. 14866

EXHIBIT No. 2274

[Chart based on following statistical data, "Exhibit No. 2273", appears in text on p. 14866]

Farm-Mortgage Debt; Total Amount Outstanding and Amount and Percentage of Total Held by Principal Lender Groups, January 1, 1910–39

[In millions of dollars]

Year	Total Amount Outstanding	Life Insurance Companies		Commercial Banks [1]		Joint Stock Land Banks [2]		Federal Land Banks [3]		Land Bank Commissioner [3]		Individuals and Others	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1910	3,208	387	12.1	406	12.6							2,415	75.3
1911	3,522	423	12.0	478	13.6							2,621	74.4
1912	3,930	480	12.2	580	14.8							2,870	73.0
1913	4,348	550	12.7	674	15.5							3,124	71.8
1914	4,707	597	12.7	724	15.4							3,386	71.9
1915	4,991	670	13.4	746	15.0							3,575	71.6
1916	5,256	765	14.5	776	14.8							3,715	70.7
1917	5,826	861	14.8	934	16.0							4,031	69.2
1918	6,537	956	14.6	1,008	15.4	2	0.1	39	0.6			4,532	69.3
1919	7,137	1,018	14.3	1,030	14.4	8	.1	157	2.2			4,924	69.0
1920	8,449	975	11.5	1,204	14.3	60	.7	297	3.5			5,913	70.0
1921	10,221	1,206	11.8	1,447	14.1	78	.8	356	3.5			7,134	69.8
1922	10,702	1,432	13.4	1,540	14.4	85	.8	443	4.1			7,202	67.3
1923	10,786	1,556	14.4	1,506	14.0	219	2.0	656	6.1			6,849	63.5
1924	10,665	1,792	16.8	1,388	13.0	393	3.7	822	7.7			6,270	58.8
1925	9,913	1,943	19.6	1,201	12.1	446	4.5	923	9.3			5,400	54.5
1926	9,713	2,030	20.9	1,178	12.1	546	5.6	999	10.3			4,960	51.1
1927	9,658	2,124	22.0	1,143	11.8	632	6.5	1,069	11.1			4,690	48.6
1928	9,757	2,173	22.3	1,097	11.3	667	6.8	1,145	11.7			4,675	47.9
1929	9,757	2,139	21.9	1,047	10.8	656	6.7	1,183	12.1			4,732	48.5
1930	9,631	2,106	21.9	997	10.3	627	6.5	1,186	12.3			4,715	49.0
1931	9,458	2,059	21.8	947	10.0	591	6.3	1,176	12.4			4,685	49.5
1932	9,214	2,007	21.8	940	10.2	537	5.8	1,152	12.5			4,578	49.7
1933	8,638	1,869	21.6	889	10.3	459	5.3	1,106	12.8			4,315	50.0
1934	7,887	1,661	21.1	711	9.0	392	5.0	1,203	15.2	71	0.9	3,849	48.8
1935	7,786	1,259	16.2	499	6.4	256	3.3	1,885	24.2	617	7.9	3,270	42.0
1936	7,639	1,055	13.8	487	6.4	176	2.3	2,060	27.0	794	10.4	3,067	40.1
1937	7,390	936	12.7	488	6.6	134	1.8	2,053	27.8	836	11.3	2,943	39.8
1938	7,214	895	12.4	501	6.9	104	1.4	2,025	28.1	812	11.3	2,877	39.9
1939	7,071	887	12.6	519	7.3	87	1.2	1,972	27.9	752	10.6	2,854	40.4

[1] For the years 1910–34, inclusive, this column relates to open State and national banks; for the years 1935 to 1939 the figures relate to insured commercial banks.
[2] Includes banks in receivership.
[3] Excludes Puerto Rico.

Source: Bureau of Agricultural Economics.

EXHIBIT No. 2275

Farm-Mortgage Debt Held by Life Insurance Companies—Total Amounts and Percentage of Total Farm-Mortgage Debt Outstanding in the United States and Designated Regions, January 1, 1910, 1915 and 1920–39

[In thousands of dollars]

Year	United States		North Atlantic [1]		East North Central [2]	
	Amount	Percent	Amount	Percent	Amount	Percent
1910	386,961	12.1	611	0.2	78,837	9.7
1915	669,984	13.4	479	.1	120,957	10.7
1920	974,826	11.5	172	(6)	145,903	8.8
1921	1,205,778	11.8	164	(6)	169,570	8.6
1922	1,432,367	13.4	510	.1	198,877	9.8
1923	1,556,203	14.4	571	.1	222,929	10.7
1924	1,792,145	16.8	923	.2	270,118	12.9
1925	1,942,624	19.6	567	.1	311,226	16.1
1926	2,030,301	20.9	514	.1	340,467	18.0
1927	2,123,664	22.0	459	.1	368,449	19.9
1928	2,172,863	22.3	403	.1	380,349	20.2
1929	2,138,980	21.9	333	.1	379,547	19.8
1930	2,105,477	21.8	504	.1	370,366	19.7
1931	2,059,221	21.8	443	.1	370,976	20.4
1932	2,007,361	21.8	472	.1	369,700	21.0
1933	1,869,160	21.6	567	.1	348,820	21.0
1934	1,661,046	21.1	562	.1	317,581	20.9
1935	1,258,900	16.2	536	.1	249,716	16.3
1936	1,054,770	13.8	519	.1	213,402	14.1
1937	936,454	12.7	481	.1	189,459	12.9
1938	895,470	12.4	583	.1	187,111	13.0
1939	887,336	12.6	1,228	.2	194,923	13.9

Year	West North Central [3]		Southern [4]		Western [5]	
	Amount	Percent	Amount	Percent	Amount	Percent
1910	254,423	19.9	43,149	8.6	9,941	3.5
1915	414,006	20.4	109,691	14.0	24,851	4.1
1920	621,258	17.7	175,608	11.3	31,885	2.6
1921	760,155	17.4	236,783	12.8	39,106	2.7
1922	881,247	19.2	306,309	15.5	45,424	3.0
1923	943,787	20.4	333,810	17.1	55,106	3.7
1924	1,095,222	23.7	363,400	19.1	62,482	4.4
1925	1,184,712	27.7	377,068	21.0	69,051	5.2
1926	1,236,271	30.8	381,553	19.9	71,496	5.5
1927	1,286,180	33.8	393,421	19.1	75,155	5.7
1928	1,315,813	34.9	395,260	18.6	81,038	6.0
1929	1,289,363	34.5	387,030	18.6	82,707	5.9
1930	1,224,577	34.3	409,008	19.8	101,022	6.8
1931	1,194,974	34.4	397,343	19.8	95,485	6.3
1932	1,154,038	34.5	388,363	19.9	94,788	6.3
1933	1,074,022	34.8	354,742	19.6	91,009	6.3
1934	938,961	34.0	319,767	19.0	84,175	6.4
1935	692,395	25.7	248,389	14.5	67,864	5.4
1936	569,958	21.8	211,507	12.6	59,384	4.8
1937	495,291	20.1	197,675	12.1	53,548	4.3
1938	455,609	19.2	196,828	12.3	55,339	4.5
1939	440,024	19.2	198,897	12.7	52,264	4.3

[1] Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania.
[2] Ohio, Indiana, Illinois, Michigan, Wisconsin.
[3] Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas.
[4] Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, Texas.
[5] Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California.
[6] Less than .05 percent.

Source: Bureau of Agricultural Economics.

Exhibit No. 2276

[Chart based on following statistical data appears in text on p. 14874]

Estimated number of farms changing ownership by forced and voluntary sales, per 1,000 of all farms, by geographic divisions, 1926–39 [1]

Year	North Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific	United States
Forced: [2]									
1926	12.3	18.9	30.8	19.5	16.4	18.7	50.2	20.6	21.6
1927	12.0	20.4	32.0	21.0	21.7	19.9	45.3	20.1	23.3
1928	11.6	20.7	32.4	23.3	20.0	18.5	39.4	19.9	22.8
1929	11.7	19.1	25.9	23.0	15.2	15.2	29.1	17.5	19.5
1930	12.6	22.3	27.5	23.2	16.1	16.8	29.4	15.2	20.8
1931	12.7	24.0	31.3	32.2	25.9	22.4	36.4	25.0	26.1
1932	17.4	34.3	52.5	47.1	50.6	40.2	43.5	37.6	41.7
1933	26.0	43.9	72.0	59.5	63.5	51.2	52.8	44.1	54.1
1934	24.5	32.0	50.9	40.7	44.9	34.3	44.1	37.1	39.1
1935	22.5	23.5	40.6	24.5	30.6	22.9	35.7	24.6	28.3
1936	20.2	22.1	38.0	21.3	26.9	22.0	36.0	25.8	26.2
1937	16.0	19.0	31.7	17.6	22.4	20.2	33.4	23.1	22.4
1938	13.9	13.5	27.0	13.6	14.0	16.5	27.3	19.1	17.4
1939	13.4	13.5	26.9	13.4	12.4	15.5	24.2	17.5	16.8
Voluntary:									
1926	35.0	25.8	23.0	28.0	33.5	34.7	32.0	35.6	29.6
1927	35.8	25.8	24.3	24.2	29.3	31.1	33.7	36.3	28.3
1928	34.0	24.0	23.9	20.0	27.5	27.9	34.8	34.3	26.3
1929	28.8	21.0	22.4	18.3	23.4	25.5	35.6	28.3	23.5
1930	29.0	20.8	22.9	18.2	23.9	24.2	38.7	30.1	23.7
1931	26.2	18.6	18.9	14.5	19.4	16.7	24.8	22.1	19.0
1932	21.6	16.8	14.2	12.3	17.2	15.4	17.6	22.3	16.2
1933	21.4	15.6	13.8	15.3	18.9	17.6	16.8	21.3	16.8
1934	20.0	16.5	15.5	17.6	19.1	18.8	17.5	20.9	17.8
1935	19.3	18.7	17.7	18.5	22.1	18.8	20.2	25.0	19.4
1936	22.7	23.9	22.5	22.7	31.8	23.0	25.9	33.3	24.8
1937	29.1	33.9	28.1	28.0	39.5	27.3	32.1	42.6	31.5
1938	27.1	29.0	26.9	28.2	37.4	27.1	32.3	41.4	29.9
1939	26.1	27.1	26.3	25.8	35.2	26.4	30.0	37.0	28.2

[1] Years ended March 15.
[2] Including loss of title resulting from tax delinquency, foreclosure, bankruptcy, default of contract, and sales and surrender of title to avoid foreclosure.

EXHIBIT No. 2277

Farm Foreclosure Sales—Estimated Number per 1,000 Farms Mortgaged to Each Type of Lender on January 1, 1935, From January 1934 through September 1939,[1] By Year and Quarter

Year and quarter	Insurance Companies	Federal Land Banks and Land Bank Commissioner	Individuals	Commercial Banks	Miscellaneous	Aggregate for All Lenders
Year:						
1934	92.5	4.7	34.3	36.9	29.7	27.8
1935	67.7	11.8	28.5	36.9	26.7	26.1
1936	49.7	15.7	24.5	34.5	18.5	23.3
1937	34.2	13.1	20.0	30.4	13.2	18.5
1938	29.2	13.4	17.3	25.9	9.8	16.4
Quarter ended						
1934—						
March	25.5	0.4	10.2	9.2	8.9	7.6
June	25.9	1.0	8.4	9.6	7.8	7.1
Sept	19.7	1.8	6.8	8.4	6.1	6.1
Dec	21.4	1.5	8.9	9.7	6.9	7.0
1935—						
March	19.4	2.6	8.1	9.3	8.1	7.2
June	18.9	3.3	7.8	10.0	6.3	7.0
Sept	15.3	3.0	6.2	8.4	6.5	6.0
Dec	14.1	2.9	6.4	9.2	5.8	5.9
1936—						
March	13.3	3.8	6.2	8.0	6.4	6.1
June	13.8	4.6	6.4	9.3	5.2	6.4
Sept	9.9	3.8	5.6	9.0	3.6	5.3
Dec	12.7	3.5	6.3	8.2	3.3	5.5
1937—						
March	10.7	3.2	6.0	9.4	3.9	5.3
June	9.6	3.8	5.0	7.3	3.8	5.0
Sept	6.7	3.2	4.3	6.7	2.6	4.0
Dec	7.2	2.9	4.7	7.0	2.9	4.2
1938—						
March	9.1	3.0	5.1	7.2	3.3	4.6
June	8.1	3.9	4.7	6.5	2.5	4.5
Sept	5.3	3.4	3.6	6.1	1.9	3.6
Dec	6.7	3.1	3.9	6.1	2.1	3.7
1939—						
March	8.3	4.0	4.1	6.4	3.2	4.5
June	7.3	5.2	3.6	5.9	2.5	4.5
Sept	4.8	4.1	2.8	4.5	1.4	3.3

[1] Based on reports from counties including from 22 to 30% of the farms in the United States.

Source: Farm Credit Administration.

"EXHIBIT No. 2278" appears in text on p. 14878

Exhibit No. 2279

Estimated Amount of Proceeds of Federal Land Bank and Land Bank Commissioner Loans, May 1, 1933—January 1, 1937, Used to Refinance First and Junior Mortgages Held by Life Insurance Companies and by All Lenders, and Amount of Farm-Mortgage Loans Held by Life Insurance Companies and All Lenders, January 1, 1933

Geographic Division	Loan Proceeds Used to Refinance Mortgages Held by			Outstanding Farm-Mortgage Loans, Jan. 1, 1933			Percent Which Loan Proceeds Used to Refinance Mortgages of Life Insurance Companies and All Lenders Are of Mortgages Held, January 1, 1933	
	Life Insurance Companies (1,000 Dollars)	All Lenders (1,000 Dollars)	Percent Used to Refinance Loans of Life Ins. Cos.	Life Insurance Companies (1,000 Dollars)	All Lenders (1,000 Dollars)	Percent Held by Life Insurance Companies	Life Insurance Companies	All Lenders
New England	6	16,747	(1)	29	185,799	(1)	20.7	9.0
Middle Atlantic	44	35,648	0.1	538	459,317	0.1	8.2	7.8
East North Central	59,270	324,596	18.3	348,820	1,657,756	21.0	17.0	19.6
West North Central	166,260	592,138	28.1	1,074,022	3,082,199	34.8	15.5	19.2
South Atlantic	7,127	86,896	8.2	42,947	423,008	10.2	16.6	20.5
East South Central	13,545	73,712	18.4	76,959	366,538	21.0	17.6	20.1
West South Central	44,362	178,779	24.8	234,836	1,020,388	23.0	18.9	17.5
Mountain	5,739	66,335	8.7	30,216	540,400	5.6	19.0	12.3
Pacific	9,465	129,308	7.3	60,793	902,978	6.7	15.6	14.3
United States	305,818	1,504,159	20.3	1,869,160	8,638,383	21.6	16.4	17.4
State	**Twenty States with Largest Amount of Mortgages Held by Life Insurance Companies, January 1, 1933**							
Iowa	52,654	161,198	32.7	456,995	982,484	46.5	11.5	16.4
Illinois	28,300	106,243	26.6	178,576	534,070	33.4	15.8	19.9
Texas	33,809	128,915	26.2	151,710	626,915	24.2	22.3	20.6
Kansas	33,139	94,144	35.2	147,940	409,963	36.1	22.4	23.0
Nebraska	22,452	94,535	23.7	123,986	487,587	25.4	18.1	19.4
Minnesota	26,037	102,559	25.4	116,381	410,753	28.3	22.4	25.0
Missouri	9,327	35,879	26.0	108,261	352,970	30.7	8.6	10.2
South Dakota	15,504	44,756	34.6	95,990	246,432	39.0	16.2	18.2
Indiana	14,407	48,393	29.8	87,269	235,491	37.1	16.5	20.5
Oklahoma	9,359	33,001	28.4	62,208	251,011	24.8	15.0	13.1
Ohio	8,952	45,173	19.8	51,259	241,308	21.2	17.5	18.7
Tennessee	6,944	21,277	32.6	29,859	96,581	30.9	23.3	22.0
Washington	3,184	14,368	22.2	26,543	152,639	17.4	12.0	9.4
North Dakota	7,147	59,068	12.1	24,469	192,010	12.7	29.2	30.8
Wisconsin	6,163	85,322	7.2	23,492	454,115	5.2	26.2	18.8
Kentucky	5,230	29,639	17.6	22,840	101,219	22.6	22.9	29.3
California	3,399	97,586	3.5	20,589	622,904	3.3	16.5	15.7
Georgia	3,349	19,127	17.5	19,135	83,833	22.8	17.5	22.8
Mississippi	562	11,433	4.9	17,050	87,965	19.4	3.3	13.0
Oregon	2,883	17,354	16.6	13,661	127,435	10.7	21.1	13.6
Total	292,801	1,249,970	23.4	1,778,213	6,697,685	26.5	16.5	18.7

[1] Less than .05 percent.

Source: Bureau of Agricultural Economics.

Exhibit No. 2280

Acquired Farm Real Estate Held by Leading Lending Agencies, January 1, 1929–39

[In Thousands of Dollars]

Year	Federal Land Banks and Federal Farm Mortgage Corporation [1]	Life Insurance Companies [2]	Joint Stock Land Banks [3]	All Active Insured Commercial Banks [4]	Three State Credit Agencies [5]
1929	26, 478	88, 305	15, 236	(6)	19, 540
1930	29, 517	120, 020	19, 685	(6)	26, 860
1931	36, 931	151, 229	22, 202	(6)	33, 511
1932	53, 658	219, 947	37, 957	(6)	39, 008
1933	83, 336	316, 931	71, 741	(6)	47, 454
1934	96, 774	465, 072	85, 740	(6)	56, 094
1935	96, 780	600, 873	81, 700	(6)	60, 270
1936	120, 091	646, 280	78, 202	[7] 74, 166	61, 531
1937	135, 178	713, 166	72, 781	69, 525	68, 444
1938	132, 288	705, 207	62, 030	56, 311	72, 040
1939	139, 440	702, 861	53, 885	49, 143	73, 301

[1] Investment, including sheriffs' certificates and judgments. Excluding prior liens.
[2] Investment—partially estimated.
[3] Carrying value of real estate, including sheriffs' certificates and judgments. Real estate held by banks in receivership included at book value.
[4] Book value.
[5] Investment. Rural Credit Board of South Dakota, Bank of North Dakota, and Department of Rural Credit of Minnesota.
[6] Data unavailable.
[7] June 30.

Source: Bureau of Agricultural Economics.

Exhibit No. 2281

Farm Investment of Life Insurance Companies—Amounts and Percentage of Total Holdings Represented by Farm Mortgages and Farm Real Estate Owned; Total Farm Investment, January 1, 1929–39

[In Millions of Dollars]

Year	Total Farm Mortgage Debt		Farm Real Estate Owned		Total Farm Investment	
	Amount	Percent	Amount	Percent	Amount	Percent
1929	2, 139	96.0	88	4.0	2, 227	100.00
1930	2, 105	94.6	120	5.4	2, 225	100.00
1931	2, 069	93.2	151	6.8	2, 210	100.00
1932	2, 007	90.1	220	9.9	2, 227	100.00
1933	1, 869	85.5	317	14.5	2, 186	100.00
1934	1, 661	78.1	465	21.9	2, 126	100.00
1935	1, 259	67.7	601	32.3	1, 860	100.00
1936	1, 055	62.0	646	38.0	1, 701	100.00
1937	936	56.8	713	43.2	1, 649	100.00
1938	895	55.9	705	44.1	1, 600	100.00
1939	887	55.8	703	44.2	1, 590	100.00

Source: Bureau of Agricultural Economics.

EXHIBIT No. 2282

June 1937 Bulletin 362

Corporate-Owned Land in Iowa, 1937

By W. G. Murray and H. W. Bitting

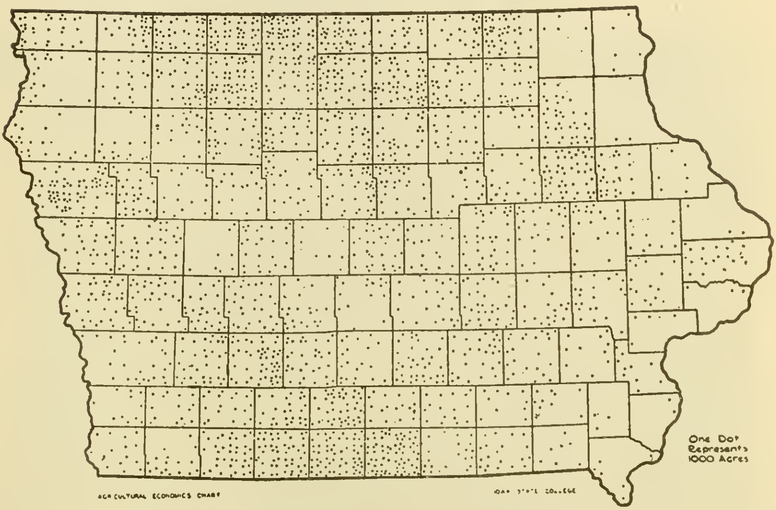


FIGURE 3.—Land holdings of insurance companies, January 1937.

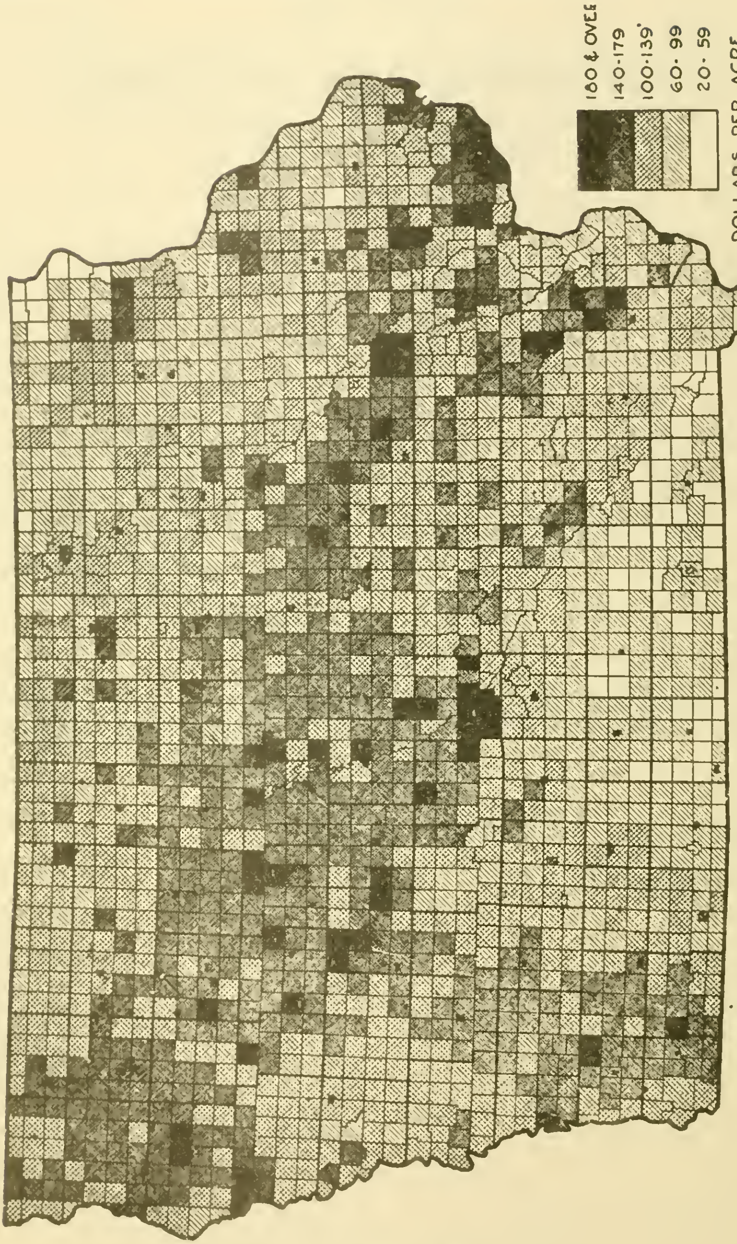


FIGURE 8.—Value of land and buildings, by townships, 1930.

Source: Federal Census.

AGRICULTURAL EXPERIMENT STATION
IOWA STATE COLLEGE OF AGRICULTURE
AND MECHANIC ARTS

EXHIBIT No. 2283

December 1938 Research Bulletin 248

Farm Mortgage Foreclosures in Southern Iowa 1915-1936

BY WILLIAM G. MURRAY

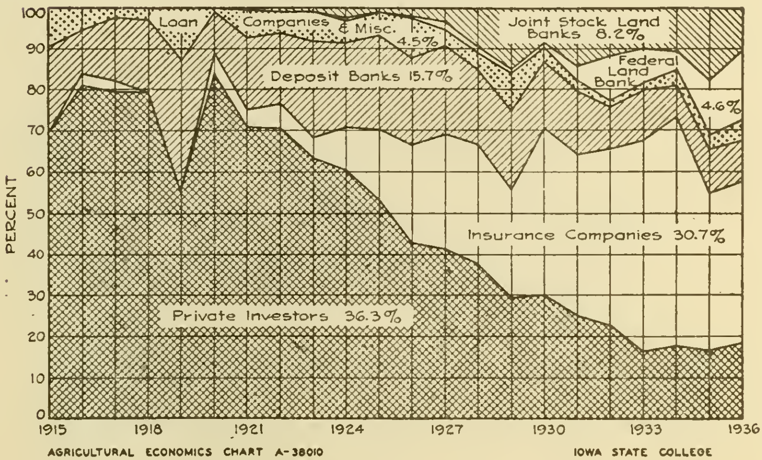


FIGURE 4.—Percentage distribution of acreage foreclosed by types of mortgage holders, 1915–36.

TABLE 3.—PERCENTAGE DISTRIBUTION OF ACREAGE FORECLOSED BY TYPES OF MORTGAGE HOLDERS, 1915–36

Period and year	Private individuals	Insurance companies	Banks	Loan companies	Federal Land Bank	Joint stock land banks	Others	Total
Period I:								
1915	68.8		21.4	5.0			4.8	100.0
1916	81.0	2.6	10.7	4.3			1.4	100.0
1917	79.6	2.4	15.6	1.6			.8	100.0
1918	79.3		17.5	1.8			1.4	100.0
1919	55.0		31.7	13.1			.2	100.0
1920	84.1	3.8	10.6				1.5	100.0
Period II:								
1921	71.1	4.0	17.5	3.8		.7	2.9	100.0
1922	70.7	5.8	17.2	3.4		1.2	1.7	100.0
1923	63.2	4.9	23.6	4.4		1.1	2.8	100.0
1924	60.4	10 5	20.2	4.5	.5	2.9	1.0	100.0
1925	53.4	16.8	22.8	4.2		1.3	1.5	100.0
1926	42.5	23.9	21.2	7.1	.3	2.2	2.8	100.0
1927	41.2	27.8	21.3	3.6	.8	3.6	1.7	100.0
1928	37.4	29.2	18.1	2.3	1.5	9.5	2.0	100.0
1929	29.5	26.0	19.2	.9	1.0	15.0	8.4	100.0
1930	30.2	40.2	16.0	1.3	1.1	8.5	2.7	100.0
Period III:								
1931	25.3	38.8	15.1	1.3	3.5	14.2	1.8	100.0
1932	22.6	43.0	10.0	.5	10.6	11.9	1.4	100.0
1933	16.1	51.5	12.0	.4	8.5	10.0	1.5	100.0
Period IV:								
1934	17.6	55.5	7.7	.1	5.7	10.6	2.8	100.0
1935	16.6	38.3	10.6	.5	13.5	17.7	2.8	100.0
1936	18.4	39.3	10.2	.3	16.8	10.7	4.3	100.0
Total	36.3	30.7	15.7	2.2	4.6	8.2	2.3	100.0

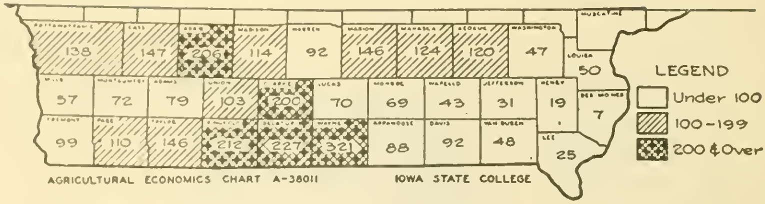


FIGURE 6.—Number of farm mortgage foreclosures by insurance companies, 1915–36.

AGRICULTURAL EXPERIMENT STATION
IOWA STATE COLLEGE OF AGRICULTURE
AND MECHANIC ARTS

EXHIBIT No. 2284

December 1939 Research Bulletin 266

Corporate Land Foreclosures, Mortgage Debt and Land Values in Iowa, 1939

BY WILLIAM G. MURRAY

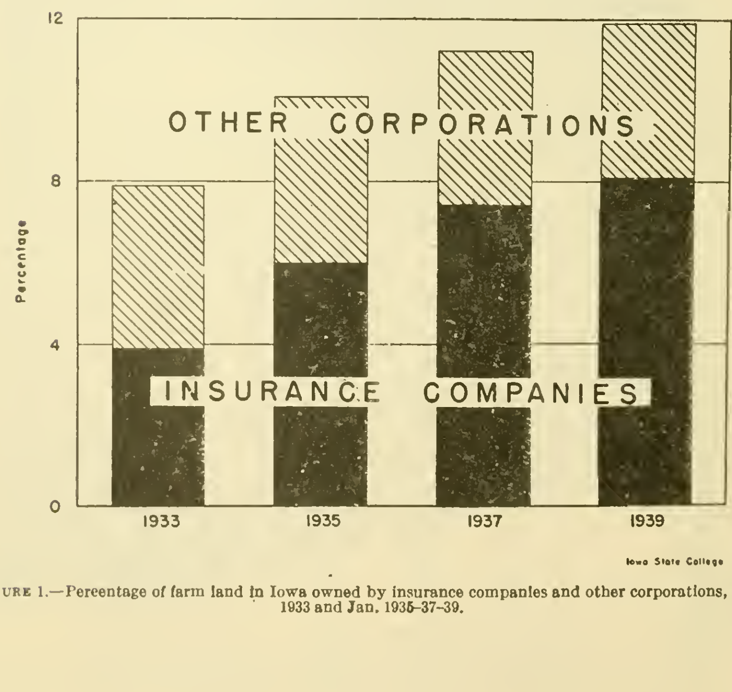


FIGURE 1.—Percentage of farm land in Iowa owned by insurance companies and other corporations, Sept. 1933 and Jan. 1935–37–39.

TABLE 2.—LAND HOLDINGS OF CORPORATIONS BY TYPE OF CORPORATIONS,* 1933-3.

Type of corporation	Acreage (000 omitted)				Percent of all farm land in Iowa owned by corporations			
	1933	1935	1937	1939	1933	1935	1937	1939
Insurance cos	1,343	2,044	2,510	2,752	3.9	6.0	7.4	8.1
Deposit banks, open and closed	536	499	388	347	1.6	1.5	1.1	1.0
Federal land bank†	76	129	189	232	.2	.4	.6	.7
Joint stock and banks	256	276	253	253	.85	.8	.7	.7
Land, invest, and motge. cos	332	317	290	241	1.0	1.0	.9	.7
Misc	145	166	181	219	.4	.4	.5	.7
Total	2,688	3,431	3,811	4,044	7.9	10.1	11.2	11.9

* Data for 1933 center approximately on September, for all other years center on January.
† Includes Land holdings of Federal Farm Mortgage Corporation.

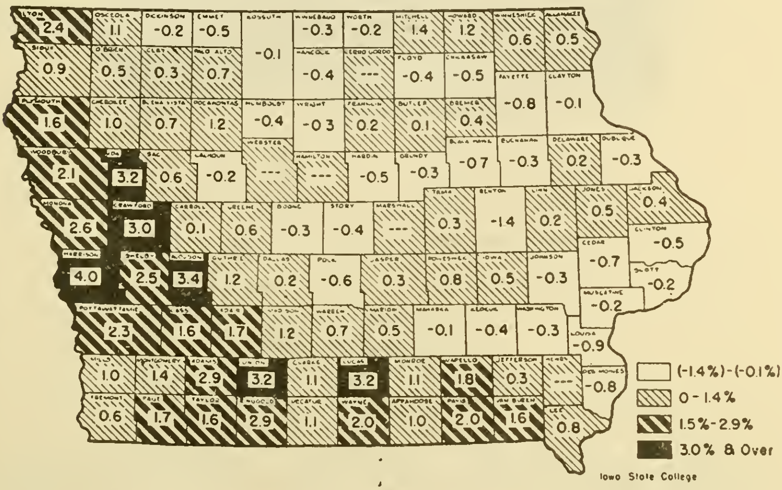


FIGURE 3.—Increases or decreases in corporate average 1937-39, as a percentage of all farm land.

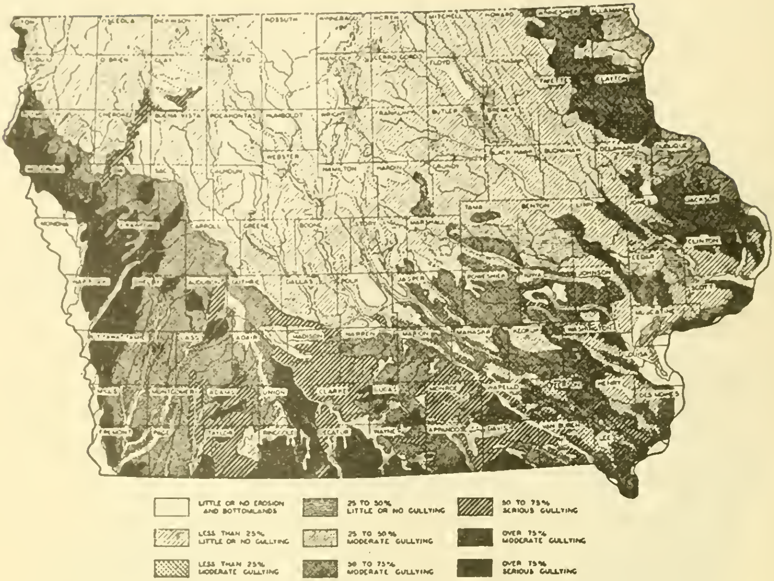


FIGURE 5.—Location and extent of land in the various classes of soil erosion in Iowa.

AGRICULTURAL EXPERIMENT STATION

IOWA STATE COLLEGE OF AGRICULTURE

AND MECHANIC ARTS

EXHIBIT No. 2285

Relationship of Farm Mortgage Debt to Farm Value as Revealed by Foreclosures in 5 High- and 5 Low-Value Counties in Southern Iowa 1915–1936 and acreage Sold and Deeded by Corporations in These Same Counties January 1935 to January 1939 [1]

	Southern Iowa	
	5 High-Value Counties	5 Low-Value Counties
Value of land and buildings per acre (Federal Census):		
1925	$170	$93
1930	146	70
1935	85	36
Average debt per acre (1915–1936) of foreclosure judgments obtained by:		
Insurance companies	$94	$63
Federal Land Banks	84	55
Joint Stock land banks	79	60
Corporate-owned land January 1939 as percentage of all farm land	9%	25%
Acreage owned by corporations January 1935	119,000	317,000
Deeded by corporations in 4 years ending January 1939	44,000	54,000
Acres deeded as percentage of acreage on hand January 1935	37%	17%

[1] Source: Iowa Agr. Exp. Sta., Ames, Iowa.
Five high-value counties are: Pottawattamie, Mills, Fremont, Montgomery, Page.
Five low-value counties are: Ringgold, Decatur, Wayne, Clarke, Lucas.

EXHIBIT No. 2286

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Farm Real Estate Under Contract of Sale as a Percentage of All Farm Real Estate Owned as of December 31, 1938, Inclusive

Company	State of domicile	Per-cent	Company	State of domicile	Per-cent
Bankers Life	Iowa	33.93	Travelers	Connecticut	9.09
Union Central	Ohio	30.78	Metropolitan	New York	7.86
Equitable, Iowa	Iowa	27.18	Western & Southern	Ohio	7.85
Lincoln National	Indiana	26.66	Phoenix Mutual	Connecticut	4.38
Northwestern Mutual	Wisconsin	19.38	Penn Mutual	Pennsylvania	2.86
Prudential	New Jersey	18.09	Connecticut Mutual	Connecticut	1.83
John Hancock	Massachusetts	15.22	National Life	Vermont	1.56
Aetna	Connecticut	14.20	Provident Mutual	Pennsylvania	.54
New York Life	New York	13.62	Connecticut General	Connecticut	.39
Mutual Benefit	New Jersey	12.47	Equitable N. Y	New York	.15

Source: Tables 180 and 181 of Operating Results and Investments of the Twenty-six Largest Life Insurance Companies, "Exhibit No. 2250."

"EXHIBIT No. 2287," appears in text on p. 14923

"EXHIBIT No. 2288," appears in text on p. 14927

"EXHIBIT No. 2289," appears in text on p. 14928

EXHIBIT No. 2290

Farm Sales as Reported by Farm Conference Members

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

	Cost	No. of Sales	Acres Sold	Selling Price	Selling Price Per Acre	Gain or Loss Per Acre	Sales as Per Cent of Farms Owned	Total Gain or Loss on Farms Sold
1933								
Quarter:								
1st	4,622,415	859	122,632.16	3,337,393	27.21	−10.48		−1,285,185.03
2nd	5,746,000	886	167,836.69	4,749,449	28.30	−5.94		−996,949.93
3rd	8,607,523	1,220	249,410.28	7,580,063	30.39	−4.12		−1,027,570.00
4th	8,939,320	1,382	259,447.10	7,565,942	29.16	−5.29		−1,372,475.15
1934								
Quarter:								
1st	7,603,178	1,140	199,572.09	6,401,062	32.07	−6.02		−1,201,423.98
2nd	7,712,628	1,143	232,269.00	6,433,161	27.70	−5.51	2.25	−1,279,802.19
3rd	11,704,133	1,557	294,806.31	10,482,133	35.56	−4.15	3.85	−1,223,446.18
4th	16,823,655	2,191	416,903.90	15,023,392	36.04	−4.32	3.91	−1,801,024.84
1935								
Quarter:								
1st	14,825,041	1,968	344,440.86	12,061,833	35.02	−8.02	3.56	−2,762,415.69
2nd	15,717,306	1,873	353,061.20	13,289,907	37.64	−6.88	3.64	−2,429,061.05
3rd	13,870,743	1,610	314,763.04	12,141.781	38.57	−5.49	3.19	−1,728,049.08
4th	18,310,151	2,319	436,705.14	16,086,063	36.84	−5.09	4.20	−2,222,829.16

Farm Sales as Reported by Farm Conference Members—Continued

	Cost	No. of Sales	Acres Sold	Selling Price	Selling Price Per Acre	Gain or Loss Per Acre	Sales as Per Cent of Farms Owned	Total Gain or Loss on Farms Sold
1936								
Quarter:								
1st	9,058,921	1,226	210,159.78	7,744,069	36.85	−6.26	2.02	−1,315,600.22
2nd	10,570,973	1,422	261,954.00	9,260,419	35.35	−5.00	2.29	−1,309,770.00
3rd	15,804,638	1,995	343,780.78	13,507,111	39.29	−6.68	3.38	−2,296,455.61
4th	25,601,674	3,267	576,587.51	22,701,943	39.37	−5.03	5.46	−2,900,235.17
1937								
Quarter:								
1st	12,005,875	1,427	276,492.00	11,045,096	39.95	−3.47	2.84	−959,427.24
2nd	13,496,716	1,473	303,264.00	12,117,290	3.996	−4.55	3.18	−1,379,851.20
3rd	17,704,107	2,015	357,040.00	15,791,057	44.23	−5.36	4.21	−1,913,734.40
4th	13,581,957	1,720	285,669.00	11,474,438	40.17	−7.38	3.30	−2,108,237.22
1938								
1st Half	13,648,139	1,757	310,178.00	11,238,496	36.23	−7.70	3.63	−2,388,370.60
Totals and Averages	265,955,093	34,450	6,316,972.84	230,032,098	36.41	−5.69		−35,909,913.

Source: Farm Mortgage Conference Bulletins.

Exhibit No. 2291

[From the files of The Lincoln National Life Insurance Company]

May 31, 1929.

Mr. Julian Price,
President, Jefferson Standard Life Insurance Co.,
Greensboro, North Carolina.

Dear Julian: Thanks very much for your letter of the 29th.

What I am about to say is neither in criticism nor meant to press the matter of a loan in any way that might embarrass you.

It is hard to understand the attitude of the loan committees to collateral loans such as the one I seek. We recently loaned approximately $200,000 to friends of yours and mine, officers of another life insurance company, on their stock as collateral, and I had a dickens of a time to get my finance committee to consent to a loan on life insurance stock. That is the one collateral they understand better than any other. They will make a loan on a farm or a business property at 5½% and think they have a cream loan. When we foreclose we have the devil's own time to get rid of the security. If, however, we should have to foreclose on the collateral loan we made, we could find a market in ten minutes for the collateral.

A loan on Lincoln Life stock at 6%, payable 3% semiannually, is better and safer and more liquid than a loan on any piece of real estate could possibly be. Our stock is traded in every day in Chicago, Hartford, Connecticut, and Fort Wayne, and 130 is the lowest it has been in many months. Your committee ought to know all about the merits of a loan on such collateral, just as mine should.

I should like, of course, to get a loan from you if I can, but I don't wish to embarrass you in the least and let me repeat that I fully understand the attitude of some of the members of your committee because the attitude of mine seems to be very much the same.

I am enclosing copy of a report made to me by our statistical department on April 30th which shows that your company and mine have just about the worst records in the United States for the ratio of farm real estate owned to farm loans outstanding, and yet we both go right ahead and make them just the same.

We have already absorbed a half million in losses on account of farm foreclosures and will easily have another half million, or possibly more, to absorb gradually during the next two or three years. And yet, because for many, many years they have been the best loans one could make, some of the members of the finance committee would continue putting all our money in real estate loans. I look for a slump in city loans to gradually set in and when it does I suppose we will have another million of losses to absorb. Thank goodness, however, we have an earning capacity of well over a million a year and we will be able to absorb these losses without any shock or unpleasant publicity.

If you haven't read circular No. 60 issued by the United States Department of Agriculture last December on the Farm Real Estate situation for 1927–1928, I suggest that you get copies of it for each member of your finance committee.

It has been my observation that we insurance men have given very careful study to the statistics of every phase of our business except that of loans, but the persons in charge of the loan end of the business seem to feel that they know the statistics of the business without any particular study of past history and present and future trends. Believe me, I have gotten the members of our finance committee into a different frame of mind than heretofore and we are getting out the same statistical studies of the real facts on farm and city loans as we have for years of mortality, agency costs, etc. If our loan committee had been statistically minded during the past ten years and had made the same careful study of that part of the business as we have of the insurance features of the business, we would have been about two million dollars better off than we will be before we get thru with all the foreclosures we have had and will have in years to come on loans now on the books.

It may interest you to know that we are now having an independent survey made of al our foreclosed farms (we have no foreclosed city loans and never have had). The survey is being made by Mr. Hull, President of the Grange Life of Lansing, Michigan. You may not know him, and his life insurance company is a small one, however, he is a national authority on farm economics. He was president of the Michigan Grange for years and has lectured for twenty years on farm subjects. He is chairman of the board of the Detroit branch of the Federal Reserve Bank, has been a farmer all his life and is an all-around successful big business man. Mr. Hull has not made his report yet as he is looking over the farms at the present time. I anticipate, however, that he will blow our loan committee clear out of the water with the result that we will really save hundreds of thousands of dollars in years to come.

With kindest personal regards, I am,

Sincerely yours.

——— ———.

AFH: MD.
Encls.

P. S.—You will understand, of course, that I am not publishing to the world what I am freely and frankly telling you as a friend. I am giving you these facts because I think they may possibly be of some use to you in guiding and educating the minds of some members of your finance committee.

A. H.

"EXHIBIT No. 2291–A," introduced on p. 14945, is on file with the committee.

"EXHIBIT No. 2292," appears in text on p. 14965.

"EXHIBIT No. 2293," appears in text on facing p. 14967.

"EXHIBIT No. 2293–A," appears in text on facing p. 14967.

"Exhibit No. 2293-B," appears in text on facing p. 14967.

"Exhibit No. 2294," appears in text on p. 14970.

"Exhibit No. 2295," appears in text on p. 14986.

Exhibit No. 2296

[From the files of the Metropolitan Life Insurance Company]

E. H. Lougee

MORTGAGE BANKER

Branch Offices: Sioux City, Iowa; Omaha, Nebr.; Sioux Falls, S. Dak.

102 South Main St.

Council Bluffs, Iowa

August 24, 1931.
(Handwritten) 8/31/31

Glenn E. Rogers,
Ass't Manager, Farm Loan Division,
Metropolitan Life Insurance Co.,
New York City.

Dear Sir: I have your letter of the 21st instant with comparative statement of interest due and unpaid on August 22, 1930, $29,635.90 and on August 21, 1931, $71,871.46.

There is interest due on many loans on the first day of May, June, July and August and many of these borrowers have depended upon their small grain from which to pay the interest. The fact that wheat is worth only about 31¢ and oats 15 to 17¢ accounts for so many delinquent interest items due during those months. With only an average crop and with such low prices, it is not possible for the farmer to pay very much interest until later in the year when his hog crop or his corn is ready for market.

We hear a great deal of complaint about the lending companies charging 5½% interest under such conditions. There never was a time when the farmers needed consideration like right now. I wonder if your company has any thought of reducing the interest rate to 5%. (Handwritten) No B.

Yours truly,

E. H. Lougee.

EHL: B.
(Handwritten:) To Mr. B.—GER.—8/26/31.

Exhibit No. 2296-A

[From the files of the Metropolitan Life Insurance Company]

August 31st, 1931.
(Handwritten:) 9/2/31. J. M. H.

Mr. E. H. Lougee,
102 South Main Street, Council Bluffs, Iowa.

Dear Sir: We are in receipt of your letter of August 24th in which you inquired if we have given thought to reducing the interest rate on our mortgages from 5½% to 5%. We realize that any interest charge is difficult for some farmers to meet. The difference, however, between 5% and 5½% is scarcely the determining factor as to a farmer's success.

We have not given consideration to reducing the rate from 5½% to 5% and in the event we admit the total inability of farmers to pay the chances are that we would decide to make no further farm mortgage investments. Probably we should come to this conclusion. We have, however, looked upon the present situation as more or less a temporary one and not as a complete condemnation of the desirability of farm investments. 5½% interest is a reasonable rate, although at times we appreciate it that a lot of farmers have been favored with a 5% rate.

Yours very truly,

——— ———, *Assistant Manager.*

GER: MCE.

EXHIBIT NO. 2296–B

[From the files of the Metropolitan Life Insurance Company]

Branch Office, Sioux Falls, South Dakota

E. H. LOUGEE

MORTGAGE BANKERS

102 South Main St.

COUNCIL BLUFFS, IOWA, *October 10, 1932.*

Mr. GLENN E. ROGERS, *Mgr.,*
Farm Loan Division,
Metropolitan Life Insurance Co.,
New York City.

DEAR MR. ROGERS: I have received your very ably written letter of September 26th, addressed to Branch Offices and Financial Correspondents, and also, your personal letter to me of the same date.

I can readily see that you understand thoroughly the wretched condition that the farmers of the Middlewest are in today, and that I do not need to dwell upon that situation. I am very glad to note your very considerate and humane attitude toward these farmers.

With oats at eight to ten cents a bushel, corn quoted all the way from eight cents to thirteen cents, and hogs worth about three cents on the farm, the situation looks hopeless to most farmers. The entire income from the farm will not do much more than give to the family a living, meet the necessary expense of operation of the farm, and pay the taxes thereon. Very little, if any, will be left for payment of interest this year.

Under these conditions, many of the most substantial farmers, those who have been successful in the past, have become completely discouraged, and hardly a day goes by that there are not one or more farmers in this office, offering to us a deed to their farm.

There are days when I sit at my desk practically all day and discuss with a farmer, one after another, his problems, and this is also true of Mr. Hall and Mr. Bernau. I have had the farmer come in here with his wife and in some cases, with the children who could not be left at home, and sit with me for an hour and tell to me their troubles. Quite naturally, the wife will, in many cases, be in tears throughout the entire interview. They come for the purpose of surrendering their homes.

After I have carefully gone over their affairs with them, have a good picture of their assets and their liabilities, if their condition warrants it, I try to encourage them and send them home with the idea, that as long as they stay on the farm and do the best they can, and play the game square with us, that we will play fair with them and give them every opportunity to pay out. I have had many cases where the wife has sat here with the tears running down her cheeks, and I have sent her home with a smile on her face, with new hopes, new ambitions, and a belief that eventually they will be able to work out of their troubles.

I assure you that this is not a pleasant task, but it seems to be a necessary one.

In cases where our borrower is so heavily financially involved that there is no chance for him to work out, having perhaps a second and a third mortgage, and owing money at the bank, with all of his personal property and his crops mortgaged, I say to him that it is not for his good that we continue to carry his loan, without foreclosure, and that we shall commence foreclosure of his mortgage at once, and clean house for him.

I then say to him that the Metropolitan will become the owner of this farm, and when it is the owner, the farm will be for sale, and that there is no man in the world to whom the company would rather sell the farm than back to the man from whom they took it. I am extremely cautious not to say anything to him that could be construed as binding upon the company, telling him that in talking to him, I do not speak for the company as I am not authorized to do so, but from my experience with the company, I have a pretty good idea of about how the company would deal with a man.

I say to him that the most definite statement that I could make to him would be that I will recommend to the company so and so, and that I am inclined to think that the company would give consideration to my recommendation. I suggest to him that the farm might be repurchased on a long time contract, with reasonable annual payments.

I find this to be very satisfying, and encouraging to many of them. I have had some cases where there was no delinquent interest or taxes, and where the title holder has offered to me a deed, with the rent for 1932; but in most cases, where deeds are offered, there is both delinquent interest and taxes, and the farmer can see no chance of paying same.

We have one case where we have a loan for $8500.00 on 135 acres of land, quite well improved, in this county. This farm is owned by a man about 35 years of age, and his wife is about the same age. Ten years ago, she received $10,000 from her father's estate, and they invested it in this farm. They came into the office, with the full determination of giving to us a deed to the farm. I questioned them, as to their personal property, and as to how much they were owing elsewhere, and learned that they owed only $215.00, and that to a bank, and that the bank had a mortgage on their personal property, including hogs. We have a mortgage on the 1932 crop. We suggested to them that they go to the banker, and say to the banker—"You own the pigs, Lougee owns the corn. If the corn is fed to the pigs, when the pigs are sold as hogs, the money should be divided, and that will be satisfactory to Lougee."

The banker declined to do this, saying that when the hogs are sold, we want all of the proceeds until our indebtedness is fully paid. The woman sat here by my desk with the tears running down her face. I told them the story about the conditions back in about 1894 to 1896, and some of the experiences that some of our borrowers went through at that time, and how, by holding onto their farms, when permitted by the mortgagee, they came out into the clear and eventually saved a good equity in the farm.

I said to them—"You pay the first $215.00 that you get, either from the sale of hogs, or from our corn, to the bank, and clear that indebtedness, and then never owe the bank anything again. And when you have any money coming in after that, bring it in to apply on your interest." I sent them home happy. This case will, I am very sure, work out all right, and they will eventually pay their interest.

You have asked me in your letter of September 26th, to tell you very frankly what, in my opinion, I would do in the situation, if I occupied your position with the company.

I have given this question very careful consideration. My very earnest recommendation to the company would be that the gross interest rate to the farmer during this period of extremely low prices, be reduced to 4%, permitting the correspondent a participation of ½ of 1% in this rate.

From the man who is owing interest due, say last March 1st, I would accept 4% in settlement of the interest due at that time. I would wait until March 1st of next year, to give any consideration to a reduction in the rate for the period ending March 1st, 1933. And I would then be governed by conditions as I found them next March.

There is another borrower whose interest was due March 1st, 1932, and he paid it. To that man, I would say on March 1st, 1933—"We will accept 4% interest for the year ending March 1st, 1933."

If I had found it necessary to reduce the interest due March 1st, 1933, to the first borrower, then I would reduce for the second borrower the interest due to him on March 1st, 1934. In this way, I would be giving the same treatment to both borrowers. I think all borrowers should be treated alike.

In reducing the interest rate, you would give encouragement and put new life into hundreds and hundreds of farmers who today are completely discouraged, and who want to give up their farms. The result would be that many of these farmers would remain upon their farms, and make every effort to meet the payment of their interest and their taxes. They would feel that the great Metropolitan is humane, and in fact, has a deep interest in its borrowers. The result would be a greatly reduced number of foreclosures, and a greatly encouraged army of borrowers, instilled with new hopes, new life, and new ambitions.

I would make new loans at a gross rate of 5¼%, with a participation of ¼ of 1% to the correspondent. The farmers of the Middlewest were accustomed to borrowing money on their farms for many years at 5%, and to now charge them 5¾% on new loans, as we are doing, is discouraging, and they feel that they are being distressed, but they submit to the rate because they must have the money.

In the extension of loans, and in the making of new loans, I would not require any annual curtailment until the end of the second year, and then not more than 2% of the amount of the principal. As a matter of fact, I do not believe it is necessary in the new loans that we are making, to require any annual curtailment. These loans are being made on present day values, and how can they fail.

I have submitted your two letters of September 26th to Mr. Green, to Henry Hall, to perhaps half a dozen of my field men, and sent a copy of your personal letter of September 26th, to Eldin, as you had requested me to do.

Henry Hall wrote his reply to your question, and I am enclosing it herewith. I have just received Eldin's reply addressed to you, this morning. He did not touch upon the question of relief to the distressed, but has dwelt at length upon our operations in the Sioux Falls office. I am enclosing his letter.

Every one of the field men with whom I have talked, and to whom I submitted the question that you asked of me, has given to me the same answer without any suggestion from me as to what my answer to your question would be. The answer in every case has been to reduce the interest rate to a low rate, for a period of one year, letting each year take care of itself, suggesting that when prices have again become normal, and it is warranted, that we could require payment of the contract rate.

In Henry Hall's letter, he has recommended that loans now past due, and maturing during the next year, be permitted to run past due until about October 1st, 1933, without requiring renewal of the loan. This would relieve the borrower of the payment of any commission at this time, or other expenses. I have suggested that the correspondent have a participation of ½ of 1% per annum, in all loans so carried past due, to help defray the expenses of the operation of the business. ½ of 1% per annum would not under present conditions, pay the expense of operating this business.

I think you must have a pretty good idea of about what the situation is with us at Sioux Falls. We are making very few new loans, and renewing few. And yet we have three men in the field, working almost entirely on collections. The office is running behind every month. Something ought to be done by the company, to help pay the service charge during these times, when it is impossible to meet expenses from operation income.

Yours very truly,

E. H. LOUGEE.

EHL/HF

Encl.

EXHIBIT No. 2297

[From the files of the Metropolitan Life Insurance Company]

OCTOBER 24TH, 1934.

Mr. M. L. BOWMAN,
Executive Chairman, Iowa Farm Debt Advisory Council,
Des Moines, Iowa.

DEAR SIR: I am in receipt of your letter of October 15th quoting extracts from a letter addressed to one of your Debt Advisory Committeemen by Mr. Lougee and also your letter of October 18th with which you enclosed copy of a letter from Mr. A. F. Dean to Mr. Adrian L. Bowers.

Mr. Lougee, Financial Correspondent for the Farm Loan Division of this Company in Iowa, has a large organization handling a considerable volume of business other than our own. His operations cover a wide area extending into other states.

We know that Mr. Lougee has personally attended a number of meetings with debtor committees of various types. However, we can appreciate that it would be practically impossible for him to personally attend all of the Debt Advisory Committee meetings now being held in various counties in his territory.

Although he has heretofore endeavored to handle all such matters personally, we feel certain that Mr. Lougee would be willing to delegate to the individual field men the duty of attending the Farm Debt Advisory Committee meetings called in their several territories. This arrangement would not be as satisfactory to Mr. Lougee as if he personally could meet with the committees but would place at their disposal such information as the field man might have and would furnish a personal contact.

On the other hand, if the committee could send a representative to Mr. Lougee's office where he has the complete files and records on each case, probably more satisfaction would result. The full and accurate information as to each delinquent borrower's status would then be available for conference purposes.

We know that Mr. Lougee has, in several instances, written rather long letters to local committeemen setting out the full history of the cases in question. Undoubtedly, these letters give the committees as much information, if not more, than the local field representative would be able to give since Mr. Lougee not only has the benefit of the field men's reports in his office but has access to other sources of information not at their disposal.

We assume from your letter that you desire to have some one from Mr. Lougee's organization meet with the local committees. We are, therefore, asking him to have his field men attend such meetings when requested. We trust that such cooperation on Mr. Lougee's part will prove satisfactory.

In conclusion, we wish to reiterate our sincere desire to cooperate with the Farm Debt Advisory Council in every practical way. As I review my correspondence with you, it appears that the only difference between our position and yours lies in the question of whether we or our borrower shall make the first approach to the conciliation board. We are very strongly of the opinion that it is for the borrower and not for us to solicit the good offices of the board, and to that end, we are glad to advise a borrower, who is in difficulties regarding his mortgage, that he may wish to communicate with the board. On his so doing, we shall be glad to enter into conference in the fullest spirit of cooperation. Our course is likely to result, in many instances, in adjustment of the problem without resort to the board, which course, in itself, serves to conserve the time of the board for those problems which must be dealt with by it.

I do hope that you will appreciate our spirit of genuine helpfulness in the matter and that you will agree with me that the sole point of difference lies in the initiation of the approach.

Very truly yours,

——— ———,

Vice President and General Counsel.

LAL: F

EXHIBIT No. 2298

[From the files of the Metropolitan Life Insurance Company]

Executive Committee.—State House: Governor Clyde L. Herring; Ray Murray, Secretary of Agriculture; D. W. Bates, Superintendent of Banking; Dr. W. G. Murray, Iowa State College; M. L. Bowman, Executive Chairman

District Coordinators.—District One—W. W. White, Spirit Lake. District Two—A. W. Wolf, Hampton. District Three—Reed Carl, Tipton. District Four—C. D. Moore, Urbana. District Five—H. E. Cornish, Perry. District Six.—Adrian L. Bowers, LeMars. District Seven—Quintan Wood, Logan. District Eight—Chas. E. Malone, Atlantic.—District Nine—Ray E. Schwartz, Burlington

State Committee.—Ray Murray, Secretary, Department of Agriculture; D. W. Bates, Superintendent, State Banking Department; Henry Nollen, Representing Insurance Companies; B. F. Kauffman, State Banking Association; Charles E. Hearst, President, Iowa Farm Bureau; Glenn B. Miller, President, Iowa Farmers' Union; Franz M. Fazel, President, Iowa Fruit and Vegetable Growers Association; Ralph Smith, Master, Iowa Farm Grange; R. K. Bliss, Director, Iowa State Extension Service; W. H. Thompson, Secretary, Farmers Grain Dealers Association; W. G. Murray, Iowa State College; J. N. Horlicker, President, Iowa Live Stock Marketing Association; Charles Sexton, President, Iowa Sheep and Wool Growers Association; Knute Espe, Secretary, Cooperative Live Stock Shipping Association; Ralph Sherman, President, Iowa Beef Producers Association; M. D. Gilbert, United Farmers; Fred Larrabee, President, Iowa State Dairy Association; Kirk Fox, Successful Farming; William Drips, Wallaces' Farmer and Iowa Homestead; John Chalmers, President, Farm Holiday Association; Thomas J. Guthrie, President, Iowa State Bar Association; J. S. Russell, Des Moines Register and Tribune; Ray Anderson, Cedar Rapids Gazette; Lou Mighell, Progressive Farmers' Union; Marion Coppoch, President, Iowa Corn and Small Grain Growers' Association

IOWA FARM DEBT ADVISORY COUNCIL,
Des Moines, Iowa, October 29, 1934.

METROPOLITAN LIFE INSURANCE COMPANY,
New York City.

(Attention: Leroy A. Lincoln, Vice President and General Counsel.)

DEAR SIR: This will acknowledge receipt of your letter of October the 24th.

Quoting from your letter as follows:

"We are very strongly of the opinion that it is for the borrower and not for us to solicit the good offices of the board, and to that end, we are glad to advise the borrower, who is in difficulties regarding his mortgage, that he may wish to communicate with the board.—I do hope that you will appreciate our spirit of genuine helpfulness in the matter and that you will agree with me that the sole point of difference lies in the initiation of the approach."

It becomes necessary for us to say again that we believe it to be very unfortunate that you take the position you do in this matter.

With the exception of yourselves, the Connecticut Mutual, and the Equitable Life of New York, all the other companies that we made the request of are cooperating with us in connection with Governor Herring's request, and we can see no good reason why your company would not be glad to do likewise.

These "confidential matters" about foreclosure proceedings are something that we do not know anything about. Not very much in the way of confidential proceedings in connection with these foreclosure matters, and particularly so when the foreclosure gets in action.

We regret that it has become necessary in our judgment to notify the debtors in Iowa with regard to those companies who will not cooperate in accordance with Governor Herring's request, for while you might in your letter state to them that there is a County Farm Debt Advisory Committee, to whom they can go, yet we know that many of these debtors because of their depressed feeling in connection with foreclosure proceedings frequently do the very thing they should not do, and which would be avoided in many instances were we able to get in touch with them. And at the same time the final result as far as your company is concerned would be fair and just, and that is all we ask.

Our committees are public spirited individuals who are working without pay, and making a sincere effort to be absolutely fair both to the creditor and the debtor. We cannot ask them to make special trips down to the office of Mr. Lougee to take up these matters, and we do not hesitate to say that we are sincere in our belief that you are not acting in accordance with what would be in the best interests of your company to refuse to cooperate fully as the other life insurance companies who have agreed to do, are doing in connection with our work.

Thanking you for your letter, we are

Very respectfully yours,

IOWA FARM DEBT ADVISORY COUNCIL,
M. L. BOWMAN, *Executive Chairman.*

MLB:DD

P. S.—We appreciate your asking Mr. Lougee to have his fieldmen attend such meetings as requested. We of course sincerely hope that this will be done.

M. L.

EXHIBIT No. 2299

[Plats illustrating following statistical data, numbered "Exhibits Nos. 2299 and 2299–A to 2299–E," appear in text on pp. 15015–15018]

[From the Metropolitan Life Insurance Co.]

Form F. L. 220C. Oct. 1935. Printed in U. S. A.

METROPOLITAN LIFE INSURANCE COMPANY—ROTATION CHART

R. E. No. 8554X
Loan No. X42839

TYPE OF ROTATION RECOMMENDED—ROTATION NO. 1______YEARS
ROTATION NO. 2______YEARS

M. M. OGLESBY,
Montgomery County, Tennessee.

ROTATION NO. 1

Approximate Size of Fields______Acres

	Field A, A′ 67a	Field B, B′ 67a	Field C, C′, C″, 67a	Field D, 72a	Field E
1938	Sm. grain, corn & tob. 20a lesp. 47a.	Corn	Lesp.	Wheat (27), lesp. and grass.	
1939	Sm. grain, lesp. and grass.	Sm. grain, lesp. and grass.	Corn 52a, tobacco 15a.	Grass and lesp.	
1940	Lesp. and grass	Less and grass	Sm. grain, lesp. and grass.	Corn 57a, tobacco 15a.	
1941	Corn 52a, tobacco 15a.	Lesp. and grass	Lesp. and grass	Sm. grain, lesp. and grass.	
1942	Sm. grain, lesp. and grass.	Corn 52a, tobacco 15a.	Lesp. and grass	Lesp. and grass	

ROTATION NO. 2

Approximate Size of Fields______Acres

	Field E 56a	Field F 8a	Field G, G′, G″ 11a	Field 22a	Field ___
19	Woods	Woods	Woods	Lots and waste	

(If more than two separate rotations are recommended, use additional pages of this chart.)

REMARKS: Name substitute crops that, in emergencies, can be used.

Form F. L. 220C. Oct. 1935. Printed in U. S. A.

METROPOLITAN LIFE INSURANCE COMPANY—ROTATION CHART

R. E. No. 4358X
Loan No. X25221

TYPE OF ROTATION RECOMMENDED—ROTATION NO. 1, 3 YEARS
ROTATION NO. 2, 4 YEARS

GRAHAM, *Ogle Co., Ill*

ROTATION NO. 1—CORN, CORN, OATS-GREEN MANURE

Approximate Size of Fields 80 Acres

	Field A 80	Field B 80	Field C 80, Lots 4 A	Field E
1939	Corn	Corn	Oats, Green manure	
1940	Corn	Oats, Green manure	Corn	
1941	Oats, Green manure	Corn	Corn	
1942	Corn	Corn	Oats, Green manure	
1943	Corn	Oats, Green manure	Corn	

Green manure—Green manure from sweet clover or Hubam turned under.

EXHIBIT NO. 2300

[Prepared by the Mutual Life Insurance Company of New York]

Mutual Life Insurance Company—10 Largest Urban Real Estate Properties Owned (Acquired in Satisfaction of Debt)

Property	Book Value (12/31/38)	Decrease in Book Value by Adjustment	Date Title Taken	Date of First Default	Date of Latest Appraisal		Higher	Lower	1938 Gross Revenue	1938 Net Income Before Div. Dep.	Book Times Gross 1938	Book Value (12/31/39)
27190 135 Broadway, N. Y. C. Offices and bank.	$900, 000	$262, 345	4-27-38	1-1-35	9-20-38	$ 550, 000 Brown, Wheelock, Harris, Stevens, Inc. 1, 100, 000 Horace S. Ely & Co.	$1, 100, 000	$550, 000	$28, 606	−$91, 429	31. 46	$899, 548. 88
27268 30 E. 57th St., N. Y. C. Stores and art gallery.	2, 492, 000	249	4-18-38	4-1-34	9-27-38	1, 800, 000 Brown, Wheelock, Harris, Stevens, Inc. 2, 000, 000 Horace S. Ely & Co.	2, 000, 000	1, 800, 000	98, 413	41, 567	25. 32	2, 492, 000. 00
24360 44 E. 42d St., N. Y. C. Vacant except 1 store.	3, 200, 000	508, 301	6-12-34	11-1-33	9-27-38	2, 500, 000 Brown, Wheelock, Harris, Stevens, Inc. 3, 250, 000 Horace S. Ely & Co.	3, 250, 000	2, 500, 000	0	−114, 314	0	3, 237, 354. 83
27851 742 Fifth Ave., N. Y. C. Stores and Lofts.	3, 1[illegible]00	[1]3,042, 350	8-30-34	11-1-33	11- 1-38	(2) 2, 850, 000 Horace S. Ely & Co.	2, 850, 000	2, 850, 000	76, 755	−32, 366	41. 27	3, 200, 500. 00
28483 10 Gracie Square, N. Y. C. Apartments.	2, 400, 000	277, 821	10-28-37	6-1-34	10-17-38	1, 700, 000 Brown, Wheelock, Harris, Stevens, Inc. 1, 900, 000 Horace S. Ely & Co.	1, 900, 000	1, 700, 000	194, 331	13, 000	12. 35	2, 399, 500. 00
27964 1730 Broadway, N. Y. C. Hotel, auto showroom and vacant land.	1, 661, 000	431, 941	10-28-32	5-1-32	9-27-38	1, 250, 000 Brown, Wheelock, Harris, Stevens, Inc. 1, 500, 000 Horace S. Ely & Co.	1, 500, 000	1, 250, 000	48, 250	−2, 593	34. 42	1, 661, 000. 00
28309 34 W. 19th St., N. Y. C. Loft.	1, 050, 000	111, 328	5-26-36	11-1-32	10- 1-38	775, 000 Brown, Wheelock, Harris, Stevens, Inc. 750, 000 Horace S. Ely & Co.	775, 000	750, 000	112, 897	11, 027	9. 30	1, 050, 000. 00
28463 575 Lexington Ave., N. Y. C. Stores and apartments.	1, 774, 750	724, 649	5-24-34	11-1-32	9-28-38	1, 000, 000 Brown, Wheelock, Harris, Stevens, Inc. 1, 500, 000 Horace S. Ely & Co.	1, 500, 000	1, 000, 000	102, 662	39, 567	17. 29	1, 774, 750. 00
28297 The Manhasset, N. Y. C. Stores and apartments.	920, 000	143, 718	8-18-32	5-1-31	10- 1-38	850, 000 Brown, Wheelock, Harris, Stevens, Inc. 800, 000 Horace S. Ely & Co.	850, 000	800, 000	126, 720	13, 817	7. 26	920, 000. 00
28507 1890 Broadway, N. Y. C. Parking lot & car sales.	1, 000, 000	56, 117	6-10-35	9-1-34	9-29-38	1, 000, 000 Brown, Wheelock, Harris, Stevens, Inc. 1, 000, 000 Horace S. Ely & Co.	1, 000, 000	1, 000, 000	15, 450	−28, 380	64. 72	999, 700. 00
	18, 565, 750	5, 558, 819				14, 275, 000 Brown, Wheelock, Harris, Stevens, Inc. 16, 650, 000 Horace S. Ely & Co.	16, 725, 000	14, 200, 000	804, 084	−160, 104	23. 09	[3]18,634, 353. 71

[1] A portion of these premises were sold 5-1-35 and therefore $3,041,500 of this amount is a reduction due sale.

[2] No appraisal made by Brown, Wheelock, Harris, Stevens, Inc.

[3] $68,604 was capitalized since appraisals.

Pro rata write-off of these ten properties made as of December 31, 1939, $1,906,647.

Appraisals of all these properties except 27,851 were ordered simultaneously from Brown, Wheelock, Harris, Stevens, Inc., and Horace S. Ely & Company, all such appraisals to be made as of October 1, 1938. Brown, Wheelock, Harris, Stevens, Inc. are the Company's regular appraisers of new mortgages. Their appraisals of the real estate acquired in satisfaction of debt were made under their regular retainer without additional compensation.

As of December 31, 1938 total book value of these premises was $18,565,750. The total of the higher appraisals was $16,725,000 and the total of the lower appraisals was $14,200,000. As of December 31, 1939, the total book value of these ten properties had been increased by adding $68,604 representing capital expenditures made on five of these between October 1, 1938 and December 31, 1939, the book value on the latter date being $18,634,353.71. After deducting their pro rata share of a lump sum decrease by adjustment made in the book value of all real estate owned by the Company at December 31, 1939 and acquired prior to the year 1939, the aggregate book value of these ten properties was $16,659,102. This book value was, therefore, slightly under the total of the higher appraisals, after adjustment for capital expenditures.

ROTATION NO. 2—CORN, OATS, RED CL. MIX.

Approximate Size of Fields 18 Acres

	Field D 20	Field E 20	Field F 15	Field G 15	Field H 6
1939	Oats, Red cl. mix.	Corn	Clover	Corn	Perm. Past.
1940	Clover	Oats, Red cl. mix.	Corn	Corn	" "
1941	Corn	Clover	Corn	Oats, Red cl. mix.	" "
1942	Corn	Corn	Oats, Red cl. mix.	Clover	" "
1943	Oats, Red cl. mix.	Corn	Clover	Corn	" "

Red clover mixture—Mixture red clover, alsike and timothy.

(If more than two separate rotations are recommended, use additional pages of this chart.)

REMARKS: Name substitute crops that, in emergencies, can be used. In Rotation # 1, 40 acres soybeans may be substituted for 40 acres oats and sweet clover sown in 40 acres of corn at last cultivation for green manure crop.

EXHIBIT No. 2301

[From the files of the Metropolitan Life Insurance Company]

[Copy]

Loan #119517

There was submitted to the Committee a proposal received from the mortgagor, in connection with which it was stated that, pursuant to committee action, all instalments provided by the mortgagor to and including the instalment due September 1, 1939, had previously been postponed to the due date of the mortgage (March 1, 1950), and that through acceptance on account of interest of payments at less than the contract rate, certain arrears of interest have accrude.

After a discussion of the matter on motion the committee authorized the following modification of the obligations of the mortgage.

On March 1, 1938, the mortgagor shall pay to the Company the sum of $500,000, in anticipation of the instalment payments which shall accrue commencing March 1, 1940.

The mortgagor shall pay semi-annually, beginning March 1, 1938, interest at the rate and for the periods indicated as follows:

Period:	Rate
September 1, 1937, to September 1, 1938	2%
September 1, 1938, to March 1, 1943	2½%
March 1, 1943, to March 1, 1950	4%

From and after March 1, 1938, and until the principal of the loan shall have been reduced to the amount to which payment of the instalments in accordance with the terms of the mortgage would have reduced such principal, the mortgagor shall make no payments for or on account of interest or principal of junior mortgage indebtedness or for dividends to stockholders, but shall pay to the company on account of the principal indebtedness secured by the mortgage, semi-annually on successive interest payment dates, all of the net earnings of the mortgaged property in excess of operating expenses which shall include upkeep, replacements, tenant changes, general overhead expenses, taxes and first mortgage interest, until the sum of $7,750,000. shall have been paid by such means.

In consideration of the foregoing payments, and upon condition that no default therein shall occur, the Company will receive payment of interest at the rates specified as in full for the respective periods, and will waive payment and cancel the obligation of arrears of interest on dates and in amounts as follows:

Immediately	$1,062,500
September 1, 1938	900,000
September 1, 1939	700,000
September 1, 1940	600,000
September 1, 1941	500,000
September 1, 1942	500,000

Payments of said excess of the net income of the property shall be received by the Company in lieu of the instalments of principal provided to be paid by the mortgage and shall be applied first in anticipation of instalments accruing on or subsequent to September 1, 1940, which shall not have been paid from other funds.

The mortgagor shall pay for the U. S. documentary tax stamps required to be affixed to the agreement evidencing the foregoing modification.

I, Francis J. Geist, Assistant Comptroller of the Metropolitan Life Insurance Company, hereby certify that the foregoing is a true and complete copy of a minute from the transactions duly passed by the Real Estate Committee of said Company at a meeting held on the 30th day of December, 1937, at which a quorum was present.

December 30th, 1937.

(signed) FRANCIS J. GEIST,
Assistant Comptroller.

The foregoing modification of the consolidated first mortgage held by the Metropolitan Life Insurance Company covering the Empire State Building on Fifth Avenue at 33rd and 34th Streets, New York City, is hereby approved and accepted.

Dated at New York City, December 30th, 1937.

EMPIRE STATE, INC.,
(signed) By ALFRED E. SMITH,
President.

EXHIBIT No. 2302

Office of chairman of the board W

NEW YORK LIFE INSURANCE COMPANY,
51 Madison Avenue, New York, N. Y., February 21st, 1940.

Mr. GERHARD A. GESELL,
General Counsel, Securities and Exchange Commission,
Washington, D. C.

DEAR MR. GESELL: In my testimony before the TNEC on the 12th instant, in response to the questions you put to me regarding policy loans, interest rates, and expense of making the loans, I responded with answers based upon my memory of the situation of some years ago. Upon my return I have checked into the facts of the current situation and find same quite at variance with some of my answers. For these reasons I would like to advise you as follows:—

> First—The expense as near as can be ascertained in the making and handling of policy loans during 1939 was approximately ½ of 1% which I gave from memory.
>
> Second—The average policy loan including premium lien notes as of the end of 1939 was $433. In my testimony I think I gave the approximate average $400.
>
> Third—On December 31st, 1939 the number of policies with loans or premium lien notes was about 26% of the total number of policies in force, but excluding new policies with no loan value would make the ratio approximately 30%. In my testimony I placed the ratio at ⅓, and subse-

quently I appear to have agreed with you that the ratio might be somewhere between ⅓ and ½.

I would like to file this with you if I may, as a correction of the testimony I gave.

Respectfully yours,

THOS. A. BUCKNER,
Chairman of the Board.

EXHIBIT No. 2303

CHAPTER 40 OF THE LAWS OF 1933, STATE OF NEW YORK WHICH BECAME A LAW ON MARCH 7, 1933

An act in relation to the powers of the Superintendent of Insurance during the existing emergency.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

SECTION 1. It is hereby declared that a public emergency exists affecting the health, comfort and safety of the people of the State, growing out of the abnormal disruption in economic and financial processes, the declaration of a banking holiday by this State and by other states and by the Federal Government the inability of insurers to carry on in a normal and ordinary manner the functions of their business owing to the situation now existing with reference to currency, specie and checks, and other facts and circumstances curtailing and hampering the conduct of the business of insurance in a normal and ordinary manner.

SECTION 2. During the period of the emergency as hereinafter defined, the Superintendent of Insurance shall have the power to suspend any provision of the insurance law in whole or in part. In addition to such powers and not in limitation thereof, he shall also have power during such period to make, rescind, alter and amend rules and regulations imposing any condition upon the conduct of the business of any insurers which may be necessry or desirable to maintain sound methods of insurance and to safeguard the interests of policyholders, beneficiaries and the public generally during such period. In the discretion of the Superintendent of Insurance, such rule or regulation may be published in a manner to be prescribed by him or may be otherwise brought to the attention of the insurer affected in a manner to be prescribed by the Superintendent of Insurance.

SECTION 3. Such rule or regulation may be inconsistent with existing law, and in such event shall supersede such existing law inconsistent therewith.

SECTION 4. Such rule or regulation of the Superintendent of Insurance adopted pursuant to this act shall become ineffective upon the termination of such emergency and thereupon all the existing law which may have been suspended or superseded pursuant to this act shall become effective.

SECTION 5. The period of the emergency herein provided for shall be from the date of the taking effect of this act until such date as the Legislature may, by joint resolution, designate to be the termination thereof or, if the Legislature be not in session, the date so designated by proclamation of the Governor.

SECTION 6. Any violation of the provisions of this act, or of any rule or regulation adopted by the Superintendent of Insurance pursuant thereto. shall be a misdemeanor.

SECTION 7. The word "insurer" as used in this act includes all corporations, associations, societies, orders, partnerships and individuals to which any provision of the insurance law is applicable.

SECTION 8. If any section, part or provision of this act shall be declared unconstitutional, or invalid, or ineffective by any court or other authority of competent jurisdiction and power, such declaration shall not affect any other section, provision, or part thereof.

SECTION 9. This act shall take effect immediately.

EXHIBIT No. 2304

VINCENT P. WHITSITT, Manager and General Counsel
BRUCE E. SHEPPERD, Actuary
CHARLES F. CRESWELL, Statistician
ROBERT L. HOGG, Assistant General Counsel
FRANK DE F. ROSS, Attorney
ROBERT B. CRANE, Assistant Secretary

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS,
Number 165 Broadway, New York, February 21, 1940.

GERHARD A. GESELL, Esq.,
Special Counsel, Insurance Section, Monopoly Study,
Securities and Exchange Commission, Washington, D. C.

DEAR MR. GESELL: Referring to the inquiry contained in your letter of February 8, I may state that the following Minute was adopted by the Executive Committee of this Association on December 20, 1932:

> "RESOLVED, that the Association in addition to assembling and reviewing bills relating to real estate and real estate mortgages, and distributing such bills to member companies, shall hereafter actively oppose all bills of that character which affect the integrity of real estate mortgages by impeding or preventing the collection of principal and/or interest according to the terms of the contract or by radically extending periods of redemption or otherwise by proposed legislative action weakening the security of real estate mortgages; that in adopting such course, the officers of the Association shall take into consideration the extent of member companies' investment interest in the respective states; and that for the effective purposes of this resolution all member companies be requested to arrange for the cooperation of their mortgage field representatives."

You ask whether this Minute has at any time been modified or revoked. It has never been revoked. It has, however, been materially modified by interpretations and through practical application.

I quote the following interpretations from the Minutes of the same meeting of our Executive Committee, held on December 20, 1932:

> "Following the adoption of the report and resolution, further discussion was had regarding interpretations to be placed upon the language of the resolution by the Association officers in carrying out its terms with the result that the following appeared as the consensus of opinion:
>
> '(1) Legislative proposals requiring life insurance companies to dispose of real estate within a period of five years or less—without a proviso for extension of such period by state officials—would fall within the purview of the resolution and the Association should take action thereon.
>
> '(2) The Association should continue to circulate in its Blue Bulletin Service copies of real estate mortgage proposals and title legislation as heretofore, but in the case of bills upon which the Association was taking action, proper indication of this fact would be given in each instance.
>
> '(3) As to proposals "radically" extending periods of mortgage redemption, any extension of an existing two-year period would fall within the resolution, and in the case of a proposal for a redemption period, or extension thereof, where the total period would not exceed two years, the Association officers were to be guided by local circumstances and advice from legislative representatives.
>
> '(4) The Association should not take action on bills relating to the Federal Home Loan Bank system or the Federal land banks or joint stock land banks, or similar proposals where the Association would be in a position of opposing measures on the grounds of competition from Federal governmental agencies.
>
> '(5) Proposals such as United States Senate Bill No. 4995 by Senator Harrison amending the Reconstruction Finance Corporation Act providing for loans to mortgagors for the purpose of taxes on the condition that the mortgagee agrees that the Reconstruction Finance Corporation should have paramount lien, should not be opposed by the Association.'"

As is natural in undertaking a new field of activity, it was necessary for the officers of the Association, in carrying out the terms of the above-quoted Resolution, to feel their way and to determine policy in the light of developments. As a matter of practice, therefore, for instance, it developed that, instead of presenting opposition to all types of mortgage moratoria proposals, there was a tendency to concentrate efforts on securing amendments so that the laws, when enacted, would not impose undue hardships by way of undermining or impairing the security of farm mortgage investments of life insurance companies. In other words, it was recognized that certain types of mortgage moratoria would not unreasonably hamper mortgage lenders in preserving the security of their investments.

Illustrative of this, was the so-called Minnesota type of mortgage moratorium. After the Minnesota law was upheld by the United States Supreme Court in *Home Building and Loan Association* v. *Blaisdell*, similar proposals were presented in other states. These were generally considered fairly reasonable and generally were not opposed.

A further modification of the original Resolution developed in 1935. It will be recalled that the moratoria laws were emergency measures enacted for a one or two-year period. As the expiration dates approached, many proposals were introduced extending the original moratoria acts for other like periods due to the continuance of the emergency. Our general policy in such instances was not to oppose.

When the original Frazier-Lemke Act was pending in Congress, representations against its enactment were made by this Association, in behalf of its members and their policyholders, in the belief that some of its terms were sufficiently burdensome to impair the security of farm mortgages held by member companies, and thus would prove detrimental to the interests of the policyholders. After the enactment of the first Frazier-Lemke Act, further analysis was made of its terms, and counsel was employed by the Association to assist in the presentation of the case of *Louisville Joint Stock Land Bank* v. *Radford* to the United States Supreme Court, which court by unanimous decision, in an opinion written by Mr. Justice Brandeis, held the Act invalid.

The passage of the second Frazier-Lemke Act, which incorporated provisions substantially correcting many of the defects in the first Act, was not opposed by this Association.

The above, I believe, summarizes the important modifications of the original Resolution adopted by our Executive Committee on December 20, 1932, about which you inquired.

Very truly yours,

VINCENT P. WHITSETT,
Manager and General Counsel.

VPW/MT

EXHIBIT No. 2305

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Metropolitan Life Insurance Company—Balances Carried in Each Bank or Trust Company as of December 31, 1938

Name and Location of Bank or Trust Company	Balance Not At Interest	Balance at Interest	Total Balance	Amt. of Int. Rec'd during year
The Chase National Bank of the City of New York, New York City	31,063,878.02	3,000,000	34,063,878.02	22,694.35
The New York Trust Co., New York City	6,116,181.61	2,000,000	8,116,181.61	9,898.39
Central Hanover Bank & Trust Co., NYC	6,104,782.94	2,000,000	8,104,782.94	7,594.19
Bankers Trust Company, New York City	6,063,666.23	2,000,000	8,063,666.23	9,795.04
The Nat'l City Bank of New York, NYC	6,075,185.06	2,000,000	8,075,185.06	10,261.76
First National Bank, New York City	5,045,869.55	0	5,045,869.55	0
J. P. Morgan & Company, New York City	3,776,934.92	1,250,000	5,026,934.92	4,982.88
Chemical Bank & Trust Co., NYC	3,595,948.08	1,000,000	4,595,948.08	7,327.71
Guaranty Trust Co. of N. Y., NYC	3,584,159.79	1,000,000	4,584,159.79	3,790.72
Bank of New York, New York City	3,037,486.84	1,000,000	4,037,486.84	7,412.29
Bank of The Manhattan Co., NYC	2,024,058.35	1,000,000	3,024,058.35	4,794.44
Irving Trust Company, New York City	1,262,760.60	0	1,262,760.60	0
Manufacturers Trust Co., New York City	1,012,114.19	250,000	1,262,114.19	1,851.43
Corn Exchange Bank Trust Co., NYC	755,525.15	250,000	1,005,525.15	1,816.08
The Marine Midland Trust Company of New York, New York City	406,629.95	200,000	606,629.95	618.88
Lawyers Trust Company, New York City	200,000.00	0	200,000.00	0
Federation Bank & Trust Co., NYC	71,241.02	0	71,241.02	0
Bronxville Trust Co., Bronxville, N. Y.	2,000.00	0	2,000.00	0
Total deposits, New York City	80,198,422.30	16,950,000	97,148,422.30	92,838.16

Metropolitan Life Insurance Company—Balances Carried in Each Bank or Trust Company as of December 31, 1938—Continued

Name and Location of Bank or Trust Company	Balance Not At Interest	Balance at Interest	Total Balance	Amt. of Int. Rec'd during year
The Union Trust Co. of Pittsburgh, Pittsburgh, Pennsylvania	2,035,561.64	2,000,000	4,035,561.64	20,000.02
Continental Ill. Nat'l Bank & Trust Co. of Chicago, Chicago, Ill	1,000,000.00	0	1,000,000.00	0
Mercantile Commerce Bank & Trust Co., St. Louis	103,376.74	0	103,376.74	0
Bank of America Nat'l Trust & Savings Assoc., San Francisco	125,000.00	0	125,000.00	0
The Bank of Calif. Nat'l Association, San Francisco	629,953.97	0	629,953.97	0
Crocker First Nat'l Bank of San Francisco, San Francisco, Calif	721,996.03	0	721,996.03	0
The Anglo Calif. Nat'l Bank of San Francisco, San Francisco	123,276.38	0	123,276.38	0
Total deposits in U. S. outside of New York City	4,739,164.76	2,000,000	6,739,164.76	20,000.02
Royal Bank of Canada, Montreal	4,422,674.53	0	4,422,674.53	0
Royal Bank of Canada, Ottawa	462,377.63	0	462,377.63	0
Royal Bank of Canada, Vancouver	3,867.40	0	3,867.40	0
Total deposits, Canada	4,888,919.56	0	4,888,919.56	0
Total Deposits	89,826,506.62	18,950,000	108,776,506.62	112,838.18

Source: Schedule E Metropolitan Convention Form Annual Statement 1938.

"Exhibit No. 2306," appears in text on p. 15195

"Exhibit No. 2307," appears in text on p. 15196

"Exhibit No. 2308," appears in text on p. 15529

Exhibit No. 2308–A

[From the files of the Chase National Bank]

[Copy]

Metropolitan Life Insurance Company,
New York City, August 25, 1938.

Mr. Samuel Armstrong,
Vice-President, The Chase National Bank, Trust Department,
11 Broad Street, New York, New York.

My Dear Mr. Armstrong: This will acknowledge your letter of August 22nd, in which you request consideration of the Chase Bank in connection with the Trusteeship of bond issues to come out of the Mobile & Ohio reorganization.

It is my understanding that your institution is the Trustee of the issue of Mobile & Ohio Refunding and Improvement Mortgage bonds which should certainly warrant its consideration in connection with any new issues. The whole matter, however, is still in preliminary stages and I would, therefore, suggest that you communicate with us on the subject again at a later time. In the meantime, I am referring your communication to the Secretary of our Committee with the request that it be brought up for consideration by the Committee at the appropriate time.

Very truly yours,

(Signed) F. W. Ecker,
Vice President.

EXHIBIT No. 2308–B

[From the files of the Chase National Bank]

[Copy]

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,
11 Broad Street, August 26, 1938.

FREDERIC W. ECKER, Esq.,
Vice President, Metropolitan Life Insurance Company,
New York, New York.

DEAR MR. ECKER: Thank you for your letter of August 25, 1938. We will adopt your suggestion and communicate with you later when the Mobile & Ohio reorganization is nearer to the time of consummation.

You are correct in your understanding that the Chase is trustee of the Refunding and Improvement Mortgage bond issue and we agree that this should be a consideration in favor of appointing it trustee of one of the new issues.

Sincerely yours,

SAMUEL ARMSTRONG, *Vice President.*

EXHIBIT No. 2309

[From the files of the Chase National Bank]

PENNSYLVANIA DIXIE CEMENT CORPORATION,
60 East 42nd Street, New York, February 8, 1938.

Mr. GEORGE D. GRAVES,
Vice President, The Chase National Bank,
Grand Central Branch, Lexington Ave., 43 St., New York, N. Y.

DEAR MR. GRAVES: As you undoubtedly know, the Metropolitan Life Insurance Company contemplate the construction of a new 28 story unit at Madison Square, from 24th to 25th Streets, here in New York.

It is indicated that Starrett Bros. & Eken, Inc., 40 Wall St., New York, will probably be the contractors and will purchase to complete their contract approximately 25,000 bbls. cement.

We are very anxious indeed to secure this cement order. Three of your directors, namely Messrs. F. H. Ecker, N. Carlton and J. O'Brien, are on the Board of Directors of the Metropolitan. I presume because of this you are probably in position to have the owners speak a word in our behalf to the contractors who will buy the cement. Of course we do not expect them to pay a premium; but our price and everything else being equal we certainly trust you can get your three directors to prevail upon the proper officials of the Metropolitan Life Insurance Company to say a word to these contractors in our behalf.

Whatever you can do to help us will certainly be very much appreciated.

Sincerely yours,

(Signed) W. S. WING.

EXHIBIT No. 2309–A

[From the files of the Chase National Bank]

USE THIS FORM FOR ALL CORRESPONDENCE WITH HEAD OFFICE OR BRANCHES

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,

GRAND CENTRAL BRANCH

NEW YORK, *February 9, 1938.*

Mr. F. W. GEHLE,
Second Vice President, Head Office.

Re Pennsylvania-Dixie Cement Corp.

DEAR MR. GEHLE: We enclose a letter which we have just received from the Pennsylvania-Dixie Cement Corporation in connection with a new building which the Metropolitan Life Insurance Company contemplates erecting at Madison Square between 24th and 25th Streets. The Pennsylvania-Dixie Cement Corporation has had an account with us since March 18, 1931, with balances averaging as follows, with no loans:

1936	$257,700
1937	376,300
Jan. 1938	308,600

While we would like to do something for the Pennsylvania-Dixie Cement Corporation in this connection, we appreciate the fact that it might be impossible to handle but are forwarding the letter to you for the benefit of your suggestions and advice.

Yours very truly,

(Signed) L. VAN SANT,
Assistant Cashier.

Enclosure.

(Hand written:) Telephoned Mr. Van Sant, who will await word from G. H. S. before contacting Penn-Dixie Cement Corp.

F. E. V.

2/10/38

EXHIBIT NO. 2309-B

[From the files of the Chase National Bank]

FEBRUARY 10, 1938.

METROPOLITAN.
Mr. L. VAN SANT,
Assistant Cashier, Grand Central Branch.
Re Pennsylvania-Dixie Cement Corporation.

DEAR MR. VAN SANT: Referring to your letter of February 9, addressed to Mr. Gehle, this will confirm my telephone message to you this afternoon to the effect that we were glad to recommend the Pennsylvania-Dixie Cement Corporation to the proper officer in the Metropolitan Life Insurance Company in connection with the new building the latter company intends to erect. We were informed that it is too soon to make any decision in this connection but that later on when the matter is reviewed Pennsylvania-Dixie Cement Corporation will receive consideration.

Yours very truly,

G. H. SAYLOR, *Vice President.*

I am returning herewith Mr. Wing's letter to Mr. Graves.

EXHIBIT NO. 2309-C

[From the files of the Chase National Bank]

METROPOLITAN LIFE INSURANCE COMPANY,
New York City, February 14, 1938.

Mr. GEORGE H. SAYLOR,
Vice-President, The Chase National Bank, Metropolitan Branch.

DEAR MR. SAYLOR: Thank you for your note regarding the Lehigh-Portland Cement, Lone Star and the Pennsylvania-Dixie Companies. We are pleased to have your endorsement regarding them.

Sincerely yours,

F. W. ECKER, *Vice-President.*

EP

"Exhibit No. 2309–D," appears in text on p. 15199

"Exhibit No. 2310," appears in text on p. 15200

Exhibit No. 2310–A

[From the files of the Chase National Bank]

June 15, 1931.

Mr. F. J. Shay,
Cashier, Union Trust Company, East St. Louis, Illinois.

Dear Mr. Shay: Mr. Gafford is absent from the bank on a business trip. I assume he sent a temporary acknowledgment of your letter of June 5 but in any event we desire to let you know that the Metropolitan Life Insurance Company has informed us they are communicating with their manager in your city relative to his banking arrangements and that they will keep us informed of any developments. This is for your information. I question whether it would be wise for you to tell the manager that you know his head office intends to communicate with him. In other words, it is our thought it might embarrass him in some way and perhaps the best thing would be to rely on the general advantages you have to offer, knowing that at the same time an investigation is being made and that the matter of your obtaining an account is being considered. We have expressed the hope that you will receive some of the business and trust the decision will be favorable.

Yours very truly,

G. H. Saylor, *Vice President.*

Exhibit No. 2310–B

[From the files of the Chase National Bank]

The Chase National Bank of the City of New York,
September 28, 1931.

Mr. Paul A. Schlafly,
Chairman of the Board, Union Trust Company,
East St. Louis, Illinois.

Dear Mr. Schlafly: We are very glad to learn that the Metropolitan Life Insurance Company has finally decided to do some business with your good institution. We hope this relationship will prove satisfactory and assure you it was a pleasure to add our recommendations to your own effort in obtaining this account.

How are you coming out with the Virginia-Carolina Chemical Company? Is their construction work progressing and do you think of anything further which we can do in your behalf? You already have, I believe, an account from our very good friends, Armour & Company. If you think of other names with which we can assist you please let me know. I believe you realize by this time that we have your interest at heart and that the future will offer further opportunities for us to be of assistance.

With warmest personal regards, I am

Yours sincerely,

Earl R. Gafford, *Second Vice President.*

(Handwritten:) Mr. Saylor: Thanks for your help.

ERG: DK

Gafford.

EXHIBIT No. 2310–C

[From the files of the Chase National Bank]

LAWRENCE WASHINGTON, *Assistant Treasurer*

FREDERICK H. ECKER, *President*

METROPOLITAN LIFE INSURANCE COMPANY,
New York City, June 27th, 1933.

Mr. GEORGE H. SAYLOR,
Vice President, Chase National Bank,
Metropolitan Branch,
New York, New York.

DEAR MR. SAYLOR: We have instructed the manager of our East St. Louis, Illinois District to open an account in the Union Trust Company, East St. Louis, Illinois.

Very truly yours,

L. WASHINGTON, *Assistant Treasurer.*
A. H.

AH

EXHIBIT No. 2310–D

[From the files of the Chase National Bank]

JUNE 29, 1933.

Mr. H. C. HARTKOPF,
Vice President, Union Trust Company,
East St. Louis, Illinois.

DEAR HARRY: Referring to correspondence between us sometime ago regarding a Metropolitan Life account, we are informed that New York has given the Manager of the East St. Louis, Illinois District instructions to open an account with you. If this has not yet been done, I know you will be glad to be informed in advance.

With kind regards,

Yours sincerely,

M. HADDEN HOWELL,
Vice President.

EXHIBIT No. 2310–E

[From the files of the Chase National Bank]

JUNE 29, 1933.

Mr. L. WASHINGTON,
Assistant Treasurer, Metropolitan Life Insurance Company,
New York City.

DEAR MR. WASHINGTON: Your letter of June 27th addressed to Mr. Saylor is received in his absence on vacation. You inform him that you have instructed the Manager of your East St. Louis, Illinois District to open an account with the Union Trust Company, East St. Louis. We are glad to know of this and thank you sincerely for passing the word on to us. May I thank you for Mr. Saylor for your courtesy in the matter.

Yours sincerely,

M. HADDEN HOWELL,
Vice President.

"EXHIBIT No. 2311" appears in text on pp. 15202–15203

"EXHIBIT No. 2311–A" appears in text on p. 15203

EXHIBIT No. 2312

[From the files of the Chase National Bank]

MEMORANDUM TO MR. G. H. SAYLOR, VICE PRESIDENT, METROPOLITAN BRANCH

DEAR MR. SAYLOR: In Mr. Purdy's absence we have received the following letter from Mr. H. K. Gilbert, of Chicago.

"Mr. R. F. Kopperschmidt, President of the Empire Trust & Savings Bank, (Chase account), asked me today if we could be of any help to him in getting an account from the Metropolitan Life Insurance Company.

It appears they have opened an office recently adjacent to the bank premises at Crawford Ave., and School Street, and that the local Agent is using a bank some four miles away for his deposits.

In view of the good character of the Empire Trust & Savings Bank and the facilities which they have available at hand, they suggest that it would be reasonable for the Insurance Company to use them rather than the bank now patronized. They will appreciate it if you will bring the matter to the attention of the Metropolitan Life Insurance Company for such action as they think feasible.

If they are interested, Mr. Kopperschmidt will be pleased to submit full details as to their standing, condition, etc."

The Empire Trust & Savings Bank of Chicago has maintained an account with us since April 1928, showing average balances of $4,400 for the past six months, and $6,100 for 1928. According to our records, the Credit Department forwarded a report to the Metropolitan Branch on March 26, 1929 for the benefit of the Metropolitan Life Insurance Company.

H. N. DETTMER,
Banking Relations Dept.

MAY 17, 1929.

EXHIBIT No. 2312-A

[From the files of the Chase National Bank]

METROPOLITAN MAY 20, 1929.

Mr. H. N. DETTMER,
Banking Relations Dept., Head Office.

DEAR MR. DETTMER: Referring to your memorandum of May 17, 1939, in regard to the desire of the Empire Trust & Savings Bank, Chicago, for a local account from the Metropolitan Life Insurance Company, I enclose copy of a letter which I received today from Mr. George, Treasurer of the Metropolitan Life. I have no objection to Mr. Gilbert reading the letter but there is very little information in it that he can use in discussing the matter with the Empire Trust & Savings Bank. I think he should confine his statements to the fact that we approached the Treasurer of the Metropolitan Life on behalf of the Empire but were informed that they do not wish to make any change in their relationship with the Commercial State Bank, which furnishes armored car messenger service for that account and for other business which the Metropolitan Life has in Chicago. If they were to take away their account with the Commercial State Bank they believe it would interfere with the other business which that bank is handling for them.

I do not wish to give the Empire Trust any basis for an argument because we are in no position to try to influence the Metropolitan Life against their wishes. Therefore, Mr. Gilbert, of necessity, will have to admit inability to help the Empire in this instance.

Yours very truly,

GEORGE H. SAYLOR, *Vice President.*

Enclosure.

EXHIBIT No. 2312-B

[From the files of the Chase National Bank]

HENRY W. GEORGE, *Treasurer*

METROPOLITAN LIFE INSURANCE COMPANY,
New York City, May 20, 1929

Mr. G. H. SAYLOR,
Vice-President, Chase National Bank,
Metropolitan Branch.

RE: Empire Trust and Savings Bank, Chicago, Ill.

MY DEAR MR. SAYLOR: The account referred to is that of our Gross Park District and is served by the Commercial State Bank, which furnishes armored car messenger service for this account and another in Chicago. If we were to take this account aw..y from that Bank they would probably decline to give service to the other account and then we would be in a fix as there is no bank located conveniently to the second office.

The Empire Bank has been in existence for less than two years and its financial strength is not such as to recommend it to us as a depositary. They offered to give us a Surety Bond if we would give them the account but we have not found this a desirable thing to do in the past.

Because of the favorable arrangement we have with the Commercial State Bank we prefer not to make any change.

Very truly yours,

H. W. GEORGE, *Treasurer.*

EXHIBIT No. 2312-C

[From the files of the Chase National Bank]

HENRY W. GEORGE, *Treasurer*

METROPOLITAN LIFE INSURANCE COMPANY,
New York City, December 7, 1929.

Mr. G. H. SAYLOR,
Vice-President, Chase National Bank,
Metropolitan Branch.

DEAR MR. SAYLOR: In May of this year we had some correspondence and discussion relative to the possibility of placing our Gross Park district office account with the Empire Trust and Savings Bank, one of your Correspondents.

At that time I did not feel warranted for various reasons in opening an account with the Empire Trust and Savings Bank. Recently, however, the matter has again been broached by Mr. L. A. Phillips, the Manager of our Gross Park District, and I have concluded to approve transferring his account to the Empire Trust and Savings Bank.

I am glad that we have this opportunity to establish a connection with one of your correspondents.

Very truly yours,

H. W. GEORGE, *Treasurer.*

L. W.

EXHIBIT No. 2312-D

[From the files of the Chase National Bank]

METROPOLITAN DECEMBER 9, 1929.

Mr. W. E. PURDY,
Vice President, Head Office.

DEAR MR. PURDY: Mr. George has very kindly informed us that the Metropolitan Life has decided to place their Gross Park district office account with the Empire Trust & Savings Bank, Chicago. I am sure that he is willing that we shall make some capital out of this.

Will you please return the correspondence to me after you have made the copies you may desire?

Yours sincerely,

GEORGE H. SAYLOR, *Vice President.*

Enclosures.

EXHIBIT No. 2312–E

[From the files of the Chase National Bank]

DECEMBER 8, 1929.

Mr. HENRY W. GEORGE,
Treasurer, Metropolitan Life Insurance Company,
1 Madison Avenue, New York City.

DEAR MR. GEORGE: Thank you for your letter of December 7, informing us that you have decided to place your Cross Park district office account with the Empire Trust & Savings Bank, Chicago. We hope the Empire Trust will see in this change a manifestation of our friendly influence with your company and at the same time will not next week ask us to get them an account from the United States Treasury. I more than appreciate your kindness in calling our attention to this new banking connection of your company.

Yours very truly,

GEORGE H. SAYLOR, *Vice President.*

EXHIBIT No. 2312–F

[From the files of the Chase National Bank]

Use this form for all correspondence with branches.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,
57 Broadway, New York, December 10, 1939

GEORGE H. SAYLOR, Esq.,
Vice President, Metropolitan Branch.

DEAR MR. SAYLOR: We have received your favor of the 9th instant enclosing correspondence regarding the Metropolitan Life-Empire Trust & Savings Bank of Chicago matter, which as requested we return herewith. We are glad to have the privilege of writing our friends at Chicago and appreciate the friendly consideration of the Metropolitan Life Insurance Company.

Yours very truly,

W. E. PURDY, *Vice President.*

P—H
Enc.

EXHIBIT No. 2312–G

[From the files of the Chase National Bank]

MEMORANDUM

DEAR MR. GILBERT: Referring further to your memorandum regarding the Empire Trust & Savings Bank of your city, we are pleased to say that today we were advised by the Metropolitan Life Insurance Company that they are going to place their Gross Park district office account with the Empire Trust & Savings Bank, and it will be in order for you to so advise them.

W. E. P.

DEC. 10, 1929

EXHIBIT No. 2313

[From the files of the Chase National Bank]

MEMORANDUM TO MR. BOYLE

FIRST NATIONAL BANK,
Riverside, New Jersey:

No doubt you will find in your files copy of your memorandum to me of June 5, 1935 and additional memorandum in reference to the standing of the above bank; also copy of my memorandum of June 26, 1935.

Mr. Washington telephoned me today and said that at one time we had asked him if the Metropolitan Life could place an account with the First National as a help in our solicitation of that account. They might now be disposed to change from the Riverside Trust Company to the First National but would first like to know how it fits in with our plans and what the standing of the First National Bank is.

Please make the necessary investigation and give me the benefit of it.

G. H. SAYLOR.

DECEMBER 1, 1937.

EXHIBIT NO. 2313-A

[From the files of the Chase National Bank]

MEMORANDUM TO MR. SAYLOR, VICE PRESIDENT METROPOLITAN BRANCH

Re: First National Bank
Riverside Trust Company
Riverside, New Jersey.

This will acknowledge receipt of your memorandum in which you indicate that the Metropolitan Life Insurance Company might be disposed to transfer their account from the Riverside Trust Company to the First National Bank and are interested to know whether by so doing they would enhance our chances of obtaining an account from the First National Bank. As you probably know, we are not favored with an account from either institution, and while the First National Bank indicated to Mr. Aumack that they were anxious to obtain the local account of the Metropolitan Life Insurance Company, there was no intimation that they would reciprocate by establishing a correspondent relationship with us in the event the Metropolitan Life Insurance Company complied with our suggestion. I discussed this matter with Mr. Van Kleeck, and he doubts whether we could broach the matter to the First National Bank at this time in view of the fact that it is apparent the Metropolitan Life Insurance Company are contemplating switching their account in Riverside for reasons best known to themselves. In other words, while we appreciate their willingness to be helpful, the lapse of time would be an obstacle in reviving the matter at this time. Mr. Van Kleeck has suggested that we undertake a review of our file on both institutions, which we are doing, the result of which will be submitted to you in the course of the next few days.

J. BOYLE, *Credit Department.*

DECEMBER 2, 1937.

EXHIBIT NO. 2313-B

[From the files of the Chase National Bank]

MEMORANDUM TO MR. WASHINGTON

I am sending you herewith a report on the Riverside Trust Company and one on the First National Bank, both of Riverside, New Jersey. Neither of these banks transacts business with us. It was in June, 1935, when one of our officers thought it might help us obtain an account from the First National if the Metropolitan Life opened an account with that bank. I do not know whether we could make capital out of your placing an account with the First National at this time but it is a possibility and if you decide to favor that bank and will let me know, the change might accrue to our advantage. We, of course, would not make a direct statement that we were instrumental in having the business placed with them unless you thought we could properly say that we were consulted and were glad to recommend the First National. Would there be any objection to this.

G. H. SAYLOR.

DECEMBER 10, 1937.

Referring to the above memorandum, Mr. Washington telephoned me today that they were transferring their account from Riverside Trust Company to the First National Bank, Riverside, New Jersey. As a possible help to us he is willing that we say to the First National that we were consulted by the Metropolitan Life and were glad to recommend a relationship. He did not want us to indicate that we initiated the change and I told him we would never take that position. This was reported to Mr. Van Kleeck.

G. H. SAYLOR.

DECEMBER 13, 1937.

EXHIBIT No. 2314

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

District Depositories of Metropolitan Life Insurance Company Related to Chase National Bank Correspondents[1]

	Total Metropolitan Depositories In State	Chase Correspondent—		Number of Localities in State Where Metropolitan Has Depository But Chase Has No Correspondent
		Has Account	Does Not Have Account	
Alabama	6	3	3	
Arkansas	5	5		
Connecticut	21	9	8	4
Delaware	2	1		1
District of Columbia	5	3	2	
Florida	6	6		
Georgia	12	6	3	3
Indiana	20	3	12	5
Iowa	7	5	2	
Illinois	76	27	47	2
Kansas	6	3	3	
Kentucky	10	4	2	4
Louisiana	8	4	4	
Maine	7	2	1	4
Maryland	11	5	5	1
Massachusetts	54	16	17	21
Michigan	17	6	10	1
Minnesota	6	6		
Mississippi	2	1	1	
Missouri	21	18	3	
Nebraska	4	2	2	
New Hampshire	6	1	3	2
New Jersey	43	20	14	9
New York	46	21	12	13
New York (Metropolitan Area)	19	8	7	4
North Carolina	10	3	3	4
Ohio	35	12	11	12
Oklahoma	4	4		
Pennsylvania	70	30	29	11
Rhode Island	10	5	4	1
South Carolina	5	2	1	2
Tennessee	10	7	2	1
Vermont	4	1	3	
Virginia	12	9	3	
West Virginia	7	3	3	1
Wisconsin	10	7	3	
Totals	597	268	223	106

NOTE.—45% of the Metropolitan depositories are Chase correspondents. If allowance is made, however, for the 106 localities where Chase has no correspondents of depositories in the remaining localities 54% are Chase correspondents.

[1] District office accounts of the Metropolitan Life Insurance Company in New York City are not included in the above schedule. There are 71 such district accounts which are distributed as follows: Chase National Bank 3; Chemical Bank and Trust Company 3; Corn Exchange Bank and Trust Company 10; Bank of Manhattan Company 18; Public National Bank and Trust Company 4; Brooklyn Trust Company 9; Irving Trust Company 1; Title Guaranty and Trust Company 1; Manufacturers Trust Company 10; National City Bank 12.

Source: Information submitted by Metropolitan Life Insurance Company and Chase National Bank.

"EXHIBIT No. 2315," introduced on p. 15208, is on file with the committee.

EXHIBIT No. 2316

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

DIRECTORS INTERLOCKING CHASE NATIONAL BANK OF THE CITY OF NEW YORK AND METROPOLITAN LIFE INSURANCE COMPANY, JANUARY 1, 1928–DECEMBER 31, 1939, INCLUSIVE*

1928:
- Ollesheimer, Henry (interlocking since November 1921)
- Ecker, Frederick H. (interlocking since February 1917)
- Wiggin, Albert H. (interlocking since April 1915)
- Schwab, Charles M. (interlocking since November 1922).
- Milbank, Jeremiah (interlocking since April 1927).

1929:
- Ollesheimer, Henry
- Ecker, Frederick H.
- Wiggin, Albert H.
- Schwab, Charles M.
- Milbank, Jeremiah
- Carlton, Newcomb (interlocking since March 1929)

1930:
- Ollesheimer, Henry
- Ecker, Frederick H.
- Wiggin, Albert H.
- Schwab, Charles M.
- Milbank, Jeremiah
- Carlton, Newcomb
- White, F. Edson (interlocking since August 1930)

1931:
- Ollesheimer, Henry
- Ecker, Frederick H.
- Wiggin, Albert H.
- Schwab, Charles M.
- Milbank, Jeremiah
- Carlton, Newcomb
- White, F. Edson (deceased January 15, 1931)

1932:
- Ollesheimer, Henry
- Ecker, Frederick H.
- Wiggin, Albert H.
- Schwab, Charles M.
- Milbank, Jeremiah
- Carlton, Newcomb

1933:
- Ollesheimer, Henry (deceased November 6, 1933)
- Ecker, Frederick H.
- Wiggin, Albert H. (resigned Chase National May 24, 1933)
- Schwab, Charles M.
- Milbank, Jeremiah
- Carlton, Newcomb

1934:
- Ecker, Frederick H.
- Schwab, Charles M. (resigned Chase National, January 9, 1934)
- Milbank, Jeremiah (resigned Chase National, January 9, 1934)
- Carlton, Newcomb

1935:
- Ecker, Frederick H.
- Carlton, Newcomb

*Directors interlocked for entire year unless otherwise indicated.

1936:
- Ecker, Frederick H.
- Carlton, Newcomb

1937:
- Ecker, Frederick H.
- Carlton, Newcomb
- Aldrich, Winthrop W. (interlocking since October 1937)

1938:
- Ecker, Frederick H.
- Carlton, Newcomb
- Aldrich, Winthrop W.

1939:
- Ecker, Frederick H.
- Carlton, Newcomb
- Aldrich, Winthrop W.

Source: Information submitted by Metropolitan Life Insurance Company and Chase National Bank.

"EXHIBIT No. 2317," introduced on p. 15209, is on file with the committee.

EXHIBIT No. 2318

*Chase National Bank—Credit Balances of Ten Largest Life Insurance Companies**

[Prepared by the Securities and Exchange Commission Insurance Study Staff.]

	Totals		Metropolitan Balance		Prudential Balance		New York Life Balance		Equitable Balance	
	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31
1929	20,741,562.52	26,647,628.15	9,611,271.30	13,931,692.48			3,738,698.23	4,959,714.64	2,204,686.32	2,704,686.32
1930	37,186,705.49	35,609,938.34	23,149,201.11	17,596,250.99		12,473.30	6,238,328.20	4,215,036.91	1,417,546.05	3,544,914.49
1931	54,212,838.42	54,153,062.53	36,150,748.42	38,216,495.90	3,091,812.84	1,368,848.01	4,880,510.70	5,308,343.00	2,467,304.38	3,188,415.56
1932	73,915,550.17	90,738,554.12	49,452,753.48	51,876,916.16	4,094,838.96	4,856,608.48	8,935,978.39	8,841,833.01	4,319,939.38	16,876,122.89
1933	124,697,911.65	111,365,451.74	60,648,793.33	72,239,542.20	6,532,072.92	5,997,764.02	10,018,592.12	7,430,356.40	37,617,284.70	17,506,310.17
1934	175,263,814.76	107,544,784.50	105,725,628.53	38,310,490.13	9,999,756.25	10,653,148.05	10,586,142.29	9,551,942.55	42,791,709.03	40,779,146.20
1935	148,707,959.96	113,279,935.50	73,086,803.12	41,726,045.67	15,760,235.90	26,702,137.48	14,592,512.27	7,587,373.86	31,313,799.08	27,460,177.45
1936	160,274,791.87	157,856,421.66	53,126,152.24	27,085,963.34	23,990,415.21	40,500,306.91	10,909,387.86	10,756,191.87	63,610,965.66	70,385,490.11
1937	153,494,732.91	136,829,639.09	73,820,245.54	40,950,402.06	16,718,743.14	14,806,613.61	16,043,497.06	10,565,872.16	27,295,913.60	64,209,846.17
1938	240,728,743.38	123,326,373.38	116,008,583.20	45,021,009.82	23,040,466.63	14,041,351.49	11,927,788.39	9,240,889.93	72,612,490.44	41,612,490.44
1939	226,978,060.41	175,042,299.32	107,856,883.92	64,241,255.64	14,098,581.68	12,971,668.54	11,965,427.37	11,751,821.98	84,223,458.18	62,141,019.88

	Mutual Life Balance		Northwestern Mutual Balance		Travelers Balance		John Hancock Balance		Penn Mutual Balance	
	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31
1929			1,594,391.75	1,205,782.80	3,562,009.32	3,827,192.20	27,233.67	15,135.18	3,271.93	3,424.53
1930			1,714,060.21	2,469,425.96	4,262,568.30	7,497,998.91	15,304.51	15,420.12	389,697.11	258,507.66
1931			1,430,586.99	2,173,891.55	5,970,130.67	3,794,423.25	15,489.60	15,543.29	206,254.82	87,101.97
1932			1,857,264.70	2,622,837.49	5,151,380.34	5,382,611.78	5,609.56	5,622.19	97,785.36	276,002.12
1933			4,277,674.25	2,053,941.83	5,477,265.08	5,862,994.68	5,634.45	5,658.45	120,594.80	268,890.99
1934		2,000,000	1,669,002.16	2,274,081.59	3,842,832.13	2,856,311.57	5,658.45	5,658.45	643,085.92	1,114,005.96
1935	4,000,000	4,000,000	1,657,966.25	1,757,966.25	7,060,043.83	2,370,672.71	5,658.45	5,658.45	1,230,941.06	1,669,883.43
1936	2,000,000	2,000,000	1,548,618.10	2,362,572.92	4,129,995.83	3,896,889.19	5,658.45	75,086.03	953,538.52	793,921.29
1937	12,000,000	2,000,000	2,241,825.09	1,768,022.32	5,243,574.87	2,448,093.74	75,086.03	75,086.03	55,847.04	5,700.00
1938	2,000,000	2,000,000	1,184,314.24	1,808,309.01	13,874,034.36	8,494,283.72	75,086.03	75,086.03	5,980.06	1,032,952.94
1939	2,000,000	2,000,000	817,067.51	2,270,286.81	4,837,066.01	17,571,479.57	75,086.03	75,086.03	1,104,489.71	2,019,680.87

*Mutual Benefit Life Insurance Company, the tenth largest company, had no account with Chase National Bank for period indicated. All funds shown on this schedule were carried by Chase National Bank or its New York City Branches and do not include district office accounts of insurance companies. These accounts for insurance companies indicated totalled $1,185,038.13 as of December 31, 1939.

Source: Chase National Bank.

EXHIBIT No. 2319

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

DIRECTORS INTERLOCKING MUTUAL LIFE INSURANCE COMPANY OF NEW YORK AND CHASE NATIONAL BANK DURING PERIOD JANUARY 1, 1928 TO DECEMBER 31, 1938

Name of director and period of interlocking:
Cornelius Vanderbilt, August 24, 1929 to October 26, 1938.
Frank L. Polk, October 29, 1930 to May 24, 1933.
Robert C. Stanley, since January 26, 1937.

DIRECTORS INTERLOCKING PRUDENTIAL INSURANCE COMPANY OF AMERICA AND CHASE NATIONAL BANK DURING PERIOD JANUARY 1, 1928 TO DECEMBER 31, 1938

Name of director and period of interlocking:
Howard Bayne, since May 31, 1930.
Roy E. Tomlinson, May 31, 1930 to June 2, 1930.
Franklin D'Olier, May 31, 1930 to November 30, 1938.

DIRECTORS INTERLOCKING NEW YORK LIFE AND CHASE NATIONAL BANK DURING PERIOD JANUARY 1, 1928 TO DECEMBER 31, 1938

Name of director and period of interlocking:
John J. Milburn, August 24, 1929 to August 11, 1930.

DIRECTORS INTERLOCKING EQUITABLE LIFE INSURANCE SOCIETY OF THE UNITED STATES AND CHASE NATIONAL BANK DURING PERIOD JANUARY 1, 1928 TO DECEMBER 31, 1938

Name of director and period of interlocking:
Bertram Cutler, since May 31, 1930.
Eugenius H. Outerbridge, August 24, 1929 to November 10, 1932.
Thomas I. Parkinson, since August 24, 1929.

Source: Information furnished by the companies.

"EXHIBIT No. 2320" appears in text on pp. 15231–15232

"EXHIBIT No. 2320–A" appears in text on p. 15232

"EXHIBIT No. 2320–B" appears in text on p. 15232

EXHIBIT No. 2321

[From the files of The Equitable Life Assurance Society of the United States]

GEORGE A. RATHBUN, *Manager*
Suite 614, Merchants Natl. Bank Bldg.
6th & Spring Streets
Los Angeles, Cal.
Member Quarter-Million Club 1920

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

120 Broadway, New York

W. A. DAY, *President*

LOS ANGELES, *August 2nd, 1921*

Mr. A. R. HORR;
Treasurer, Equitable Life Assurance Society,
120 Broadway, New York, N. Y.

DEAR MR. HORR: Some years ago you will remember I requested you to change our bank account from the Farmers & Merchants National to the Merchants

National because the aforenamed mentioned bank did not seem to appreciate our account to the extent that they would assist us in any way.

Since that time they have been cultivating us more or less and within the last two weeks have shown very good faith in the Equitable, and that they do not hold a grudge, by taking out Group insurance to the extent of $219,000.

For some years after our account was withdrawn we carried a balance at this bank and I have wondered if it would be possible to again carry an account with them under the same conditions as to interest as before. If so, I think it would be a good investment because I believe these people will now throw their influence our way when they can do so.

I, of course, would not want to interfere with our present arrangement with the Merchants National, but thought it might be good business to open up this second account which need not be checked against by the Cashier.

Sincerely yours,

G. A. RATHBUN.

GAR–T.

EXHIBIT NO. 2321–A

[From the files of The Equitable Life Assurance Society of the United States]

AUGUST 11, 1921.

Mr. GEORGE A. RATHBUN,
Manager, Equitable life Assurance Society,
Merchants National Bank Building,
Los Angeles, California.

DEAR MR. RATHBUN: I have your letter of August 2nd and much as I should like to comply with your request that we open an account with the Farmers & Merchants National Bank, our Finance Committee vigorously opposes any suggestion to carry unnecessary bank accounts; i. e., accounts that are not needed in the administration of the Society's business. Your request would certainly be turned down if it were presented to the Finance Committee for the reasons stated.

Yours very truly,

A. R. H.,
Treasurer.

ARH–MW

EXHIBIT NO. 2321–B

[From the files of The Equitable Life Assurance Society of the United States]

CECIL FRANKEL
Associate Agency Manager
Alex A. Dewar Agency
Suite 901, 111 W. Seventh Street
Los Angeles, California
Telephone: Trinity 8311
Member Group Millionaires' Club

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

HOME OFFICE NEW YORK

THOMAS I. PARKINSON, *President*

LOS ANGELES, *March 2, 1937.*

Mr. THOMAS I. PARKINSON,
President, Equitable Life Assurance Society,
393 Seventh Avenue, New York, N. Y.

DEAR MR. PARKINSON: You will recall when I was in New York I discussed our banking situation with you. We are carrying our account in the Bank of America, which at one time was covered by Group Insurance carried in our Society. The Bank of America is wholly owned by Transamerica. Several years ago the Bank of America cancelled our Group Insurance coverage and placed the business in their own Occidental Life. The Occidental Life, not being in the Group Conference, quoted a much lower rate to our main Group patron in Los Angeles—the Union Oil Company—and wrote the Accident and Health insurance which we had developed and would have written had it not been for the lower rate quoted.

Since the Farmers & Merchants Bank is the only bank in Los Angeles that carries Group Insurance with us, I believe it only fair that we do some business with them, not necessarily the entire account but part of it, as a reciprocal gesture. The President, Mr. Rossetti, has mentioned this matter on several occasions. I hope you will give it favorable consideration.

I very much appreciated the few minutes I spent with you in your office. I hope we may have the pleasure of seeing you in California during your vacation.

With kindest personal regards, I am,

Yours sincerely,

CECIL FRANKEL.

CF.M

EXHIBIT NO. 2321-C

[From the files of The Equitable Life Assurance Society of the United States]

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Office of

F. H. RICHMOND, Assistant Treasurer

Dated at New York: March 9, 1937.
Replying to yours of

For: Mr. Henry Greaves, Treasurer.
Subject: Banking arrangements—Los Angeles, California.

We are returning a letter from Cecil Frankel addressed to President Parkinson in regard to the Farmers & Merchants National Bank, Los Angeles, Californit. Also attached are reports we have secured from various New York banks in regard to the subject institution.

In 1913 the Home Office account and Cashier's Working Fund account were carried with the Farmers & Merchants National Bank. In 1916, at the instigation of Mr. George Rathbun, the Society's manager in Los Angeles at that time, who stated that this bank failed to co-operate with our agency forces, the accounts were transferred to the Merchants National Bank and a balance of approximately $5,000.00 was permitted to remain with the Farmers & Merchants National Bank until 1919. In 1921 Mr. Rathbun informed us that the Farmers & Merchants National Bank had taken our Group insurance with the Equitable and he requested that an account again be placed with this institution since he believed that they would throw their influence to the Society whenever possible. His request was not approved since the account was not needed for the administration of the Society's business. As the result of a series of mergers involving the Merchant National Bank and several other banks, the Society's accounts are now carried with the Bank of America National Trust & Savings Association.

You will note from the attached reports that the Farmers & Merchants National Bank is very highly regarded and rated as one of the outstanding banking institutions on the Pacific coast.

There is no necessity for an additional account in Los Angeles insofar as banking requirements are concerned since our present depository meets all our needs.

F. H. RICHMOND, *Ass't. Treasurer.*

RK: DE W

EXHIBIT No. 2321-D

[From the files of The Equitable Life Assurance Society of the United States]

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Office of

F. H. RICHMOND, Assistant Treasurer

Dated at New York, March 11, 1937.
Replying to yours of

For: Mr. Harry Greaves, Treasurer.
Subject: Banking arrangements—Los Angeles, California.

It has been recommended that The Farmers & Merchants National Bank of Los Angeles would be a desirable depository for the Society in Los Angeles, California.

This bank, which was founded in 1903, ranks third in size in Los Angeles and is rated as one of the outstanding banking institutions on the Pacific coast. Chase National Bank states that it is ably managed and is one of the best banks in Los Angeles. Guaranty Trust Company says that it is one of the best banks in the country and comments on their enviable record through good times and bad. National City Bank reports the management to be capable and experienced and unqualifiedly recommends it as a depository.

We suggest, if agreeable to you, that authority be obtained from the Finance Committee to use THE FARMERS & MERCHANTS NATIONAL BANK OF LOS ANGELES, LOS ANGELES, CALIFORNIA, as a depository for the Society's funds.

F. H. RICHMOND, *Ass't. Treasurer.*

RK: DEW

EXHIBIT No. 2321-E

[From the files of The Equitable Life Assurance Society of the United States]

MARCH 22, 1937.

Mr. VICTOR H. ROSSETTI,
President, Farmers & Merchants National Bank,
Los Angeles, California.

DEAR MR. ROSSETTI: It is a pleasure to inform you that our Finance Committee has approved the Farmers & Merchants National Bank of Los Angeles, California, as a Home Office depository for the Equitable.

Enclosed herewith I hand you check on the Wells Fargo Bank & Union Trust Company of San Francisco, in the sum of $25,000.00, being the initial deposit to an account to be styled "THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES." No checks may be drawn against this account, except upon signature and countersignature of which we shall inform you later.

If you will be kind enough to have sent directly to F. H. Richmond, Assistant Treasurer, sufficient cards to enable us to supply you with eight specimen signatures and ten specimen countersignatures, we will complete and return them to such officer as you may designate, together with full instructions.

It is my earnest hope that the establishment of these relations may be advantageous to both the Farmers & Merchants National Bank and to the Society.

Yours very truly,

H. G.,
Treasurer.

FHR: HP
ENC: 1 Check.

EXHIBIT No. 2322

[From the files of the New York Life Insurance Company]

FRANK F. BROOKS, President
CLYDE C. TAYLOR, Vice President
J. HOWARD ARTHUR, Vice Prest. & Cashier
WILLIAM H. FAWCETT, Vice President
ROBERT WARDROP, Charman of Board
P. W. MORGAN, Vice Chairman of Board

HENRY K. HOLMES, Asst. to President
OSCAR WILSON, Assistant Cashier
THOS. B. HUDSON, Assistant Cashier
GRIER C. ORR, Assistant Cashier
HUBERT E. SMITH, Assistant Cashier

FIRST NATIONAL BANK AT PITTSBURGH,
Pittsburgh, Pa., November 27, 1934.

Mr. HAROLD PALAGANO,
Treasurer, New York Life Insurance Co.,
51 Madison Ave. Madison Square, New York, N. Y.

DEAR MR. PALAGANO: In looking over your recent statement we note you have a great deal of surplus cash on hand and we are writing you with the thought in mind that perhaps we could interest you in placing a portion of these funds with us in a TIME ACCOUNT, upon which we will allow you interest at the rate of one percent per annum, same being credited to your account on a quarterly basis and the funds being subject to thirty days written notice of withdrawal.

We have quite a few customers who have placed their surplus funds with us in this manner, which seems to work out very satisfactory for them and feel sure it would do likewise for you. In order that you may familiarize yourself with our institution we are enclosing a copy of our recent statement and trust our suggestion may receive your favorable consideration.

Your very truly,

WM. H. FAWCETT,
Vice President.

WHF/a.

(Handwritten:) Removed from Treasury file, 3/3/39. WESTREY.

EXHIBIT No. 2322-A

[From the files of the New York Life Insurance Company]

MEMBER

FEDERAL DEPOSIT INSURANCE CORPORATION

THE CONTINENTAL INDUSTRIAL BANK

"A STATE SAVINGS BANK"

39 Public Square, N. W.—Public Square Bldg.

CLEVELAND, *June 26, 1936.*

NEW YORK LIFE INSURANCE CO.,
51 Madison Ave., New York, N. Y.

(Attention: Harold Palagano, Treas.)

GENTLEMEN: We wish to direct your attention to the attractive return this bank affords for the deposit of part of your surplus funds. We pay 2½% interest from the date of deposit to the date of withdrawl, plus the two-mill State Tax levied against all deposits in the State.

Your deposit would be insured up to $5,000.00 by the Federal Deposit Insurance Corporation, of which we are a member. Considering the low yield of short term Government Bonds, and the danger in market fluctuations, we ask your consideration with the belief that a deposit from your institution in this bank would be mutually beneficial.

Thanking you for your consideration, we are,

Very truly yours,

THE CONTINENTAL INDUSTRIAL BANK,
ROY M. HEXTER, *President.*

RMH/MM

(Handwritten:) Removed from Treasury file 3/2/39.

WESTREY.

EXHIBIT No. 2322–B

[From the files of the New York Life Insurance Company]

OFFICERS	DIRECTORS
FRAZIER REAM, President	FRAZIER REAM
W. H. LAUSTEN, Vice President	A. C. LAUSTEN
A. C. LAUSTEN, Treasurer	W. H. LAUSTEN
GEO. F. MEYER, Cashier	GEO. F. MEYER
ALMA M. GOSS, Ass't Cashier	ALMA M. GOSS

THE AMERICAN BANK,
Port Clinton, Ohio, April 20, 1938.

NEW YORK LIFE INSURANCE CO.,
51 Madison Avenue, New York, N. Y.

(Attn: Treasurer.)

GENTLEMEN: Does your company have a surplus of inactive funds which you would like to invest safely, and at the same time realize a good return? If so, you will be interested in this letter.

The American Bank of Port Clinton, Ohio, invites deposits from organizations such as yours, or from their affiliates.

Interest is paid at the rate of 2½% per annum, with maturities of six months or one year. We issue a savings book covering your deposit. Funds in our bank are insured by the Federal Deposit Insurance Corporation up to $5,000.00 for each depositor. Our FDIC number is 9867.

A deposit in our bank embodies the three essentials of a good investment: (1) safety, (2) good interest return—we pay the Ohio State Tax on deposits—and (3) short maturity.

Since March 15, 1891, The American Bank has been operated in a conservative manner. For forty-seven years, through good times and bad, deposits in our bank have always been worth 100 cents on the dollar. A statement of our condition as of December 31, 1937, is enclosed.

For a sound, non-fluctuating investment, payable on a short maturity, you could not do better than to make a deposit with us. You may rest assured that your deposits will receive prompt and careful attention. May we hear favorably from you soon?

If you desire any further information, do not hesitate to communicate with us.

Very truly yours,

THE AMERICAN BANK,
A. C. LAUSTEN, *Treasurer.*

(Handwritten:) To Mr. Burill. File. To "p" Misc. Bk. File. WPB.
(Handwritten:) Removed from Treasury Dept. files 3/3/39.

WESTREY.

EXHIBIT No. 2323

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Life Insurance Plans Issued in 1938*

Name of Company	No. of Plans	Most Popular Plan		Second Popular Plan		Third Popular Plan		Fourth Popular Plan		Fifth Popular Plan	
		Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued
Acacia Mutual	31	10-yr. term	24.77	Life Paid Up at 85.	14.15	Whole Life Pfd.	13.28	Term to 65	10.55	20 Pay. Life	7.03
Aetna	92	Ordinary Life	23.83	5-yr. term	12.00	20 Pay. Life	8.36	10-yr. term	7.40	Family Inc., 20-yr.	5.92
Alliance	49	Ordinary Life	35.38	20 Pay. Life	17.05	20-yr. term	8.49	Guar. Paid up Additions.	8.38	Endow. at 85	5.26
American United	92	Annual Term (Reinsur.).	39.69	Family Endow. at 85.	10.60	Ordinary Life	8.44	Modified Life	6.71	20 Pay. Life	5.71
Atlantic	42	Ordinary Life	31.35	20 Pay. Life	19.26	Ordinary Life Pfd.	6.38	Life Paid up at 60.	5.26	10-yr. term	3.24
Bankers—Iowa	35	Family Prot'n—20-yr.	22.22	Endow., with Life Inc., at 65.	11.31	Life Paid Up at 70.	9.43	Whole Life, Endow. at 85.	8.25	Term to 65	7.07
Bankers—Nebraska	35	20 Pay. Endow. at 85 Par.	14.72	Endow., with Life Inc., at 65, male, non-par.	13.44	Ordinary Life, non-par.	13.33	Ordinary Life, Endow. at 85, par.	8.61	20-yr. term, non-par.	7.60
Berkshire	68	Berk. Benefactor.	29.93	Ordinary Life	28.26	20 Pay. Life (Juvenile).	6.46	20 Pay. Life	6.33	Ord. Life (Juvenile).	3.88
Business Men's Assurance.	20	Whole Life	23.23	Whole Life, Double Prot'n to 60.	20.74	20 Pay. Life	13.40	Endow., with Life Inc., at 65.	8.47	Endow., with Life Inc., at 60.	6.20
California — Western States.	76	Mod. Ordinary Life.	22.39	Ordinary Life, Endow. at 85.	18.57	20 Pay. Endow. at 85 (Juvenile) par.	6.64	20 Pay. Life Endow. at 85.	6.25	Ordinary Life, Endow. at 85, par.	6.05
Central Life Assurance Society.	38	Ordinary Life	26.67	20 Pay. Life	12.88	10-yr. term	8.15	Whole Life Pfd.	7.90	30 Pay. Life	6.86
Columbian National	40	Ordinary Life	21.35	Whole Life, reducing 50% at 68.	15.71	10-yr. term	15.46	20 Pay. Life	6.52	33 Pay. 35-yr. Endow.	4.31
Columbus Mutual [3]	33										

*Excludes industrial and group insurance and group annuities.
[3] Company gives data as to number of plans only.

Life Insurance Plans Issued in 1938—Continued

Name of Company	No. of Plans	Most Popular Plan		Second Popular Plan		Third Popular Plan		Fourth Popular Plan		Fifth Popular Plan	
		Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued
Connecticut General	57	Ordinary Life	30.56	10-yr. term	12.47	5-yr. term	11.49	Auto. Conv. Term at 65.	9.88	Endow. with Life Inc. at 65.	6.45
Connecticut Mutual	41	Ordinary Life	25.98	Graded Prem. Life.	11.44	Retire't Inc. at 65.	10.19	Endow. at 75	5.74	20 Pay. Life	4.62
Continental American	30	Business, Pfd	25.35	Ordinary Life	13.93	Endow. at 85	8.68	Improved 20-yr. term.	7.66	Business, Std	5.86
Continental Assurance	62	Whole Life, Double Prot'n to 60.	17.59	Comm'l. Ord. Life.	12.69	Life Expectancy Term.	11.19	Ordinary Life, accel. cpn.	11.01	Cont. Prem. Endow. at 85.	5.26
Country	6	Whole Life	43.33	Endow. at 65	31.45	Term to 65	13.74	20 Pay. Life	5.76	30-yr. Endow	4.04
Equitable—Iowa	35	Ordinary Life	29.74	30 Pay. Life	10.80	Endow., with Life Inc., at 65.	8.87	20 Pay. Life	8.78	Term to 65	7.69
Fidelity Mutual	39	Ordinary Life	33.65	Endow., with Life Inc., at 65.	12.43	20 Pay. Life	7.65	5-yr. term	7.56	Mod. Life	6.41
Franklin	18	Endow. at 85	19.63	Whole Life, Double Prot'n. to 60.	14.93	Endow., with Life Inc., at 60 and 65.	12.61	20 Pay. Endow. at 85.	11.98	Economist	6.79
General American	71	Ord. Life, non-par.	31.51	20 Pay. Life, non-par.	15.60	Ord. Life, par	8.03	5-yr. Conv. term	6.87	20 Pay. Life (Juvenile).	6.01
Great Southern	66	Term to Expectancy.	12.84	Ord. Life Pfd	11.34	Whole Life Endow. at 85.	11.11	20 Pay. Life, par	9.58	20 Pay. Endow. at 85.	7.99
Guarantee Mutual	81	Econ. Protector	31.31	Endow. at 85	24.37	20 Pay. Life	8.70	Endow. at 85 (Juvenile).	5.77	Endow. at 65 (Male).	2.68
Guardian	35	Ordinary Life	44.41	5-yr. Auto. Conv. term.	11.12	30 Pay. Life	9.14	Endow. at 65	7.08	20 Pay. Life	7.01
John Hancock	60	Endow. at 85	23.42	20 Pay. Life	14.18	20 Pay. Life (Mo. debit).	8.65	Whole Life Pfd	7.16	Endow. at 85 (Mo. debit).	6.40
Home Life—New York	38	Whole Life Pfd	41.85	Whole Life Payable at 85.	14.62	Family Inc., 20 yr.	13.39	3-yr. Auto Conv. term.	3.68	20 Pay. Life, Endow. at 85.	3.17
Indianapolis	34	Ordinary Life	27.95	Business Men's	15.26	20 Pay. Life	8.45	30-yr. Endow	5.80	10-yr. term	5.34
Jefferson Standard	48	Ordinary Life, Endow. at 85.	31.20	Ret. Income—age option.	5.20	5-yr. Auto Conv. term.	5.08	Mod. Ordinary Life.	4.28	20 Pay. Life, Guar. Accum.	3.28
Kansas City	51	Life Paid Up at 80.	24.00	20 Pay. Life	18.41	5-yr. term	12.44	10-yr. term	4.39	20 Pay. Life cpn.	3.62
Life Insurance Company of Virginia.	50	5-yr. Mod. Life	16.02	20 Pay. Endow. at 85.	14.00	Cont. Prem. Endow. at 85.	9.57	Whole Life Pfd	9.50	Economic	6.70

Lincoln National	102	Yearly Renew. term.[1]	24.03	Yearly Renew. term.[2]	13.07	Other than yearly renew. term.[1]	9.63	Other than yearly renew. term.[2]	7.00	Ordinary Life Pfd. non-par.	6.82
Massachusetts Mutual	34	Ordinary Life	35.68	Family Maint. 20 yrs.	15.55	5-yr. Auto. Conv. term.	6.76	Endow., with Life Inc., at 65.	6.71	Endow., with Life Inc., at 60.	5.38
Midland	51	Ordinary Life	16.40	Paid Up Life at 85.	14.98	Mod. Whole Life.	13.31	5-yr. Auto. Conv. term.	6.01	10-yr. Renew. term.	5.40
Minnesota Mutual	45	Endow. at 85	21.00	Endow., with Life Inc., at 65.	11.18	20 Pay. Endow. at 85.	8.80	Endow. at 85 (Family Inc.).	8.79	Endow., with Life Inc., at 65.	6.84
Mutual Benefit		Ordinary Life	73.64	Endow. 10–20 yr. terms.	9.15	Ordinary Life with Limited premiums.	8.15	Retire't and Inc. Plans.	6.46	Endow. over 20-yr. terms.	2.55
Mutual—New York	125	Ordinary Life	39.52	20 Pay. Life	7.84	5-yr. term	6.16	Ord. Life (Juvenile).	4.67	10-yr. term	4.22
Mutual Trust	37	Whole Life Paid Up at 85.	21.52	Ordinary Life	18.61	20 Pay. Life	16.55	20 Pay. Endow. at 65.	4.75	Endow., with Life Inc., at 65.	4.15
National Life and Accident.	10	Endow. at 85	30.23	20 Pay. Life	26.31	Family Special Prem.	21.54	Whole Life Pfd.	5.34	Paid Up at 65	4.07
National	48	Ordinary Life	33.06	1–4 yr. Conv. term.	16.04	5-yr. Non-renew. term.	7.76	20 Pay. Life	5.29	Endow. with Life Inc. at 65.	4.83
New England Mutual	25	Ordinary Life	31.99	3-yr. Conv. term.	10.46	5-yr. term	10.29	Endow., with Life Inc., at 65.	10.29	Endow., with Life Inc., at 60.	5.69
New York	38	Ordinary Life	39.02	20 Pay. Life	13.19	Annuity Endow. at 65.	8.72	Family Inc. 20 yr.	4.67	Mod. Endow. at 85.	3.84
Northwestern Mutual	57	Ordinary Life	45.27	5-yr. Conv. term.	14.85	Endow., with Life Inc. at 65.	6.90	Ordinary Life with Term Benefit.	5.18	20 Pay. Life	4.77
Northwestern National	52	5-yr. Auto. Conv. term.	13.41	Endow. at 85	10.89	Endow. at 65	8.38	Endow. at 55	7.76	Endow. at 60	6.69
Occidental	49	5-yr. Conv. term.	16.76	Endow. at 85	12.41	20 Pay. Endow. at 85.	6.39	20-yr. Endow	5.38	10-yr. Conv. term.	4.76
Ohio National	44	Life Endow. at 85.	24.76	Adjustable Whole Life.	16.27	20 Pay. Endow. at 85.	10.00	20 Pay. Guar. Annuity.	8.76	20 Pay. Endow. at 65.	3.63
Pan-American	87	Endow. at 85	12.58	25 Pay. Life Cpn.	11.57	20 Pay. Life	8.59	20-yr. Endow. Cpn.	7.73	Ordinary Life	6.46
Penn Mutual	93	Ordinary Life	41.71	Ord. Life, 20-yr. Conv. Income.	12.03	Endow., with Life Inc., at 65.	10.65	Endow., with Life Inc., at 60.	6.02	5-yr. Auto Conv. term.	5.13
Phoenix Mutual	21	Endow., with Life Inc., at 60.	20.87	Ordinary Life	20.67	10-yr. term	16.26	Endow., with Life Inc., at 60.	7.35	Endow., with Life Inc., at 65.	7.11
Provident Mutual	35	Ordinary Life	30.00	Protector	15.55	5-yr. term	10.87	Providor at 65	7.29	10-yr. term agree'ts.	3.95
Prudential	136	5-yr. Mod. Life.	23.39	3-yr. Mod. Life.	19.02	20 Pay. Life	8.89	Endow. at 85	8.27	Endow. at 85 (Mo. debit).	5.28
Reliance	45	5-yr. Auto. Conv. term.	16.56	Ordinary Life, par.	12.15	Ordinary Life, non-par.	9.49	Life Paid Up at 75, non-par.	6.80	20 Pay. Life, par.	5.24

[1] Reinsurance standard.
[2] Reinsurance sub-standard.

Life Insurance Plans Issued in 1938—Continued

Name of Company	No. of Plans	Most Popular Plan		Second Popular Plan		Third Popular Plan		Fourth Popular Plan		Fifth Popular Plan	
		Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued	Name	% of Total Ins. Issued
Southland [3]	60										
Southwestern	110	Ordinary Life	30.92	20 Pay. Life	19.92	65-yr. Conv. term.	14.09	Modified Life	3.88	20-yr. Endow	3.84
State	54	Ordinary Life	22.55	20 Pay. Life	17.29	20 Pay. Endow. at 65.	8.21	20-yr. Endow	7.78	(Reinsur.) Annual renew. term.	4.89
State Mutual	59	5-yr. Auto. Conv. term.	12.44	Endow., with Life Inc., at 65.	8.30	20 Pay. Life	7.68	30 Pay. Life	6.92	10-yr. term	3.64
Travelers	71	Ordinary Life	20.23	5-yr. term	17.39	Term to Expectancy.	9.68	1-yr. term (wholesale).	6.91	20 Pay. Life	6.57
Union Central	48	20-yr. Conv. term.	30.33	Ordinary Life	21.58	20 Pay. Life	5.91	15-yr. Conv. term.	5.84	Retire't Ann'ty at 65.	4.57
United Benefit	60	Ordinary Life	26.30	20 Pay. Life	26.20	Mod. Life	24.63	Whole Life Double Benefit to 65.	5.32	Spec. Whole Life incr. ben. at 65.	3.14
Volunteer State	32	Cont. Pay. Endow. at 85.	29.90	20 Pay. Endow. at 85.	17.99	Renewable term	10.74	20 Pay. Life, Guar. Premiums.	6.68	Endow., with Life Inc., at 55.	6.49
West Coast	44	20-yr. Endow	18.63	Endow. at 85	16.49	20 Pay. Life	14.61	Term to Expectancy.	3.62	30-yr. Endow	3.24
Western and Southern	22	20 Pay. Life	35.67	Term to 65	15.83	Endow. at 85	14.59	30 Pay. Life	9.62	Endow. at 60	5.29

[3] Company gives data as to number of plans only.

NOTE.—The above schedule includes all companies which supplied adequate information for the question to which the schedule relates.
Source: Information submitted by the companies in response to sales questionnaire.

Exhibit No. 2324

Whole Time Soliciting Agents[1] Contracts Made, Terminated and in force, 45 Companies

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Year	Number of Appointments Made during Year	Total Contract Terminations during Year	Number in Force December 31
1934	19,055	22,178	48,775
1935	18,413	19,965	47,155
1936	17,010	19,434	45,429
1937	15,676	17,507	43,967
1938	15,745	16,297	43,452

[1] Does not include General Agents, Branch Office Managers, Supervisors, or other Sales Promotion Assistants.

NOTE.—The above schedule includes all companies which supplied adequate information for the question to which the schedule relates.
Source: Information submitted by the companies in response to sales questionnaire.

Exhibit No. 2324-A

Companies Included in Table Entitled Whole Time Soliciting Agents * Contracts Made, Terminated ** and in Force

1. Acacia
2. Aetna
3. Alliance
4. Bankers Life
5. Bankers Life Inc., Nebr.
6. Business Men's
7. Calif.-Western States
8. Central Life Assurance
9. Connecticut General
10. Connecticut Mutual
11. Continental American
12. Continental Assurance
13. Country Life
14. Equitable, Iowa
15. Franklin Life
16. General American Life
17. Great Southern
18. Guardian Life
19. John Hancock
20. Indianapolis Life
21. Jefferson Standard
22. Kansas City Life
23. Lincoln National
24. Midland Mutual
25. Minnesota Mutual
26. Mutual Benefit
27. Mutual, N. Y.
28. Mutual Trust
29. National Life & Accident
30. National Life
31. New England Mutual
32. New York Life
33. Northwestern Mutual
34. Northwestern National
35. Occidental
36. Penn Mutual
37. Phoenix Mutual
38. Provident Mutual
39. Prudential
40. Reliance
41. Southwestern
42. State Life Insurance.
43. Travelers
44. Union Central
45. Volunteer State

Exhibit No. 2325

[Prepared by the Securities and Exchange Commission Insurance Study Staff.]

*Cost of Selecting and Training Agents**

Name of Company	Total Cost During 1937	Cost per Agent Appointed during 1937	
		Based on All Agents Appointed	Based Only on Those Who Remained under Contract throughout 1938
Acacia	$45,110.00	$254.86	$867.52
Business Men's Assurance	10,203.48	47.68	179.01
Central Life	[a] 27,215.87	70.89	200.12
Equitable Iowa	10,654.24	21.88	57.02
Great Southern		189.05	1,081.70
Guarantee Mutual—Neb	4,173.33	11.89	40.11
Lincoln National	386,613.74	131.75	252.62
Mutual—N. Y	592,096.00	313.00	596.00
Penn Mutual	250,405.77	388.82	1,526.86
Southwestern	78,325.90	842.21	2,175.44

[a] Estimated cost to company only.
* Does not include General Agents, Branch Office Managers, Supervisors or other sales promotion assistants. This schedule does not include agents soliciting Industrial business.

NOTE.—The above schedule includes all companies which supplied adequate information for the question to which the schedule relates.
Source: Information submitted by the companies in response to sales questionnaire.

Exhibit No. 2326

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Compensation of Agents[1] for the Year 1938

[Amounts in Dollars]

Compensation classification	Whole time agents		Part time agents		Others	
	Number	Amount	Number	Amount	Number	Amount
No compensation	3,331		1,612		2,458	
Under $250	8,828	735,169.73	3,811	286,476.29	9,128	581,470.01
250 to 499	2,712	983,990.17	691	243,422.84	1,179	413,846.53
500 to 999	2,866	2,058,777.74	533	370,086.53	670	459,406.22
1,000 to 1,499	1,809	2,229,552.43	155	191,131.14	236	279,109.93
1,500 to 1,999	1,210	2,098,009.37	65	111,011.42	74	128,195.82
2,000 to 2,499	862	1,931,684.62	20	45,367.75	48	106,783.26
2,500 to 2,999	585	1,599,835.21	15	41,368.53	32	87,185.89
3,000 to 3,999	793	2,702,496.91	12	41,262.17	19	63,558.38
4,000 to 4,999	389	1,714,213.86	3	12,360.04	13	56,725.49
g,000 to 6,999	322	1,883,877.50	1	5,442.00	14	85,015.50
7,000 to 9,999	136	1,114,449.53	1	7,441.30	4	32,592.50
10,000 to 19,999	70	903,361.83	1	10,105.00	1	11,959.00
20,000 to 49,999	10	261,516.26	0	0	1	20,024.00
50,000 to 99,999	0	0	0	0	1	81,565.00
100,000 and over	0	0	0	0	0	
Totol	23,923	20,216,935.16	6,920	1,365,575.01	13,878	2,407,437.53

[1] This schedule does not relate to General Agents, Branch Managers or Industrial Agents. The designation "Other" includes Brokers and Surplus Line Agents.

NOTE.—The above schedule includes 27 companies which supplied adequate information for the question to which the schedule relates.
Source: Information submitted by companies in response to sales questionnaire.

Exhibit No. 2327

[Prepared by the Securities and Exchange Commission Insurance Study Staff.]

Compensation[1] of Whole Time Agents[2] for the Year 1938

Percentage of Total Number of Agents and Percentage of Total Compensation Classified by Compensation Groups

Compensation Classification	Percentage		Cumulative Percentage		Cumulative Percentage	
	Number	Amount	Number	Amount	Number	Amount
No compensation	13.92		13.92		100.00	
Under $250	36.90	3.64	50.82	3.64	86.08	100.00
250-499	11.34	4.87	62.16	8.51	49.18	96.36
500-999	11.98	10.18	74.14	18.69	37.84	91.49
1,000-1,499	7.56	11.03	81.70	29.72	25.86	81.31
1,500-1,999	5.06	10.38	86.76	40.10	18.30	70.28
2,000-2,499	3.60	9.55	90.36	49.65	13.24	59.90
2,500-2,999	2.45	7.91	92.81	57.56	9.64	50.35
3,000-3,999	3.31	13.37	96.12	70.93	7.19	42.44
4,000-4,999	1.63	8.48	97.75	79.41	3.88	29.07
5,000-6,999	1.35	9.32	99.10	88.73	2.25	20.59
7,000-9,999	.57	5.51	99.67	94.24	.90	11.27
10,000-19,999	.29	4.47	99.96	98.71	.33	5.76
20,000-49,999	.04	1.29	100.00	100.00	.04	1.29
50,000-99,999	.00	.00	.00	.00	.00	.00
100,000 and over	.00	.00	.00	.00	.00	.00
Total	100.00	100.00				

[1] Includes only commissions paid by declarant company

[2] Does not include General Agents, Branch Office Managers, Supervisors, or other Sales Promotion Assistants

Note.—The above schedule includes 27 companies which supplied adequate information for the question to which the schedule relates.

Source: Information submitted by companies in response to sales questionnaire.

Exhibit No. 2327-A

Companies Included in Schedules Relating to Compensation of Whole Time Agents

1. Acacia
2. Bankers Life Co.
3. Berkshire Life
4. Business Men's Assoc.
5. Calif.-Western States
6. Central Life
7. Connecticut General
8. Connecticut Mutual
9. Continental American
10. Equitable Life of Iowa
11. General American
12. Great Southern
13. Guardian Life
14. Indianapolis Life
15. Life Ins. Co. of Va.
16. Lincoln National
17. National Life & Accident
18. Occidental
19. Penn Mutual
20. Phoenix Mutual
21. Prudential
22. Reliance
23. Southland
24. Southwestern
25. Travelers
26. Union Central
27. West Coast

Exhibit No. 2328

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Highest Commissions[1] Paid Agents[2] 1938

[Amounts in Dollars]

Name of Company	Status	Highest	Tenth From Highest
Acacia	Whole Time	$13,182.79	$6,363.62
	Part Time	1,614.05	116.02
American United	Whole Time	10,575.85	4,378.19
	Part Time		
Bankers Life	Whole Time	7,862.09	5,725.19
	Part Time	2,047.23	626.02
Bankers Life Insurance	Whole Time	12,045.86	4,892.50
	Part Time	427.95	260.63
Berkshire	Whole Time	7,507.79	3,402.14
	Part Time	1,351.80	931.19
Business Men's	Whole Time	23,002.00	6,669.00
	Part Time		
Calif.-Western States	Whole Time	31,040.00	8,749.50
	Part Time	508.59	270.91
Central Life	Whole Time	4,182.94	2,616.95
	Part Time	697.94	346.76
Columbus Mutual	Whole Time	[3] 12,761.89	[3] 4,728.46
	Part Time	([3])	([3])
Connecticut General	Whole Time	12,680.12	7,932.56
	Part Time	805.97	439.54
Connecticut Mutual	Whole Time	14,699.00	
	Part Time		
Continental American	Whole Time	7,374.77	5,437.70
	Part Time	2,835.73	206.09
Country Life	Whole Time	9,788.57	4,609.90
	Part Time		
Equitable—Iowa	Whole Time	9,580.17	5,995.99
	Part Time	3,751.27	1,066.57
General American	Whole Time	5,254.62	2,619.92
	Part Time	990.11	446.62
Great Southern	Whole Time	15,847.13	5,181.03
	Part Time		
Guardian Life	Whole Time	13,722.00	5,905.00
	Part Time	1,093.00	346.00
Home Life	Whole Time	10,199.25	5,155.45
	Part Time		
Indianapolis	Whole Time	18,948.58	5,485.26
	Part Time	2,326.58	883.92
Jefferson Standard	Whole Time	9,120.65	4,706.48
	Part Time	3,815.93	1,673.54
Life Insurance Co. of Virginia	Whole Time	5,107.05	1,845.79
	Part Time	1,602.84	566.53
Lincoln National	Whole Time	17,945.10	8,200.92
	Part Time	2,172.08	1,151.24
New York Life	Whole Time	25,076.05	18,453.62
	Part Time		
Northwestern National	Whole Time	18,382.05	4,867.51
	Part Time	2,423.63	473.24
Occidental	Whole Time	15,638.95	5,458.56
	Part Time		
Pan American	Whole Time	[3] 6,528.85	[3] 1,464.57
	Part Time	([3])	([3])
Penn Mutual	Whole Time	23,237.00	10,790.00
	Part Time	4,221.00	1,618.00
Phoenix Mutual	Whole Time	11,963.00	6,360.00
	Part Time		
Prudential	Whole Time	11,586.00	5,832.00
	Part Time	10,105.00	3,054.00
Reliance	Whole Time	27,997.51	10,639.99
	Part Time	2,039.14	1,065.14
Southland	Whole Time	36,463.70	7,030.30
	Part Time		

[1] Includes only commissions paid by declarant company.

[2] Does not include General Agents, Branch Office Managers, Supervisors, or other Sales Promotion Assistants.

[3] Whole and Part Time Agents combined.

Highest Commissions Paid Agents 1938—Continued

Name of Company	Status	Highest	Tenth From Highest
Southwestern	Whole Time	$24, 100. 04	$8, 495. 39
	Part Time	2, 753. 52	1, 491. 11
Union Central	Whole Time	15, 304. 05	5, 695. 75
	Part Time	3, 740. 67	818. 84
Volunteer State	Whole Time	16, 479. 00	6, 496. 00
	Part Time	2, 302. 00	162. 00
West Coast	Whole Time	[4] 10, 068. 33	[4] 5, 726. 63
	Part Time	[4] 1, 763. 36	[4] 691. 89

[4] For the United States only.

Note: The above schedule includes all companies which supplied adequate information for the question to which the schedule relates.
Source: Information submitted by the companiesi n response to sales questionnaire.

Exhibit No. 2329

Purposes of the National Association of Life Underwriters

1939–1940

PROVISIONS OF THE BY-LAWS

Article II, Section 1, Part 1

To support and maintain the principle of legal reserve life insurance.

To advance public knowledge of legal reserve life insurance and its uses.

To promote the adoption and application of higher standards of ethical conduct in the profession of life underwriting and the business of life insurance.

To increase the knowledge of agents concerning legal reserve life insurance, its uses and its sale.

To provide through local associations for rendering community service and for forming enduring friendships.

To create and maintain a sound public opinion, to promote cooperation and good will, and in all other ways to promote the best interest of legal reserve life insurance.

PURPOSES FOR 1939–1940

Realizing fully our responsibility to the public, to the 64 million American owners of life insurance, to the institution and to our membership, we propose:

1. To discharge our obligation to defend and preserve the rights of 64 million Americans who own a twenty-seven billion dollar stake in an institution which affords them an opportunity to create their future economic security through their own efforts and upon their own initiative.
2. To preserve, in that connection, the right of the American public to be served by the life insurance agent, through creative, intelligent salesmanship, fundamental to the American way of free enterprise.
3. To continue to raise the standards of selection, training and performance of the life insurance agent, in order:
   (a) That American life values may be more adequately insured, and
   (b) That the life insurance agent may enjoy full public confidence, based on the part which he plays in the social and economic life of his community and of the nation.
4. To develop all possible means for using our membership to disseminate sound information regarding the institution of life insurance and to use our strength and influence to protect policyholders and beneficiaries from being misled by those who seek, for their own selfish interest, to tear down legal reserve life insurance.

5. To emphasize quality as well as quantity in an aggressive effort to strengthen and extend our membership; to intensify and broaden our service to local associations, in meeting their problems and in promoting their service to individual members.

NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

11 West 42nd Street, New York City, N. Y.

Exhibit No. 2330

The Life Underwriter's Code of Ethics

My Credo:

Life insurance is essential to the financial protection of our Nation's citizens. The universal recognition of its value is a direct result of the high sense of trusteeship which is the dominating characteristic of the operation of life insurance companies.

The purposes and ideals of life insurance demand a certain definite standard of conduct on my part as a life underwriter if I am to merit and receive a public confidence comparable to that which is now accorded a well-managed life insurance company.

So that there may be no uncertainty about the invariable practices to be followed in measuring up to this standard, I adopt, as a general guide the following Code of Ethics:

I believe that it is my responsibility:

1. To hold my business in high esteem and honor its prestige.
2. To keep my clients' needs always uppermost.
3. To respect my clients' confidence and hold in trust personal information.
4. To render continuous service to my clients and their beneficiaries.
5. To use all proper methods in enthusiastically persuading clients to protect insurable needs.
6. To present accurately and completely every fact essential to my clients' decisions.
7. To develop my ability and improve my knowledge through constant study.
8. To work consistently and according to a program, and to devote myself exclusively to this business, as a career.
9. To be fair in my relations with colleagues and competitors, always placing the clients' interest first.
10. To understand insurance laws and regulations and to observe them in letter and in spirit.
11. To endeavor to submit only the applications of persons conforming to the physical, moral and financial requirements of my company.
12. To be loyal to my associates, my agency and my company.

THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

EXHIBIT No. 2331

[Prepared by The Connecticut Mutual Life Insurance Company]

The Connecticut Mutual Life Insurance Company—Whole Time Agents Under Contract December 31, 1938

CLASSIFICATION OF SUCH WHOLE TIME AGENTS BY PERIOD OF SERVICE AND COMPENSATION EARNED DURING 1938

Earnings	Period of Service											
	1 Year or Less		2 Years		3 Years		4 Years		5 Years		Over 5 Years	
	Number of Agents	Aggregate Compensation	Number of Agents	Aggregate Compensation	Number of Agents	Aggregate Compensation	Number of Agents	Aggregate Compensation	Number of Agents	Aggregate Compensation	Number of Agents	Aggregate Compensation
Less than $500	249	$33,020	39	$11,568	17	$5,592	7	$2,152	4	$1,459	12	$4,864
" " 750	268	44,485	63	26,365	26	11,170	17	7,938	12	6,546	28	14,296
" " 1,000	277	52,107	81	42,324	40	23,190	25	14,928	12	6,546	46	30,359
" " 1,500	282	58,269	95	59,455	61	48,729	33	24,845	25	23,394	111	110,048
" " 2,000	283	59,811	104	74,504	68	60,485	47	49,120	30	32,175	160	195,395
" " 2,500	284	61,955	107	81,212	69	62,522	52	60,961	31	34,623	201	288,487
" " 3,000	285	64,463	109	86,377	71	68,078	52	60,961	38	53,701	234	380,593
" " 5,000	286	67,823	112	98,030	72	71,376	58	82,133	46	81,210	305	647,960
Over 5,000									3	20,350	26	181,183
Totals	286	67,823	112	98,030	72	71,376	58	82,133	49	101,560	331	829,143
Average Earnings		$237		$875		$991		$1,416		$2,073		$2,505

The Connecticut Mutual Life Insurance Company—Whole Time Agents Under Contract December 31, 1938—Continued

CLASSIFICATION OF SUCH WHOLE TIME AGENTS, OTHER THAN FIRST YEAR, BY PERIOD OF SERVICE AND COMPENSATION EARNED DURING 1938

Earnings	Period of Service										Totals	
	2 Years		3 Years		4 Years		5 Years		Over 5 Years		Other than 1st Year	
	Number of Agents	Per Cent of Total	Number of Agents	Per Cent of Total	Number of Agents	Per Cent of Total	Number of Agents	Per Cent of Total	Number of Agents	Per Cent of Total	Number of Agents	Per Cent of Total
Less than $500	39	6.3	17	2.7	7	1.1	4	.6	12	1.9	79	12.6
" " 750	63	10.2	26	4.2	17	2.7	12	1.9	28	4.5	146	23.5
" " 1,000	81	13.1	40	6.4	25	4.0	12	1.9	46	7.4	204	32.8
" " 1,500	95	15.3	61	9.8	33	5.3	25	4.0	111	17.8	325	52.2
" " 2,000	104	16.7	68	10.9	47	7.6	30	4.8	160	25.7	409	65.7
" " 2,500	107	17.2	69	11.1	52	8.4	31	5.0	201	32.3	460	74.0
" " 3,000	109	17.5	71	11.4	52	8.4	38	6.1	234	37.6	504	81.0
" " 5,000	112	18.1	72	11.6	58	9.3	46	7.3	305	49.0	593	95.3
Over 5,000							3	.5	26	4.2	29	4.7
Totals	112	18.1	72	11.6	58	9.3	49	7.8	331	53.2	622	100.0

ATTENTION:

A complete analysis of the above data requires consideration of several factors not revealed by the figures alone:

(*a*) General Agents sometimes do not notify the Home Office of a contract's termination for some months, frequently postponing such action until the date of license renewal.

(*b*) Some contracts listed never actually entered field work since they were made by General Agent to cover a period of training to decide the man's adaptability for this work.

(*c*) Earnings represented are commissions in this Company only; a great many of these men broker business in several companies.

(*d*) Many men of high caliber are continued under contract, despite apparent low earnings, who are actually independent financially, or who are inactive because of age, illness or length of service; and in some cases because of invested or other income from outside sources.

NOTE.—Above figures are a summary of those submitted by General Agents for full-time agents under contract as of December 31, 1938. See (*a*) and (*b*) above.
Source: Table 6 of the S. E. C. Sales Questionnaire Answers.

Exhibit No. 2332

[Prepared by The Connecticut Mutual Life Insurance Company]

Exhibit S. *Question 73, Cause of Termination—Lapses in 1936*

	Number	Amount	Average Size	Average Duration To Lapse	% of Total Giving Reasons	
					Number	Amount
1. (a) Finances	(1,869)	($4,987,499)	($2,669)	(5.02)	(61.50)	(56.43)
(b) Need for cash	(292)	(902,437)	(3,091)	(11.31)	(9.61)	(10.21)
2. Total finances	2,161	5,889,936	2,726	5.87	71.11	66.64
3. Unemployment	143	268,580	1,878	4.47	4.71	3.04
4. No need for insurance	108	564,390	5,226	8.52	3.55	6.38
5. Replacement in Conn. Mut	179	650,600	3,635	9.80	5.89	7.36
6. Replacement elsewhere	124	602,454	4,859	6.90	4.08	6.82
7. Insured's address not known	105	187,978	1,790	3.69	3.46	2.13
8. Dissatisfaction	50	144,331	2,887	4.74	1.64	1.63
9. Legal recission	6	43,200	7,200	4.53	.20	.49
10. Canceled by owner or assignee	66	377,340	5,717	10.31	2.17	4.27
11. Class of Wellesley	49	24,500	500	13.00	1.61	.28
12. Marriage	18	84,688	1,764	4.37	1.58	.96
Total giving reasons	3,039	8,837,997	2,908	6.26	100.00	100.00
No reason given	5,294	16,533,184	3,123	4.90		
Total	8,333	25,371,181	3,045	5.40		

Note.—Item 5 shows replacement in the Connecticut Mutual, for example, where the policyholders have accumulated considerable loans and desired to start over with new insurance.

Exhibit No. 2333

1938–1939 Objectives of the National Association of Life Underwriters

I. RESPONSIBILITY TO THE AGENT

To continue our efforts to raise the standards of performance of the men and women in the life insurance business through:

1. Emphasis upon such activities as will bring to the agent the prestige to which he is justly entitled because of the part he plays in the social and economic life of his community and of the nation.
2. Encouragement of research and study by the General Agents' and Managers' Section of methods and practices which will serve the agent—and strengthen the American Agency System.
3. Development and promotion of the use of educational and training clinics by local associations.
4. Promotion of a more widespread and effective use of selective tests and procedure as applied to men and women entering the business.
5. Continuance of the effort to secure the adoption and application of the Agency Practices Agreement by all legal reserve life insurance companies.
6. Cooperation with and encouragement of our membership, in a greater participation in the activities of the American College of Life Underwriters and the National Chapter, C. L. U.

II. RESPONSIBILITY TO THE PUBLIC

In full realization that we have a responsibility to bring to the public a further knowledge of legal reserve life insurance, we propose:

1. To more fully discharge our obligation to see to it that the life values of the American public are more adequately insured.
2. To develop all possible means for using our membership to disseminate sound information regarding the institution of life insurance.
3. To aid the companies in every possible way in bringing pertinent facts about life insurance to the public.
4. To use our strength and influence to save policyholders and beneficiaries from being misled by those who seek, for their own selfish interest, to tear down legal reserve life insurance.
5. To emphasize the responsibility and opportunity for cooperation between our association, the companies, and all groups and organizations within and without our business in serving the life insurance policyowners of America.

III. RESPONSIBILITY TO THE ORGANIZATION

We shall continue to work for the improvement and development of the organization structure of the local, state and national associations by:

1. Emphasizing quality as well as quantity in an aggressive effort to strengthen and extend our membership.
2. Extending and intensifying our service to local associations in meeting their problems and in promoting their service to their individual members.
3. Making an intensive effort to aid all associations in strengthening the present, and developing future, leadership.
4. Striving for 100% representation at local and state associations of the Mid-year Meeting and the Annual Convention.
5. Making full use of our celebration of the Fiftieth Convention and Golden Anniversary—to promote a program throughout the year appropriately to recognize past years of accomplishment, and establish new highs in service to the American public, our companies and our membership.

Exhibit No. 2334

[From the files of the Mutual Life Insurance Company of New York]

Water Company Confidential Report for Insurance Companies, Year Ending December 31, 19

Line

1. Company ______ Date Incorporated ______
2. Individual Furnishing Information ______
3. Names of Subsidiary Companies and Leased Companies included in this report on a consolidated basis:

   (Note A) ______

4. Holding Company Affiliation ______
5. Company's accounts audited annually by ______

Please Attach Copy of Printed Annual Report and Detailed Balance Sheet as of December 31.

If attached annual report does not give details of capitalization by issues, please show this in separate exhibit.

CONDENSED INCOME ACCOUNT

6.	Operating Revenues	$
7.	Operating Expenses (Excluding Maintenance)	
8.	Maintenance	
9.	Taxes, (Incl. $______ Income Taxes)	
10.	Total Operating Expenses, Maintenance and All Taxes	
11.	Net Earnings	
12.	Non-operating Income (Note B)	
13.	Balance	
	Fixed Charges:	
14.	Leased Plant Rentals	
15.	Interest on Funded Debt	
16.	Other Interest Charges	
17.	Interest Charged to Capital (Credit)	
18.	Amortization of Bond Discount and Expense	
19.	Other Charges (Note C)	
20.	Total Fixed Charges	
21.	Balance	
22.	Appropriations for Retirements and Replacements (Depreciation)	
23.	Balance for Dividends and Surplus	
24.	Preferred Dividends (Cash or Stock)	
25.	Balance for Common Dividends and Surplus	
26.	Common Dividends (Cash or Stock)	
27.	Balance to Surplus	
28.	Surplus January 1, 19	

29. Surplus Debits for Year (Note B) ________ $________
30. Surplus Credits for Year (Note B) ________ ________
31. Surplus December 31, 19 ________ ________

NOTE A: If data for any company is included for less than full 12 months' period, please so indicate.
NOTE B: Attach exhibit showing detail of major items.
NOTE C: Sinking fund charges should not be included in Item 19, but should be included in Item 29.

PROPERTY VALUE (Commission or other rate base, valuation, historical cost, etc. brought down to December 31 with detailed explanation)

____

____

(Use Reverse Side if Necessary)

Water Company Confidential Report for Insurance Companies.

____
(Company)

Detailed Income Account—Water Department Only, Year Ending Dec. 31, 19__

	Amount	Water Sold (M gallons)	Number of Customers Dec. 31
OPERATING REVENUES			
Line			
1. Metered Sales to Domestic Consumers	$		
2. Flat Rate Sales to Domestic Consumers			
3. Metered Sales to Commercial Consumers			
4. Flat Rate Sales to Commercial Consumers			
5. Metered Sales to Industrial Consumers			
6. Flat Rate Sales to Industrial Consumers			
7. Sales to Other Water Utilities			
8. Municipal Fire Hydrant Rentals			
9. Miscellaneous Municipal Sales			
10. Other Miscellaneous Sales			
11. Forfeited Discounts, Penalties, etc. (Net)			
12. Total Operating Revenues (See Line 6, Page 1)			

	Amount	Transmission and Distribution Mains		
		Size	Kind of Pipe	Length in Feet
OPERATING EXPENSES AND MAINTENANCE				
13. Cost of Water Purchased	$			
14. Source of Water Supply				
15. Fuel				
16. Pumping (excluding Fuel)				
17. Purification				
18. Transmission and distribution				
19. Commercial and New Business				
20. General and Miscellaneous				
21. Uncollectable Bills				
22. Total (Excl. Taxes and retirements (Note D)	$			
NOTE D.: The figure on Line 22 page 2, should equal the sum of the figures on Lines 7 and 8, Page 1.				
OPERATING STATISTICS				
Population of Territory Served (Estimated)				
Number of Meters in Service				
Number of Flat Rate Customers				
Total Number of Active Customers				
Total Number of Taps Installed				
Number of Fire Hydrants				
Water Pumped from Wells or Springs (M gallons)				
Water Pumped from Streams, Lakes, etc (M gallons)				
Water from Gravity Systems (M gallons)				
Water Purchased (M gallons)				
Water Sold (M gallons)				
Per cent Unaccounted for				
Maximum Daily Pumpage (M gallons)				
Average Daily Pumpage (M gallons)			Total	

	Raw Water	Clear Water	Total
PLANT FACILITIES			
Pumping Capacity (gallons per 24 hrs.):			
Low Service			
Distributive			
Relay			
Total			
Filter Capacity (gallons per 24 hrs.)			
Storage Capacity (gallons):			
Reservoirs, Settling Basins, etc.			
Tanks and Standpipes			
Total			

EXHIBIT NO. 2334-A

[From the files of the Mutual Life Insurance Company of New York]

1 As revised November 1, 1939.

Report for Insurance Companies, Year Ending December 31, 19__

Lne

1. Company________________________ Date Incorporated: ____________
2. Individual Furnishing Information: ______________________________
3. Names of Subsidiary Companies and Leased Companies included in this report: (Note A)

____

____

4. Holding Company Affiliation: ____________________________________
5. Estimated Population served (a) Total________ (b) Electric Service______ (c) Gas Service__________

Please attach copy of printed Annual Report and Balance Sheet as of December 31

CAPITALIZATION*

			Average for Year**	As of December 31
6.	Mortgage Debt (Note B)	(a) Company	$__________	$__________
		(b) Subsidiaries	__________	__________
7.	Debentures, Notes, etc.	(a) Company	__________	__________
		(b) Subsidiaries	__________	__________
8.	Preferred Stock	(a) Company	__________	__________
		(b) Subsidiaries	__________	__________
9.	Minority Interest in Capital and Surplus of Subsidiaries		__________	__________
10.	Common Stock (____________ Shs. Dec. 31)		__________	__________
11.	Total Capitalization		$__________	$__________
12.	Surplus	(a) Earned	$__________	$__________
		(b) Capital or Paid in	__________	__________

*If attached annual report does not give detail of capitalization by issues, please show this in separate exhibits.

**Averages should be sum of values at end of each of the 12 months divided by 12.

UTILITY PLANT

(If actual segregation is not available, please estimate or show %)

	Gross Additions during Year	Net Additions during Year	As of December 31
13. Electric	$	$	$
14. Heating			
15. Gas			
16. Railway and Bus			
17. All Other			
18. Intangible			
19. Total	$	$	$

RESERVE FOR DEPRECIATION (OR RETIREMENTS

(If actual segregation is not available, please estimate or show %)

20. Electric	$
21. Gas	
22. Railway and Bus	
23. All Other	
24. Total	$

NOTE A:—If data for any company is included for less than full 12 month period, please so indicate.
NOTE B: Additional mortgage bonds issuable and/or held in treasury as of December 31, 19__ of Company $______ of Subsidiaries $______

Total______ $______

This information is furnished only pursuant to your request and i snot intended for use in connection with any sale or purchase of, or any offer or solicitation of offers, to buy or sell, any securities.

____
Company

Detailed Income Account, Electric Department Only, Year Ending December 31, 19__

OPERATING REVENUES

Sales to Ultimate Consumers

Line	Amount	K. w. h.	Number of Customers Dec. 31
1. Residential or Domestic	$		
2. Rural (Distinct rural rates only)			
Commercial and Industrial:			
3. Small Light & Power (Retail)			
4. Large Light & Power (Wholesale)			
5. Public Street & Highway Lighting			
6. Other Public Authorities			
Railroads (Motive Power):			
7. Street & Interurban Railways			
8. Electrified Steam Railroads			
9. Interdepartmental			
Sales for Resale:			
10. Municipal Distribution Systems			
11. Other Electric Companies (Note A)			
12. Rural Cooperatives			
13. Other Electric Revenues			
14. TOTAL (Note B)	$		
15. Farm Service (Included above)			

OPERATING & MAINTENANCE EXPENSES

16. Production (See Line 17, Page 4, Column 1)	$----------
17. Transmission	----------
18. Distribution	----------
19. Customers' Accounting & Collecting	----------
20. Sales Promotion [1]	----------
21. Administrative and General	----------
22. TOTAL (Excluding Taxes & Depreciation)	$----------

[1] If net of merchandising operations is included, please indicate amount of profit or loss $----------.

NOTE A:—If sales of power under interchange agreements are included in Item 11 and not on Line 12, page 4 please set forth in separate exhibit showing purchaser, revenue and kwh.
NOTE B:—So-called dump or excess power sales from hydroelectric plants included above, should be detailed below:

Included in Item Number	*Revenue Received*	*K. w. h. Sold*

Company

Condensed Income Account, Year Ending December 31, 19

Line	Total	Electric	Heating	Gas	Railway and Bus	All Others
1. Operating Revenues	$-------	-------	-------	-------	-------	-------
2. Maintenance	-------	-------	-------	-------	-------	-------
3. Other Operating Expenses (Including Rent for Leased Properties $----------)	-------	-------	-------	-------	-------	-------
4. Provision for Depreciation or Retirements (Note A)	-------	-------	-------	-------	-------	-------
5. Taxes (Incl. $---------- Income Taxes)	-------	-------	-------	-------	-------	-------
6. Other Revenue Deductions (Including Amortization of $----------)	-------	-------	-------	-------	-------	-------
7. Total Operating Revenue Deductions	-------	-------	-------	-------	-------	-------
8. Net Operating Revenues	-------	-------	-------	-------	-------	-------
9. Other Income (Note B)	-------					
10. Gross Income	-------					
11. Income Deductions:						
12. Interest on Long-Term Debt	-------					
13. Amortization of Debt Disc. & Exp. (Net)	-------					
14. Taxes Assumed on Interest	-------					
15. Other Interest Charges	-------					
16. Interest Charged to Construction (Cr.)	-------					
17. Other Income Deductions (Note C)	-------					
18. Total Income Deductions	-------					
19. Net Income	-------					
20. Preferred Dividends (Note D)	-------					
21. Common Dividends (Note D)	-------					
22. Miscellaneous Reservations of Net Income (Note B)	-------					
23. Balance to Surplus	-------					
24. Surplus January 1	-------					
25. Other Surplus Debits (Note B)	-------					
26. Other Surplus Credits (Note B)	-------					
27. Surplus December 31	-------					

Revenue Passengers Carried ------------

NOTES

A. Estimated depreciation to be claimed on Federal Income Tax Return $-------.
B. Attach exhibit showing details of major items.
C. Includes full subsidiary preferred dividend accruals of $---------- and minority interest of $----------.
D. If other than cash, state particulars.

Payroll charged to total operating and maintenance expenses	$-------
Payroll charged to construction	$-------
Payroll charged to clearing accounts and merchandising	$-------
Total payroll	$-------

Company

Analysis of Electric Power Costs, Year Ending December 31, 19

	Total Costs	*K. w. h.*	
1. Steam Generation—Owned Plants	$		
2. —Leased Plants			
3. Hydro Generation—Owned Plants			
4. —Leased Plants			
5. Internal Combustion Generation			
6. Purchased Power (Note A)			
7. Leased Plant Rentals			
8.			
9.			
10. Interchange: (Note B)			
11. Received			If Line 17 differs from Line 13 due to apportionment of power costs to other departments, balancing items should be shown on Lines 14 to 16.
12. Delivered (Cr.)			
13. Total Power Costs			
14.			
15.			
16.			
17. Cost of Power to Electric Dept			
18. Company Use			
19. Lost and Unaccounted for			
20. Electric—Sold			

ELECTRIC STATISTICS

	Average for Year	*As of December 31*
21. Number of Electric Customers		
22. Number of Active Electric Meters		
23. Maximum System Demand during Year—Kw.		
24. Annual Load Factor—%		

	Coal (Short Tons)	*Oil (42 # bbls.)*	*Gas (M.C.F.)*	
25. Average Cost of Fuel per Unit				Please show data separately for each type of fuel used.
26. Amount of Fuel Burned during year				
27. Average B. T. U. per Unit				
28. Average B. T. U. per K. W. H. Generated				

	Pole Miles			*Circuit Miles*		
	Steel Towers	*Wood Poles*	*Underground*	*Steel Towers*	*Wood Poles*	*Underground*
29. Transmission System Owned:— ____volts						
30. ____volts						
31. ____volts						
32. ____volts						
33. ____volts						
34. Distribution System ________						

	No. of Substations	*K. V. A. Installed Capacity*
35. Substations:—Located at Generating Plants		
36. Transmission Substations		
37. Distribution Substations		
38. Total		

NOTE A:—Attach exhibit showing k. w. h., costs and sources of purchased power.
NOTE B:—Attach exhibit of details by companies.

____
Company

124491—41—pt. 28——56

Power Plant Statistics

Name and Location of Plant	*Owned or Leased*	*Steam, Hydro or Int. Comb.*	*Generating Capacity* — *Number of Units*	*K. W. Capacity* — *Per Unit*	*K. W. Capacity* — *Total*	*12 Months Ended Dec. 31 K. W. H. Net Generation*
----------	------	--------	------	----	-----	----------
----------	------	--------	------	----	-----	----------
----------	------	--------	------	----	-----	----------
----------	------	--------	------	----	-----	----------
Grand Total—All Plants----------	------	--------	------	----	-----	-------(a)
Purchased Power—KW----------					-----	
Total Available Capacity—K. W.					-----	

NOTE:—Please indicate by footnotes or otherwise all units placed in operation during current year.
(a) Should equal Total of Items 1, 2, 3, 4, and 5, Page 4, Col. 2.

	Location	*Steam, Hydro or Int. Comb.*	*To be placed in Service* — *K. W.*	*Date*
New Plants or additional Units under Construction				

Company

DETAILED INCOME ACCOUNT, GAS DEPARTMENT ONLY, Year Ending December 31, 19

	Number of Customers, Dec. 31	*Amount*	*M. c. f.*
Operating Revenues:			
Line			
1. Residential Sales----------	----------	$----------	----------
2. House Heating Sales----------	----------	----------	----------
3. Commercial Sales----------	----------	----------	----------
4. Industrial Sales----------	----------	----------	----------
5. Other Sales----------	----------	----------	----------
6. Sales to Other Gas Utilities-	----------	----------	----------
7. Other Gas Revenues----------	----------	----------	----------
8. TOTAL----------	----------	$----------	----------
Operating & Maintenance Expenses:			
9. Gas Production—Coal Gas----------		$----------	----------
10. —Less Revenue from Residuals----------		----------	----------
11. —Net Coal Gas Cost----------		----------	----------
12. —Water Gas----------		----------	----------
13. Net Cost of Gas Produced----------		----------	----------
14. Gas Purchased—(a) Manufactured Gas----------		----------	----------
(See Note)—(b) Natural Gas----------		----------	----------
(c) By-Product Gas----------		----------	----------
15. Total Cost of Gas----------		$----------	----------

16. Transmission		
17. Distribution		
18. Customers' Accounting & Collecting		
19. Sales Promotion		
20. Administrative and General		
21. TOTAL (Excluding Taxes & Depreciation)	$	

Statistics:

22. Gas Produced—MCF (Details see Items 9 and 12)		
23. Gas Purchased—MCF (For detail see Items 14a, b, c)		
24. Total Gas Produced and Purchased—MCF		
25. Gas Lost and Unaccounted for—MCF (Incl. Co. Use of MCF)		
26. Gas Sold—MCF (Same as Line 8, Col. 3, above) (Aver. B. T. U. per CF)		
27. Maximum 24 Hour Sendout—MCF	(Date)	
28. Coal Carbonized—12 Mo. Tons		Aver. Cost $------per Ton
29. Total Coke Sales—12 Mo. Tons		Aver. Rev. $------per Ton
30. Coke on Hand Dec. 31—Short Tons		Carried at $------per Ton
31. Generator Fuel Used—12 Mo. Tons		Aver. Cost $------per Ton
32. Gas Oil Used—12 Mo. Gallons		Aver. Cost --c per Gal.
	Leased	*Owned*
33. Production Capacity—MCF per Day—CoalGas		
34. Water Gas		
35. Number of Gas Storage Holders		
36. Storage Holder Capacity—Cubic Feet		
	Average for Year	*As of Dec. 31*
37. Miles of Gas Main—Distribution		
Transmission— (a) Owned		
(b) Leased		
38. Number of Gas Customers		
39. Number of Active Gas Meters		

NOTE:—Please change all headings appropriately if Company is on a therm basis. Attach exhibit showing MCF, cost and source of gas purchases.

"Exœ'2'9 No. 2335," introduced on p. 15382, is on file with the committee

EXHIBIT No. 2336

[Prepared by Alfred M. Best Company, Inc.]

Policyholders Losses in Life Insurance Failures—Period of January 1, 1930, to January 1, 1940 (Includes Only Companies Where Initial Loss is Estimated To Be In Excess of $1,000,000) All Figures are in Thousands as of Last Statement Available

Name of Company and Date of Reinsurance	Date of Receivership or Retirement	Date of Last Statement Available	Gross Life Reserve	Policy Loans & Premium Notes	Net Life Reserve (Less Policy Loans & Premium Notes)	Rate of Lien %	Indicated Initial Loss
1930							
(None).							
1931							
Home Life Ins. Co., Little Rock, Ark.—Reinsured in Central States Life Ins. Co., St. Louis, Mo. March 31, 1931	Jan. 1931	Dec. 31, 1929	$3,436	$997	$2,439	50	$1,220
National Benefit Life Ins. Co., Washington, D. C. (Negro Company)	Sept. 24, 1931	Details not available but loss probably well in excess of $1,000,000					
1932							
Inter-Southern Life Ins. Co., Louisville, Ky.—Reinsured in Kentucky Home Life Ins. Co., Louisville, Ky. Aug. 8, 1932	Apr. 16, 1932	Dec. 31, 1931	$18,043	$5,082	$12,961	†50	$6,481
Mississippi Valley Life Ins. Co., St. Louis, Mo.—Reinsured in three companies, American Life & Accident, St. Louis, Mo., Detroit Life Ins. Co. of Michigan, and Republic Life Ins. Co., Dallas, Tex	Apr. 25, 1932	Dec. 31, 1931	3,663	693	2,970	100	2,970
Old Colony Life Ins. Co., Chicago, Ill.—Reinsured in Life & Casualty Co., Chicago, Ill	Sept. 20, 1932	Dec. 31, 1931	4,577	858	3,719	100	3,719
Security Life Ins. Co. of America, Chicago, Ill.—Reinsured in Central Life Ins. Co., Chicago, Ill., September 15, 1932	Apr. 18, 1932	Dec. 31, 1931	8,979	2,253	6,726	100	6,726
1933							
Illinois Life Ins. Co., Chicago, Ill.—Reinsured in Central Life Assurance Society, Des Moines, Iowa, July, 1933	Nov. 28, 1932	Dec. 31, 1931	29,796	7,973	21,823	70	15,276
Northern States Life Ins. Co., Hammond, Ind.—Reinsured in Lincoln National Life Ins. Co., Fort Wayne, Ind., March, 1933	Dec. 13, 1932	Dec. 31, 1931	7,791	1,664	6,127	60	3,676
Missouri State Life Ins. Co., St. Louis, Mo.—This company was taken over by the newly formed General American Life Ins. Co., St. Louis, Mo., Sept. 7, 1933	Aug. 28, 1933	Dec. 31, 1932	123,583	47,550	76,033	50	[1] 38,017
National Life Ins. Co. of U. S. A., Chicago, Ill.—Taken over by Hercules Life Ins. Co., Chicago, Ill., January, 1934	Oct. 17, 1933	Dec. 31, 1932	47,705	14,608	33,097	50	16,549
Royal Union Life Ins. Co., Des Moines, Iowa—Reinsured in Lincoln National Life Ins. Co., Fort Wayne, Indiana	June 26, 1933	Dec. 31, 1932	33,094	9,647	23,447	50	11,724

† Increased to 60% in 1939.

[1] This figure was modified by Mr. Best in his testimony, text, p. 15398. A corrected figure of a little over $32,000,000 was given.

Policyholders Losses in Life Insurance Failures—Period of January 1, 1930, to January 1, 1940 (Includes Only Companies Where Initial Loss is Estimated To Be in Excess of $1,000,000) All Figures are in Thousands as of Last Statement Available—Continued

Name of Company and Date of Reinsurance	Date of Receivership or Retirement	Date of Last Statement Available	Gross Life Reserve	Policy Loans & Premium Notes	Net Life Reserve (Less Policy Loans & Premium Notes)	Rate of Lien %	Indicated Initial Loss
1934							
Independent Life Ins. Co., Nashville, Tenn.—Taken over by Standard Life Ins. Co., Jackson, Miss., May 1934	Feb. 19, 1934	Dec. 31, 1932	$1,417	$238	$1,179	100	$1,179
Peoria Life Ins. Co., Peoria, Ill.—Reinsured in Life & Casualty Co., Chicago, Ill.—Combined company continued under title Alliance Life Ins. Co., Peoria, Ill. Aug. 13, 1934	Nov. 15, 1933	Dec. 31, 1932	19,208	6,049	13,159	50	6,580
Register Life Ins. Co., Davenport, Iowa—Taken over under management contract by Guaranty Life Ins. Co., Davenport, Iowa, Sept. 26, 1934	Apr. 8, 1934	Dec. 31, 1933	5,166	1,608	3,558	50	1,779
1935							
Pacific States Life Ins. Co., Denver, Colo.—Reinsured in Occidental Life Ins. Co., Los Angeles, Cal. & Life Ins. Co. of America May 18, 1935	Apr. 20, 1935	Dec. 31, 1933	3,686	1,000	2,686	100	2,686
1936							
Federal Reserve Life Ins. Co., Kansas City, Kansas—Reinsured in Occidental Life Ins. Co., Los Angeles, Cal. June 14, 1936	May 25, 1936	Dec. 31, 1933	7,318	1,938	5,380	50	2,690
Continental Life Ins. Co., St. Louis, Mo.—Reinsured in Kansas City Life Ins. Co., Kansas City, Mo. July 26, 1936	May, 1934	Dec. 31, 1935	13,076	3,912	9,164	50	[2] 4,582
Detroit Life Ins. Co., Detroit, Mich.—Taken over by the newly organized Life Ins. Co. of Detroit, Mich. March 2, 1936	June, 1935	Dec. 31, 1933	7,616	1,876	5,740	60	3,444
1937							
(None)							
1938							
(None)							
1939							
American Life Ins. Co., Detroit, Mich.—Taken over by the American United Life Ins. Co., Indianapolis, Indiana November 17, 1939	June 7, 1939	Dec. 31, 1936	13,894	3,624	10,270	75	7,702
Totals			352,048	111,570	240,478	57.4	[3] 138,000

[2] This figure was modified by Mr. Best in his testimony, text, p. 15398. The corrected figure is $2,400,000.

[3] As a result of adjustments for the indicated initial loss to policyholders, in the case of the Missouri State and Continental Life Insurance Companies, this total was reduced for approximately $130,000,000. See text, p.15405.

"Exhibit N. 2337," introduced on p. 15410, is on file with the committee,

EXHIBIT No. 2338

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

LIFE COMPANY RETIREMENTS, 1930–1939 (INCLUSIVE)—WHEREIN LIENS WERE IMPOSED ON RESERVES, OR ADJUSTMENTS OR RESTRICTIONS ADVERSELY AFFECTED POLICYHOLDERS

1939

American Life Insurance Company, Detroit, Mich.: This company, which was placed in receivership June 7, 1938, was taken over November 17, 1939 by the American United Life Insurance Company of Indianapolis, Indiana, under a management-reinsurance contract which provided for a lien equal to 75% of the net equity of the American Life Insurance Company policies.

Cincinnati Mutual Life Insurance Company, Cincinnati, Ohio: This small legal reserve company, formerly operating on the fraternal basis as the Knights Templars & Masonic Mutual Aid Association, was taken over by the Life Insurance Company of Detroit, Detroit, Michigan, October 12, 1939 under an arrangment which provided for a 50% lien on equities of the Cincinnati Mutual policyholders.

Texas Mutual Reserve Life Insurance Company, Tyler, Texas: This small company was placed in receivership September 8, 1939 and the business reinsured in the Western States Life Insurance Company, Dallas, Texas, September 22, 1939—assets were insufficient to cover reserves and the Western States Life made an adjustment in the issuance date of new policies to take up the difference between the reserves and the assets.

1938

Agricultural Life Insurance Co., Bay City & Detroit, Mich.: Custodian (May 20, 1938) appointed—company still operating but under restriction as to cash values, etc.

Union Reserve Life Ins. Co., Phoenix, Ariz.: Taken over on company's request Feb. 26, 1938 by Arizona Corporation Commission—business later reinsured in Fidelity Life of Phoenix with 100% liens against reserves.

Federal Union Life Ins. Co., Cincinnati, Ohio: Receiver appointed in 1935 but business reinsured in All States Life, Montgomery, Ala. in June, 1938 with modifications in policy equities.

Roman Standard Life Ins. Co., Manistee, Mich.: Placed in Insurance Department's hands in 1937—business reinsured in Great Northern Life Ins. Co., Chicago and Milwaukee Aug. 12, 1938—new policies issued based on pro rata assignment of equities after valuation of remaining assets.

1936

Federal Reserve Life Ins. Co., Kansas City, Kan.: Receiver appointed May 25 and business reinsured in Occidental Life Ins. Co. of Cal. June 14 with tentative lien of 50% on net equities and lien interest at 4½%.

Pacific Mutual Life Ins. Co. of California: Reorganized July 22 and business taken over by new Pacific Mutual Life Ins. Co. as of that date with considerable modifications of benefits under non-cancellable disability income policies—Life policies were taken over intact.

Bank Savings Life Ins. Co., Topeka, Kan.: Placed in receivership October 9, 1935; business taken over by Victory Life Ins. Co., Topeka, Kansas February 25, 1936 with 25% liens on net equities.

Continental Life Ins. Co., St. Louis, Mo.: Placed in hands of Insurance Department in May, 1934 and business reinsured in Kansas City Life Ins. Co., Kansas City, Mo. July 26, 1936 with 50% lien on all equities.

Detroit Life Ins. Co., Detroit, Mich.: Placed in receivership in June, 1935 and taken over by newly organized Life Insurance Company of Detroit with 60% liens on net equities March 2, 1936.

1935

Pacific States Life Ins. Co., Denver, Colo.: Taken over by Insurance Department for liquidation April 20. All business except old Chicago National Life business and all business written through Chicago Office of Pacific States was reinsured in Occidental Life, Los Angeles, Cal. May 18 with 100% liens against net equities—Chicago National business and Chicago Office business reinsured in Life Insurance Company of America, Columbus, Ohio under similar conditions.

1934

Independent Life Ins. Co., Nashville, Tenn.: Conservator appointed Feb. 19 and business taken over by Standard Life Ins. Co., Jackson, Miss. in May with 100% lien against the full tabular reserve.

Our Home Life Ins. Co., Washington, D. C.: Reinsured in Illinois Bankers Life Assur. Co., Monmouth, Ill. in April with 100% liens on reserves—receiver had been appointed in January.

Peoria Life Ins. Co., Peoria, Ill.: Receiver appointed Nov. 15, 1933; business reinsured by Life & Casualty Company of Chicago August 13—policies subject to 50% lien on net equities—combined company continued under title Alliance Life Insurance Co., Peoria, Ill.

Register Life Ins. Co., Davenport, Iowa: Receiver appointed April 8—taken over under management contract by Guaranty Life Ins. Co., Davenport, Iowa Sept. 26 with 50% lien on policies.

State Life of Illinois, Chicago: Receiver appointed July 19; business taken over by Old Republic-Credit Life Ins. Co., Chicago with 80% lien on net equities.

Surety Life Ins. Co., Kansas City, Mo.: Insurance Commissioner appointed receiver April 27—liquidation not yet completed—considerable loss to policyholders is expected.

1933

American National Assur. Co., St. Louis, Mo.: Consolidated with Central States Life of St. Louis June 27 under latter title—moratorium of 3 years on cash and loans imposed on policies of both companies.

Illinois Life Ins. Co., Chicago, Ill.: Receiver appointed Nov. 28, 1932—In July, 1933, the business was reinsured in Central Life Assur. Society, Des Moines, Iowa with 70% liens against the reserve.

Northern States Life Ins. Co., Hammond, Ind.: Placed in receivership Dec. 13, 1932; business reinsured in Lincoln National Life Ins. Co., Fort Wayne, Ind., March 22, 1933 with 60% liens against the reserve.

Victory Life Ins. Co., Chicago, Ill.: Placed in receivership July 6, 1932; business reinsured in newly formed Victory Mutual Life Ins. Co. June 21, 1933 with 60% liens against the reserve.

Lincoln Reserve Life Ins. Co., Birmingham, Ala.: Placed in receivership Jan. 11 and business reinsured in Protective Life Ins. Co., Birmingham with a 100% reserve lien.

Missouri State Life Ins. Co., St. Louis, Mo.: Placed in hands of the Superintendent of Insurance Aug. 28; business later taken over by newly formed General American Life Ins. Co., St. Louis (Sept. 7) under a purchase agreement with 50% liens against the Missouri State reserves.

National Life Ins. Co. of U. S. A., Chicago, Ill.: Placed in receivership Oct 17—company taken over in Jan. 1934 by Hercules Life Ins. Co., Chicago, with 50% liens against reserve equities.

Royal Union Life Ins. Co., Des Moines, Iowa: Placed in receivership June 26 and reinsured in Lincoln National Life, Fort Wayne, Ind. with 50% liens on reserves.

Union National Life Ins. Co., Charleston, W. Va. (formerly Gem City Life): Ohio Insurance Department took over company May 9 and on July 1 business reinsured in Lincoln National Life—policyholders were issued 5 Year Non-Convertible and Non-Renewable Term policies, liens being imposed on equities.

1932

Chicago National Life Ins. Co., Chicago, Ill.: Reinsured in Pacific States Life Ins. Co., Hollywood, Cal. and liens covering impairment were placed on policies.

First National Life Ins. Co., Montgomery, Ala.: Placed in receivership March 16—business reinsured in Liberty National Life, Montgomery with liens for full amount of reserve.

Inter-Southern Life Ins. Co., Louisville, Ky.: Receivership April 16—business later reinsured in newly organized Kentucky Home Life Ins. Co. of Louisville with 50% liens against reserves.

Mississippi Valley Life Ins. Co., St. Louis, Mo.: Placed in receivership April 25—business reinsured in three companies, American Life & Accident, St. Louis with 100% liens against reserve; Detroit Life took over Ordinary policies and issued 4 and 5 Year Term policies; Republic Life of Texas took over Ordinary Life policies issued by Two Republics Life and certain other contracts and imposed 100% liens against reserve.

National Benefit Life Ins. Co., Washington, D. C.: Permanent receiver appointed February 29—apparently business not reinsured and company liquidated—no doubt losses to policyholders incurred.

Old Colony Life Ins. Co., Chicago, Ill.: Receivership Sept. 20—business reinsured by Life & Casualty Co. of Chicago with 100% liens against reserve.

Security Life Ins. Co. of America, Chicago, Ill.: Receivership April 18; business later reinsured in Central Life Ins. Co. of Chicago with 100% liens on reserve.

1931

Community Life Insurance Company, Little Rock, Ark.: Receiver appointed August 10, 1931, and company affairs liquidated. Since company was impaired it is possible policyholders sustained some loss.

Farmers Life Insurance Company, Denver, Colo.: Purchased by Pacific States Life Insurance Company, Hollywood, Cal. and business merged with latter concern, which later failed with very heavy loss to policyholders.

First National Life Insurance Company, St. Louis, Mo.: Reinsured in Mississippi Valley Life Insurance Company, St. Louis, Mo. August 18, 1931—latter company failed with very heavy loss to policyholders at a later date.

Home Life Insurance Company, Little Rock, Ark.: Became financially involved through failure of chain of Arkansas banks and receiver was appointed January 16, 1931 and business reinsured in Central States Life Insurance Company of St. Louis, Mo. March 31, 1931—a lien of 50% was placed against Home Life policies.

National Benefit Life Insurance Company, Washington, D. C.: This Negro company was placed in receivership September 24, 1931 and reports of court showed impairment of over $3,000,000—it is likely that heavy losses were sustained by policyholders.

1930

Citizens Life Insurance Company, Huntsville, Alabama: Placed in receivership in May, 1930 for liquidation and business later reinsured in Liberty National Life Insurance Company, Birmingham, Alabama, with liens attached to take care of the deficiency in the assets.

Elkhorn Life & Accident Insurance Company, Norfolk, Nebraska: Merged with Pacific States Life Insurance Company, Hollywood, California, in December, 1930—at this time no liens or restrictions were placed on policies, but later the Pacific States Life Insurance Company failed with a great loss to policyholders.

Lewis & Clark Life Insurance Company, Great Falls, Montana: Reinsured in Mountain States Life Insurance Company June 6, 1930—no liens or restrictions at date of reinsurance but Mountain States Life changed its name later to Pacific States Life and failed with great loss to policyholders.

Lincoln Security Life Insurance Company, Eureka Springs, Arkansas: Placed in receivership in October, 1930—it is likely that policyholders suffered some loss. Details not available.

Union National Life Insurance Company, Kansas City, Missouri: Reinsured in Mountain States Life Insurance Company, Hollywood, Cal. (Later changed to Pacific States Life) April 7, 1930—Pacific States Life failed later on with great loss to policyholders.

Source: Information submitted by Alfred M. Best Company, Inc.

EXHIBIT No. 2339

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Membership on Bondholders' Protective Committees Par Value of Bonds Held by Indicated Companies Represented as of December 31, 1938

[In thousands of dollars]

Name of Committee	Metro-politan	Pruden-tial	N. Y. Life	Equita-ble N. Y.	Mutual N. Y.	No. West-ern Mut.	Trav-elers	John Hancock	Penn Mut.	Mut. Ben.	Mass. Mut.
RAILWAYS											
Institutional Groups											
Baltimore & Ohio System			17,301								
Chicago & Alton			6,437								
Chicago, Indianapolis & Louisville Railway						704					
Chicago, Milwaukee, St. Paul & Pacific	24,408	10,805	13,568		5,664	5,798	2,570	2,164	1,663	2,800	2,679
Chicago, N. W. Railway	21,979	7,366	3,874		16,030	10,739	1,360	1,025		2,694	1,365
Denver & Rio Grande Western	4,990	3,894	4,285			1,850		500			700
Erie							500				
Minneapolis, St. Paul & S. Ste. Marie Ry.	12,381	2,250	3,680		5,000	5,377			1,060		1,446
New York, New Haven & Hartford	8,840	2,574	13,234	6,064	9,625		3,003	2,617		960	734
New York, Ontario & Western Railway Company	2,010	900	3,541		1,500	2,000		200		265	254
New York, Susquehanna & Western		628	1,572							651	
New York, Westchester & Boston	1,300					500		250			
Spokane Internat. Railway	600		517								
Wabash Railway Co. (Ref. & Gen 5s "B" 78)	3,000										
Wabash Railway (1st 5s '39 etc.)			2,187	3,822	3,150	2,978		200		1,467	650
Western Pacific Railroad	6,852	3,000	1,300				200	300			
(General Committees)											
Brinson Railway Company		250									
Burlington, Cedar Rapids & Northern			1,105	807		790		200		825	
Central of Georgia (Consol. 5s 45)		800		2,499	2,125					578	
Central of Georgia (Ref. & Gen. 8)	2,000										
Chicago & Eastern Ill. Railway	801	1,500	1,869								
Chicago, Indianapolis & Louisville (Ref. Mort.) 1-34		1,500	3,287	1,156	1,920					523	
Chic., Rock Island & Pacific Ry. (Gen. 4's 88)									500		
Chic., Rock Island & Pacific Ry. (1st & Ref. 4s 34)	5,474	4,100			5,200	7,636					
Choctaw, Oklahoma & Gulf Railroad					1,200				50		
Florida East Coast Railway (1st & Ref.)	1,525		1,159			2,324					
Florida East Coast Railway (Equip. Tr.) (8-'34)							80				
Iowa Central Railway						1,146					
Kansas City, Fort Scott, & Memphis Ry			2,360								

Membership on Bondholders' Protective Committees Par Value of Bonds Held by Indicated Companies Represented as of December 31, 1938—Con.

Name of Committee	Metropolitan	Prudential	N. Y. Life	Equitable N. Y.	Mutual N. Y.	No. Western Mut.	Travelers	John Hancock	Penn Mut.	Mut. Ben.	Mass. Mut.
(General Committees)—Continued											
Lehigh Valley Railroad	2,874				1,500				450		
Minneapolis & St. Louis Railroad (1st & Ref. 4s 49)						1,904					
Minneapolis & St. Louis Railroad (1st 5s 34)							250				
Missouri Pacific Railroad	9,450	10,031	7,690	8,500		10,186		3,000			
Mobile & Ohio Railroad	1,000	1,500	1,129								
New Haven Railroad											
New Orleans, Texas & Mexico Railway			953								
New York State Railways	500										
Norfolk & Southern (1st & 5s 41)											
Norfolk & Southern (1st & Ref. 5s 61)		1,000									
Northern Ohio Railway						595				150	500
St. Louis, Iron Mt. & Southern						2,450		200			
St. Louis-San Francisco Railway (Prior Liens)		4,889			1,700			1,250			
St. Louis-San Francisco (Cons. 4½ 78)	7,500										
Seaboard Air Line Railway	1,500										
Suffolk & Carolina					200						
Wabash Railway Company		2,852									
Wisconsin Central Railway						3,680		200			
POLITICAL SUBDIVISIONS											
Alberta Bondholders		4,884									
Corpus Christi, Texas, City of								250			
Drainage Dist. #7, Hancock Co., Iowa											
St. Augustine, Fla., City of	100										
INDUSTRIALS											
Brown Company								75			
Hartford-Aetna Realty Corp											
Philadelphia & Reading Coal & Iron									400		
UTILITIES											
(Institutional)											
Indianapolis Gas											
(General Committees)											
Beaver Valley Traction Co									89		
Chicago Railways Company (1st & 5s 20 yr.)	1,190										
Chicago Railways Company (Series A Cons.)							35				

Interborough Rapid Transit	2,005										
Manhattan Railway											
Mountain States Power											350
Postal Telegraph & Cable											
Rochester Railway											
Schenectady Railway	250										
United Railways	505										
Totals	123,034	64,723	91,048	22,848	54,814	60,657	7,998	12,431	4,212	10,913	8,678

Source: based on Insurance Investment Questionnaire.

Membership on Bondholders' Protective Committees Par Value of Bonds Held by Indicated Companies Represented as of December 31, 1938—Con.

Name of Committee	Aetna	N. E. Mutual	Prov. Mut.	Conn. Mut.	Conn. Gen'l.	Phoenix Mut.	Bankers Life	State Mut.	Equitable, Ia.	Guard. Life	Total Held By Member Ins. Cos.	Amt. Com. Rep.	Total Amt. Outstanding
RAILWAYS													
(Institutional Groups)													
Baltimore & Ohio System											17, 301		603, 687
Chicago & Alton											6, 437		43, 350
Chicago, Indianapolis & Louisville Ry	200							100			1, 004	1, 774	9, 901
Chicago, Milwaukee, St. Paul & Pacific	2, 738	1, 250		360							76, 467	84, 362	477, 004
Chicago, N. W. Railway	2, 065	2, 110		360							70, 967	70, 967	310, 880
Denver & Rio Grande Western		250									16, 469	16, 469	73, 545
Erie	300										800	10, 518	100, 000
Minneap., St. Paul & S. Ste. Marie Ry		300						125			31, 619	31, 619	82, 760
New York, New Haven & Hartford	3, 420	2, 100						800			53, 971	54, 857	243, 198
New York, Ontario & Western Railway Co	250	100									11, 020	11, 020	28, 630
New York, Susquehanna & Western											2, 851	2, 851	9, 233
New York, Westchester & Boston											2, 050	2, 050	19, 200
Spokane Internat. Railway											1, 117	1, 313	4, 200
Wabash Railway Co. (Ref. & Gen. 5s "B" 76)	850							100			3, 950	6, 802	60, 867
Wabash Railway (1st 5s '39 ctc.)		646	1, 020			455				130	16, 705	17, 356	74, 255
Western Pacific Railroad											11, 652	18, 941	49, 290
(General Committees)													
Brinson Railway Company											250	831	865
Burlington, Cedar Rapids & Northern											3, 727	8, 756	11, 000
Central of Georgia (Consol. 5s 45)			490								6, 492	9, 927	18, 498
Central of Georgia (Ref. & Gen. 8)		100						100			2, 200	2, 200	18, 000
Chicago & Eastern Ill. Railway											4, 170	11, 885	30, 709
Chic., Indianap. & Louisville (Ref. Mort.)											8, 386	10, 925	14, 998
Chic., Rock Island & Pacific Ry. (Gen. 4's 88)				500							1, 000	33, 056	61, 581
Chic., Rock Island & Pacific Ry. (1st & Ref. 4s 34)											22, 410	72, 496	144, 284
Choctaw, Oklahoma & Gulf Railroad					236						1, 486	6, 205	8, 936
Florida East Coast Railway (1st & Ref.)											5, 008	24, 623	45, 000
Florida East Coast Railway (Equip. Tr.) (8-'34)		160									240	917	1, 000
Iowa Central Railway											1, 146	5, 640	7, 650
Kansas City, Fort Scott, & Memphis Ry	650	200									3, 210	15, 605	25, 835
Lehigh Valley Railroad											4, 824	89, 215	105, 835
Minneap. & St. Louis Railroad (1st & Ref. 4s 49)				576							2, 480	6, 192	13, 244
Minneap. & St. Louis Railroad (1st 5s 34)											250	6, 494	8, 534
Missouri Pacific Railroad											48, 857	79, 360	222, 041
Mobile & Ohio Railroad	1, 000										4, 629	7, 404	18, 879

New Haven Railroad								800			800	38,202	258,838
New Orleans, Texas & Mexico Railway											953	8,593	42,970
New York State Railways											500	5,472	16,457
Norfolk & Southern (1st & 5s)		50									50	914	2,176
Norfolk & Southern (1st & Ref. 41 5s 61)											1,500	5,878	11,604
Northern Ohio Railway								150			895	1,791	2,500
St. Louis, Iron Mt. & Southern											2,650	16,600	34,548
St. Louis-San Francisco Railway (Prior Liens)											7,839	72,118	117,449
St. Louis-San Francisco (Cons. 4½ 78)											7,500	71,391	118,305
Seaboard Air Line Railway											1,500	5,420	19,350
Suffolk & Carolina											200	533	700
Wabash Railway Company	850										3,702	15,824	60,867
Wisconsin Central Railway		400									4,280	13,543	27,866
POLITICAL SUBDIVISIONS													
Alberta Bondholders											4,884		161,218
Corpus Christi, Texas, City of									700		950	2,579	2,626
Drainage Dist. #7, Hancock Co., Iowa							55				55	79	79
St. Augustine, Fla., City of											100	1,046	3,121
INDUSTRIALS													
Brown Company											75	9,500	21,416
Hartford-Aetna Realty Corp	625										625	1,923	2,000
Philadelphia & Reading Coal & Iron			327								727	7,868	24,412
UTILITIES													
Institutional													
Indianapolis Gas		150									150	778	6,761
General Committees													
Beaver Valley Traction Co											89	500	675
Chicago Railways Company (1st & 5s 20 yr.)											1,190	35,985	41,741
Chicago Railways Company (Series A. Cons.)											35	13,650	15,697
Interborough Rapid Transit											2,005	25,846	97,195
Manhattan Railway				750							750	15,553	40,683
Mountain States Power											350	3,668	8,182
Postal Telegraph & Cable					50						50		50,670
Rochester Railway								50			50	1,744	2,130
Schenectady Railway								50			300	1,481	2,676
United Railways											505	10,043	17,894
Totals	12,948	7,816	1,837	2,546	286	455	55	2,275	700	130	490,404	1,109,252	4,161,512

Exhibit No. 2340

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Metropolitan—Attendance at Meetings, Board of Directors

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Meetings scheduled for year	13	13	13	13	13	12	12	12	12	12	12
Director											
Winthrop W. Aldrich	------	------	------	------	------	------	------	------	2	7	7
John Anderson	11	12	12	12	13	10	2	8	9	10	0
O. T. Barnard	0	------	------	------	------	------	------	------	------	------	------
Thomas H. Beck	------	------	9	10	11	11	12	9	12	11	12
Newcomb Carlton	7	10	12	12	12	12	10	12	12	12	12
D'Alton C. Coleman	------	0	1	1	0	1	2	1	2	1	0
Cox	9	1	------	------	------	------	------	------	------	------	------
William W. Crocker	1	1	3	1	0	0	0	0	9	0	2
Harry W. Craft	------	5	9	13	13	11	11	7	9	9	6
John W. Davis	1	1	4	------	------	------	------	------	------	------	------
Joseph P. Day	12	11	13	12	11	10	9	8	8	11	12
William L. DeBost	10	12	10	10	11	9	9	10	10	10	9
Robert W. deForest	4	8	5	------	------	------	------	------	------	------	------
Frederick H. Ecker	11	12	10	12	11	7	9	8	8	9	9
Frederick W. Ecker	------	------	------	------	------	------	------	9	11	12	10
Robert V. Fleming	------	------	------	------	------	4	6	5	7	8	7
Mitchell D. Follansbee	10	6	11	13	13	12	11	12	10	12	12
Samuel W. Fordyce	------	------	------	4	2	4	4	1	4	5	6
Walter Ewing Hope	------	------	7	12	13	9	12	11	10	11	11
Alanson B. Houghton	5	5	6	4	6	3	4	4	1	0	0
Amory Houghton	------	------	------	------	------	------	------	------	------	------	7
Fream Kirby	5	7	5	5	6	2	0	2	------	------	------
Joseph P. Knapp	8	6	7	10	9	9	8	10	8	7	3
Louis St. Laurent	------	------	------	------	------	------	------	------	------	------	2
Leroy A. Lincoln	2	11	10	12	12	11	10	10	12	9	11
George McAneny	------	------	------	------	------	10	12	11	9	10	12
Langdon P. Marvin	11	9	11	11	12	11	9	10	9	11	11
Richard K. Mellon	------	------	------	------	------	------	------	------	------	1	------
Carroll B. Merriam	------	------	------	------	------	8	7	8	8	7	4
Jeremiah Milbank	12	10	11	11	11	11	10	9	8	10	10
Ernest E. Norris	------	------	------	------	------	------	------	------	------	------	2
Frank B. Noyes	1	2	2	5	5	------	------	------	------	------	------
Morgan O'Brien	8	10	10	11	10	11	9	11	6	------	------
Henry O'Hesheimer	8	10	10	11	11	------	------	------	------	------	------
Charles M. Schwab	3	5	3	0	1	0	0	0	0	1	0
Francis M. Smith	------	------	------	------	------	------	------	------	------	------	------
E. R. Stettinius, Jr	------	------	------	------	------	------	------	------	------	5	4
L. A. Tachereau	------	0	0	0	0	0	0	0	0	0	0
W. B. Thompson	------	6	------	------	------	------	------	------	------	------	------
F. Edison White	------	2	1	------	------	------	------	------	------	------	------
Albert H. Wiggin	5	9	4	6	12	------	------	------	------	------	------
Arthur Williams	9	11	10	9	7	8	8	4	------	------	------

Source: Information submitted by the Metropolitan Life Insurance Company.

Exhibit No. 2340–A

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Prudential—Attendance at Meetings, Board of Directors

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Meet·· gs scheduled for year	12	12	12	12	13	13	13	13	13	13	13
Director											
J. S. Alexander	10	8	11	6	------	------	------	------	------	------	------
C. A. Austin	7	------	------	------	------	------	------	------	------	------	------
J. H. Bacheller	------	------	------	8	11	11	11	12	12	12	5
C. I. Barnard	5	11	12	12	11	12	11	10	11	13	9
Howard Bayne	9	18	9	10	13	9	9	12	9	9	9
F. A. Boyle	3	------	------	------	------	------	------	------	------	------	------
C. B. Bradley	------	------	------	------	------	------	------	------	------	2	11
J. A. Campbell	12	12	11	12	13	13	13	13	11	4	------
W. P. Conway	------	10	11	9	11	9	8	9	8	9	7
Hendon Chubb	8	8	10	9	9	9	6	7	9	11	9
H. W. Dodds	------	------	------	------	------	------	3	6	7	8	6

Prudential—Attendance at Meetings, Board of Directors—Continued

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Meetings scheduled for year	12	12	12	12	13	13	13	13	13	13	13
Director											
J. T. Dorrance	2	2	-----	-----	-----	-----	-----	-----	-----	-----	-----
E. D. Duffield	9	9	9	10	12	11	11	9	10	6	-----
A. H. Elder	-----	-----	-----	-----	-----	2	10	10	9	9	10
A. D. Forst	-----	8	10	11	12	2	-----	-----	-----	-----	-----
Felix Fuld	0	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
J. K. Gore	10	10	10	11	10	1	-----	-----	-----	-----	-----
Edward Gray	1	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
W. E. Green	6	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
J. A. Hartford	-----	-----	-----	-----	-----	-----	-----	-----	10	10	9
Alfred Hurrell	9	10	10	10	9	11	11	10	10	1	-----
E. J. Ill	9	10	11	10	12	13	13	13	13	13	13
E. L. Katzenback	-----	-----	-----	-----	-----	2	-----	-----	-----	-----	-----
Walter Kidder	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2
E. K. Mills	9	11	11	11	12	13	13	12	6	-----	-----
C. P. Messick	-----	-----	-----	-----	-----	-----	-----	-----	-----	9	13
A. H. Moore	-----	-----	-----	-----	-----	-----	9	10	10	10	11
G. W. Munsick	10	12	9	9	12	10	4	-----	-----	-----	-----
Franklin D'Olier	10	11	10	10	11	10	11	10	11	11	10
H. G. Parker	11	9	12	12	12	11	13	12	13	13	9
J. E. Reynolds	-----	-----	-----	-----	8	7	10	10	9	12	8
Josiah Stryker	-----	-----	-----	-----	-----	-----	-----	-----	-----	5	12
D. G. Thomson	-----	1	9	10	13	13	13	1	-----	-----	-----
R. E. Tomlinson	10	8	10	11	10	11	12	10	10	9	10
A. C. Wall	10	10	11	10	7	11	10	10	6	9	9

Source: Information submitted by the Prudential Insurance Company of America.

EXHIBIT No. 2340–B

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

New York Life—Attendance at Meetings, Board of Directors

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Meetings schedule for year	13	12	12	12	12	12	12	12	12	12	12
Director											
Lawrence H. Abbot	11	9	5	-----	-----	-----	-----	-----	-----	-----	-----
Alfred L. Aiken	-----	-----	-----	-----	-----	-----	-----	-----	10	11	11
John E. Andrus	11	12	12	12	12	10	-----	-----	-----	-----	-----
James Rowland Angell	-----	-----	-----	-----	6	6	9	8	8	9	9
Nathaniel F. Ayer	8	8	8	9	6	10	8	11	6	8	10
Arthur A. Ballantine	-----	-----	-----	-----	-----	7	12	8	9	10	10
Cornelius N. Bliss	4	9	10	12	9	11	12	9	8	11	10
Henry Bruere	-----	-----	-----	6	11	10	12	10	9	8	11
Mortimer N. Buckner	12	8	10	10	7	10	10	8	10	10	11
Thomas A. Buckner	10	8	9	12	11	9	10	10	10	10	10
Nicholas Murray Butler	9	9	9	10	9	9	8	8	9	9	11
Charles A. Cannon	-----	-----	2	10	10	8	10	8	7	8	10
Calvin Coolidge	8	10	12	12	-----	-----	-----	-----	-----	-----	-----
George B. Cortelyou	12	12	11	12	12	12	12	12	12	12	12
William H. Danforth	-----	-----	3	9	10	9	6	8	5	7	7
Robert E. Dowling	-----	-----	-----	-----	11	10	12	12	12	12	12
James G. Harbord	-----	-----	-----	11	10	10	11	10	9	7	5
Walter W. Head	11	9	4	-----	-----	-----	-----	-----	-----	-----	-----
Myron T. Herrick	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Charles D. Hilles	7	9	9	8	10	10	11	11	11	10	11
Hale Holden	-----	9	9	6	8	7	12	5	10	9	9
Herbert Hoover	-----	-----	-----	-----	-----	-----	6	6	7	5	6
Charles Evans Hughes	-----	3	10	9	10	1	-----	-----	-----	-----	-----
Alba B. Johnson	7	8	8	10	10	6	1	-----	-----	-----	-----
Percy H. Johnston	11	8	10	10	10	8	6	8	8	6	7
Willard V. King	6	8	9	9	10	6	6	7	7	4	9
Darwin P. Kingsby	10	3	7	6	-----	-----	-----	-----	-----	-----	-----
Richard I. Manning	9	8	2	-----	-----	-----	-----	-----	-----	-----	-----
John G. Milburn	6	6	-----	-----	-----	-----	-----	-----	-----	-----	-----
Gerrish H. Milliken	6	10	9	6	8	7	8	9	9	10	9

New York Life—Attendance at Meetings, Board of Directors—Continued

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Meetings scheduled for year	13	12	12	12	12	12	12	12	12	12	12
Director—Continued											
Frank Presbrey	10	9	12	9	11	12	12	7	------	------	------
John J. Pulleyn	10	11	12	3	------	------	------	------	------	------	------
Fleming H. Revell	11	4	7	------	------	------	------	------	------	------	------
George M. Reynolds	6	4	4	3	1	------	------	------	------	------	------
Edward L. Ryerson, Jr.	------	------	------	------	------	------	6	5	5	6	8
Harper Sibley	------	------	------	------	------	------	------	------	------	9	10
Alfred E. Smith	------	------	------	------	4	10	10	10	9	8	10
J. Barstow Smith	------	------	6	12	12	9	12	12	9	12	9
Hiram R. Steele	11	------	------	------	------	------	------	------	------	------	------
Jesse Isidor Straus	7	9	9	10	9	------	------	------	------	------	------
Percy S. Straus	------	------	------	------	------	8	7	8	6	9	8
Ridley Watts	9	7	11	9	11	9	9	8	7	------	------

Source: Information submitted by the New York Life Insurance Company.

Exhibit No. 2340–C

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Equitable—Attendance at Meetings, Board of Directors

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Meetings scheduled for year	12	12	12	12	13	13	13	13	13	13	13
Director											
Henry M. Alexander	------	------	------	------	------	------	7	11	11	11	12
William Seaman Bainbridge	9	11	9	10	10	11	9	11	9	11	12
Charles D. Barney	8	6	8	8	11	9	10	10	10	3	0
Edward C. Blum	10	9	9	11	11	10	8	8	9	11	11
Ralph Budd	------	------	------	------	------	6	4	0	1	2	2
Joseph P. Chamberlain	4	8	6	9	7	8	5	3	6	5	2
J. Reuben Clark, Jr.	------	------	------	------	1	5	7	3	9	6	10
Bertran Cutler	4	4	5	7	3	6	7	8	10	10	11
Francis B. Davis, Jr.	------	------	------	------	------	------	------	------	------	7	5
Robert J. Dodds	------	------	------	------	------	------	------	9	10	11	9
J. C. B. Ehringhaus	------	------	------	------	------	------	------	------	------	------	6
William J. Graham	------	------	------	------	------	------	------	------	7	10	12
John F. Harris	5	6	5	5	7	4	4	4	3	4	6
Robert C. Hill	------	------	------	------	------	------	------	7	11	11	12
Frederick P. Keppel	8	9	11	10	9	10	5	9	10	10	10
Francis K. Kernan	10	8	10	10	10	9	9	8	7	8	6
Richard W. Lawrence	------	------	------	------	------	------	------	------	------	7	12
Sam A. Lewisohn	3	0	6	11	7	6	5	9	9	11	8
Russell B. Lowe	------	------	------	------	3	10	10	10	11	11	12
John T. Manson	11	10	12	11	11	11	10	11	11	11	10
Edwin P. Maynard	9	8	8	10	10	10	10	9	9	9	10
George V. McLaughlin	2	1	0	2	6	5	7	9	10	10	12
John Bassett Moore	8	8	4	10	11	11	11	11	10	11	12
George Welwood Murray	------	------	------	------	------	6	7	7	7	7	7
John Lord O'Brian	8	4	5	3	7	9	3	6	4	7	10
Thomas I. Parkinson	12	11	11	11	11	10	9	10	11	10	11
Leonard Peckitt	12	12	12	11	11	11	9	10	10	10	12
John J. Pelley	------	------	------	3	4	2	1	3	4	4	7
Horace D. Pilisbury	2	0	1	1	0	1	1	1	0	1	0
Seward Prosser	------	------	------	------	------	------	5	6	3	1	6
William Roberts	11	11	9	9	8	5	5	8	6	6	11
William J. Roddey	7	6	4	6	8	11	10	8	11	11	3
William Skinner	10	12	12	10	11	8	8	8	9	8	9
Jesse Slingluff	12	11	12	11	11	11	11	11	11	11	12
G. Carroll Todd	11	12	9	11	11	11	8	11	11	10	11
John H. Walbridge	9	9	11	10	4	0	0	0	0	0	0

Source: Information submitted by The Equitable Life Assurance Society of the United States.

EXHIBIT NO. 2340-D

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Mutual Life of New York—Attendance at Meetings, Board of Directors

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Meetings scheduled for yr.	12	13	12	13	12	13	12	13	12	13	12	14
Director												
Charles E. Adams	------	------	------	------	------	------	------	------	10	11	10	13
John G. Agor	10	12	11	------	------	------	------	------	------	------	------	------
J. S. Auerbach	10	12	11	11	6	11	12	11	12	12	12	12
George F. Baker	2	6	5	1	------	------	------	------	------	------	------	------
George F. Baker, Jr	3	7	4	6	7	3	3	5	7	1	------	------
Newton D. Baker	------	------	------	4	6	0	1	1	1	1	------	------
Edwin W. Beatty	0	0	0	0	0	------	------	------	------	------	------	------
James M. Beck	7	6	8	11	7	12	9	11	3	------	------	------
E. J. Berwind	11	12	12	13	11	6	0	------	------	------	------	------
Charles S. Brown	8	9	8	10	11	12	5	0	------	------	------	------
Lewis H. Brown	------	------	------	------	------	------	------	------	6	9	9	10
William M. Bullitt	5	6	9	6	6	7	5	10	10	5	10	12
W. Gilson Corey, Jr	------	------	------	------	------	------	------	------	------	------	1	11
Joseph H. Choate, Jr	9	10	9	10	10	10	8	7	9	11	9	10
Emory W. Clark	4	5	5	5	5	5	3	3	4	8	6	5
James C. Colgate	2	1	2	11	7	9	9	9	10	9	10	10
S. Sloan Colt	------	------	------	6	9	6	5	5	7	5	8	8
Charles P. Cooper	------	------	------	6	10	12	10	11	9	13	10	12
Cyrus H. K. Curtis	6	5	4	3	0	------	------	------	------	------	------	------
Grafton D. Cushing	9	10	11	13	12	13	12	13	10	12	11	2
Arthur V. Davis	0	0	0	------	------	------	------	------	------	------	------	------
John W. Davis	5	4	7	7	5	5	5	8	5	7	6	9
F. Trubee Davison	------	------	------	------	------	------	------	------	------	------	1	11
Lewis W. Douglas	------	------	------	------	------	------	------	------	------	------	------	1
Lawrence A. Downs	------	------	0	9	8	7	8	8	9	10	6	6
Charles E. Dunlap	------	------	------	------	------	------	------	6	7	7	8	9
Stanley Field	------	------	0	2	1	2	1	1	0	0	0	------
Leon Fraser	------	------	------	------	------	------	------	------	------	4	11	12
David F. Houston	12	11	12	13	9	12	12	13	10	13	11	13
Lewis Iselin	1	------	------	------	------	------	------	------	------	------	------	------
F. A. Juillard	3	3	0	0	------	------	------	------	------	------	------	------
R. C. Leffingwell	4	9	------	------	------	------	------	------	------	------	------	------
C. H. Markham	2	1	3	------	------	------	------	------	------	------	------	------
Alfred E. Marling	10	12	12	10	9	10	12	2	------	------	------	------
Theodore F. Merselis	5	0	------	------	------	------	------	------	------	------	------	------
George P. Miller	0	0	0	0	------	------	------	------	------	------	------	------
Nathan L. Miller	------	------	------	4	6	9	8	8	6	9	6	6
William D. Mitchell	------	------	------	------	------	------	1	9	8	10	9	8
Roland S. Morris	------	------	------	------	------	7	8	10	8	12	10	11
John K. Ottley	------	------	------	2	3	2	4	4	4	3	6	4
Charles A. Peabody	9	12	11	1	------	------	------	------	------	------	------	------
James H. Perkins	6	3	6	9	11	4	5	8	4	6	5	0
Frank L. Polk	------	------	2	11	11	11	8	11	8	11	11	11
William C. Potter	------	------	4	7	8	5	6	5	7	4	7	9
Elihu Root, Jr	------	9	10	11	9	6	7	10	11	8	9	12
Henry Lee Shattuck	------	------	------	------	2	8	6	6	9	10	8	5
John Sloane	------	------	------	------	------	6	9	9	8	10	9	13
Leroy Springs	6	8	4	0	------	------	------	------	------	------	------	------
Robert C. Stanley	------	------	------	------	------	------	------	------	------	------	8	12
Robert T. Stevens	------	------	------	------	------	------	------	------	5	10	8	13
Henry W. Taft	8	8	8	10	9	10	10	11	10	10	9	9
Myron C. Taylor	7	5	5	5	7	8	3	7	4	6	3	3
Harry B. Thayer	2	------	------	------	------	------	------	------	------	------	------	------
Edwin Thorne	11	12	11	10	8	0	------	------	------	------	------	------
John C. Trophagen	------	------	------	------	------	------	------	3	9	7	8	9
W. H. Truesdale	11	13	12	0	0	0	------	------	------	------	------	------
Paul Tuckerman	5	9	7	6	9	11	11	8	7	9	8	4
Cornelius Vanderbilt	10	9	10	11	11	12	10	10	5	0	0	------
Rodman Wanamaker	0	------	------	------	------	------	------	------	------	------	------	------
Vanderbilt Webb	------	------	------	------	------	------	------	------	4	9	10	11
Thomas H. West, Jr	------	------	------	------	0	6	5	5	------	------	------	------
Daniel Willard	------	4	2	10	6	4	4	1	2	1	1	0
Thomas Williams	8	10	7	11	8	10	8	6	------	------	------	------
Edwin W. Winter	9	9	5	------	------	------	------	------	------	------	------	------
Clarence M. Wooley	3	3	4	4	7	10	5	6	1	3	1	3

Source: Information submitted by the Mutual Life Insurance Company of New York.

Sheet 1

EXHIBIT No. 2341

[Prepared by the Association of Life Insurance Presidents]

Total Ledger Assets by States and Countries—Distribution of Life Insurance Admitted Assets (Book Values of Ledger Assets)—December 31, 1938

State	Mortgage loans			Real estate	Collateral loans	Policy loans and premium notes
	Farm	Other	Total			
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 Alabama	$2,840,505.05	$31,267,235.93	$34,107,740.98	$19,743,600.52		$32,829,028.00
2 Alaska						810,012.76
3 Arizona	958,832.89	5,849,420.28	6,808,253.17	632,800.22		8,074,110.54
4 Arkansas	10,583,378.15	6,039,164.27	16,622,542.42	7,769,698.38	$1,653.74	17,166,952.54
5 California	5,456,635.70	241,019,465.47	246,476,101.17	52,789,671.57	1,616,946.86	172,991,069.39
6 Colorado	2,431,421.67	17,841,884.12	20,273,305.79	4,372,137.45		26,628,344.19
7 Connecticut	3,500.00	62,241,068.61	62,244,568.61	37,433,970.69		52,241,038.44
8 Delaware		5,300,441.14	5,300,441.14	214,977.71		7,297,750.46
9 D. C.		104,094,326.49	104,094,326.49	5,464,673.57		25,489,874.97
10 Florida	196,475.49	41,541,251.99	41,737,727.48	13,422,142.93		31,119,247.66
11 Georgia	11,032,128.08	62,855,200.46	73,887,328.54	28,099,055.34	1,940.00	51,622,492.22
12 Hawaii		541,042.96	541,042.96			3,462,980.47
13 Idaho	5,702,910.42	1,121,755.71	6,824,666.13	4,669,365.00		6,408,601.25
14 Illinois	93,343,035.72	360,679,860.33	454,022,896.05	158,047,720.67	284,550.00	231,302,143.99
15 Indiana	49,314,220.44	63,750,315.80	113,064,536.24	41,322,933.65	81,827.71	58,846,200.10
16 Iowa	202,810,581.01	30,569,059.39	233,379,640.40	187,824,370.35		56,892,398.29
17 Kansas	49,376,175.09	14,106,394.28	63,482,569.37	32,116,477.66		26,583,245.61
18 Kentucky	11,372,433.02	29,525,230.65	40,897,663.67	8,801,711.03	39,000.00	38,094,370.65
19 Louisiana	6,819,219.32	20,819,293.87	27,638,513.19	7,872,173.87	5,492.20	34,261,712.91
20 Maine	1,300.00	1,593,298.98	1,594,598.98	984,857.91		16,517,371.49
21 Maryland	871,814.59	33,770,076.82	34,641,891.41	2,751,992.99		39,256,858.05
22 Massachusetts	5,000.00	89,357,540.95	89,362,540.95	36,257,489.08		128,220,405.32
23 Michigan	2,713,870.22	164,124,454.62	166,838,324.84	90,590,549.79		98,293,412.94
24 Minnesota	48,314,202.81	64,903,417.30	113,217,620.11	77,486,304.83		59,599,344.88
25 Mississippi	16,759,396.37	6,163,421.28	22,922,817.65	8,956,500.29	43,150.42	18,429,499.15
26 Missouri	47,869,919.35	90,702,172.16	138,572,091.51	98,483,026.75		88,336,335.29
27 Montana	1,671,616.20	1,965,678.13	3,637,294.33	4,175,803.64		10,694,366.04
28 Nebraska	39,181,415.87	16,227,427.93	55,408,843.80	63,755,747.23		29,285,573.72
29 Nevada		6,387.02	6,387.02	4,500.00		2,020,642.54
30 New Hampshire		726,644.39	726,644.39	36,001.27	13,000.00	9,862,174.87
31 New Jersey	180,650.00	211,452,800.53	211,633,450.63	87,533,270.43		117,132,453.94
32 New Mexico	271,377.74	502,618.93	773,996.67	130,234.19		4,726,726.16
33 New York	8,400.00	1,345,543,611.56	1,345,552,011.56	394,342,586.79		571,743,759.51

34	North Carolina	8, 071, 888. 82	57, 031, 864. 27	65, 105, 753. 09	20, 248, 055. 39	137, 200. 00	46, 161, 572. 52
35	North Dakota	4, 759, 143. 39	1, 370, 292. 60	6, 120, 435. 99	20, 458, 011. 41		8, 111, 032. 56
36	Ohio	28, 422, 009. 40	267, 521, 960. 70	295, 943, 970. 10	72, 734, 469. 60		174, 229, 968. 86
37	Oklahoma	23, 467, 210. 22	31, 851, 401. 90	55, 318, 612. 12	20, 806, 699. 52		32, 723, 314. 04
38	Oregon	5, 619, 554. 94	27, 560, 146. 45	33, 179, 701. 39	17, 238, 628. 51		21, 650, 319. 91
39	Pennsylvania	518, 500. 00	234, 616, 673. 10	235, 135, 173. 10	80, 473, 936. 07	300, 226. 22	263, 816, 454. 32
40	Philippines						153, 233. 80
41	Porto Rico	13, 200. 39	282, 538. 52	295, 738. 91	6, 949. 12		575, 828. 04
42	Rhode Island		9, 974, 700. 17	9, 974, 700. 17	1, 214, 238. 11		20, 403, 069. 38
43	South Carolina	2, 537, 226. 31	9, 614, 826. 73	12, 152, 053. 04	4, 082, 366. 00		23, 445, 435. 59
44	South Dakota	19, 418, 591. 15	3, 599, 327. 84	23, 017, 918. 99	75, 438, 470. 11		10, 215, 297. 95
45	Tennessee	12, 540, 022. 39	58, 180, 844. 51	70, 720, 866. 90	29, 905, 311. 15	30, 957. 60	47, 183, 460. 92
46	Texas	53, 506, 829. 55	99, 846, 986, 52	153, 353, 816. 07	39, 804, 482. 70	735, 653. 05	53, 527, 476. 10
47	Utah	190, 478. 37	7, 993, 522. 49	8, 184, 000. 86	2, 142, 002. 23		9, 613, 565. 94
48	Vermont	975. 20	1, 641, 425. 36	1. 642, 400. 56	1, 069, 558. 33		9, 151, 114. 40
49	Virginia	3, 384, 666. 25	46, 331, 122. 32	49, 715, 788. 57	10, 497, 835. 13		42, 480, 812. 42
50	Washington	13, 707, 252. 42	43, 013, 272. 99	56, 720, 525. 41	21, 986, 154. 11		39, 531, 085. 42
51	West Virginia	506, 387. 82	20, 001, 365. 35	20, 507, 753. 17	5, 908, 497. 60		26, 738, 899. 47
52	Wisconsin	7, 574, 875. 00	31, 237, 488. 92	38, 812, 363. 92	12, 981, 462. 58		58, 389, 672. 98
53	Wyoming	49, 793. 17	415, 378. 82	465, 171. 99	83, 753. 41		3, 649, 949. 12
54	Total U. S.	794, 379, 019. 99	4, 078, 287, 102. 01	4, 872, 666, 122. 00	1, 913, 167, 226. 88	3, 291, 597. 80	2, 967, 992, 062. 98
55	Canada	5, 808, 080. 52	59, 770, 502. 18	65, 578, 582. 70	11, 192, 394. 52		60, 246, 499. 49
56	Other Foreign		76, 399. 35	76, 399. 35	3, 300. 985. 00		6, 299, 866. 87
57	Not Allocated		36, 061. 51	36, 061. 51			3, 970, 734. 45
58	Total Ledger	800, 187, 100. 51	4, 138, 170, 065. 05	4, 938, 357, 165. 56	1, 927, 660, 606. 40	3, 291, 597. 80	3, 038, 509, 163. 79

Sheet 1

Total Ledger Assets by States and Countries—Distribution of Life Insurance Admitted Assets (Book Values of Ledger Assets)—December 31, 1938—Continued

State	Bonds and stocks inclusive of all Government bonds	Cash-including bank deposits and cash in transit	Bills receivable, agents' net balances, and all other ledger assets		Total ledger assets
(1)	(8)	(9)	(10)	(11)	(12)
1 Alabama	$238,537,770.75	$770,173.74	$25,195.32		$326,013,509.31
2 Alaska	9,531,97				819,544.73
3 Arizona	75,848,069.31	112,257.65	6,001.43		91,481,492.32
4 Arkansas	131,279,160.57	243,797.89	31,169.93		173,114,975.47
5 California	707,973,943.85	21,216,571.12	234,887.14		1,203,299,191.10
6 Colorado	105,093,604.03	437,275.29	147,877.04		156,952,543.79
7 Connecticut	201,908,521.71	29,507,469.21	38,747.89		383,374,316.55
8 Delaware	45,918,065.18	354,345.74	7,818.89		59,093,399.12
9 D. C.	56,393,633.18	1,338,453.60	42,654.09		192,823,615.90
10 Florida	130,351,843.22	633,589.23	60,101.99		217,314,652.51
11 Georgia	200,816,629.98	4,056,168.01	258,309.96		358,741,924.05
12 Hawaii	1,117,913.27	55,020.88	2,550.77		5,179,508.35
13 Idaho	42,677,021.23	5,450.85	3,900.00		60,589,004.46
14 Illinois	1,038,850,959.69	36,173,602.64	447,879.06		1,919,129,752.10
15 Indiana	396,601,640.40	3,796,993.74	176,613.17		613,890,745.01
16 Iowa	190,847,569.73	4,017,678.74	6,336,395.16		679,298,052.67
17 Kansas	210,539,089.25	363,786.75	64,402.71		333,149,571.35
18 Kentucky	245,661,830.40	1,090,004.76	60,597.49		334,645,178.00
19 Louisiana	199,479,480.68	844,423.74	32,645.98		270,134,442.57
20 Maine	73,744,207.02	790,829.52	34,345.05		93,666,209.97
21 Maryland	221,456,427.52	1,618,563.99	68,727.11		299,794,461.07
22 Massachusetts	311,873,144.85	55,817,661.55	63,376.50		621,594,618.25
23 Michigan	483,776,454.76	2,425,795.26	196,256.47		842,120,794.06
24 Minnesota	222,983,411.70	6,450,251.62	268,512.01		480,005,445.15
25 Mississippi	126,192,389.44	100,329.95	3,059.37		176,647,746.27
26 Missouri	404,138,579.55	12,624,882.41	349,956.31		742,504,871.82
27 Montana	87,554,120.39	73,267.60	6,997.19		106,141,849.19
28 Nebraska	136,466,664.71	1,604,831.86	86,394.83		286,608,056.15
29 Nevada	29,736,825.41				31,768,354.97
30 New Hampshire	42,310,837.80	379,082.08	4,228.37		53,331,968.78
31 New Jersey	539,898,639.90	19,352,744.07	453,899.39		976,004,458.36
32 New Mexico	66,267,378.12	7,603.32			71,905,938.46
33 New York	1,669,594,785.27	408,682,585.26	1,619,597.50		4,391,535,326.86
34 North Carolina	258,045,817.62	1,769,662.36	178,654.69		391,644,715.67

35	North Dakota	68,717,465.07	173,091.92	19,964.24		103,609,001.19
36	Ohio	744,942,914.04	9,659,815.31	194,410.57		1,297,705,548.48
37	Oklahoma	206,978,173.90	314,461.29	89,408.02		316,230,668.89
38	Oregon	95,717,802.61	1,251,339.91	40,308.82		169,078,101.15
39	Pennsylvania	949,338,442.10	42,034,412.39	192,950.97		1,571,291,595.17
40	Philippines	223,374.67	33,112.68			409,721.15
41	Porto Rico	358,314.12	107,474.60	715.07		1,345,020.76
42	Rhode Island	65,730,522.40	831,754.51	5,280.47		98,159,565.04
43	South Carolina	132,272,982.23	235,289.94	79,805.56		172,267,932.36
44	South Dakota	53,775,546.78	141,339.75	3,768.02		162,592,341.60
45	Tennessee	248,990,821.60	3,752,173.12	234,311.16		400,817,902.45
46	Texas	504,136,488.63	2,837,377.90	200,054.24		754,595,348.69
47	Utah	54,092,655.69	211,292.16	23,980.56		74,267,497.44
48	Vermont	29,088,971.64	430,177.25	3,328.37		41,385,550.55
49	Virginia	233,821,669.39	3,193,738.05	107,754.31		339,817,597.87
50	Washington	136,572,027.86	1,751,974.84	93,216.63		256,654,984.27
51	West Virginia	194,494,175.37	385,930.75	60,503.11		248,095,759.47
52	Wisconsin	259,355,353.03	4,875,011.39	245,880.38		374,659,744.28
53	Wyoming	36,168,733.91	2,740.12	9,465.03		40,379,813.58
54	Total U. S.	12,908,722,397.50	688,937,663.28	12,906,858.34		23,367,683,928.78
55	Canada	668,799,797.06	11,443,706.16			817,260,979.93
56	Other Foreign	68,437,776.67	3,618,546.90	1,478.23		81,735,053.02
57	Not Allocated	750,663,610.58	119,592.41	12,932,645.58		767,722,644.53
58	Total Ledger	14,396,623,581.81	704,119,508.75	25,840,982.15		25,034,402,606.26

Sheet 2

EXHIBIT NO. 2341–A

[Prepared by the Association of Life Insurance Presidents]

Total bonds and stocks by States and countries—Distribution of life insurance admitted assets (book values of ledge ssets)—December 31, 1938

State	State, county, municipal and other Government bonds	Railroad bonds and stocks		Public utility bonds and stocks		All other bonds and stocks, Interstate
		Interstate	Intrastate	Interstate	Intrastate	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 Alabama	$22, 107, 971. 06	$51, 344, 637. 81	$11, 067, 004. 95	$7, 652, 148. 04	$35, 212, 895. 53	$4, 319, 867. 59
2 Alaska						9, 531. 97
3 Arizona	4, 532, 194. 28	43, 224, 920. 87	1, 801, 713. 04	3, 252, 407. 95	5, 848, 906. 32	2, 320, 307. 20
4 Arkansas	11, 531, 980. 76	28, 107, 314. 21	1, 010, 809. 45	8, 457, 035. 62	7, 201, 511. 26	1, 561, 637. 27
5 California	132, 961, 139. 79	92, 968, 671. 18	13, 030, 636. 67	31, 996, 240. 63	177, 103, 238. 88	32, 583, 078. 30
6 Colorado	8, 941, 242. 35	33, 999, 226. 87	784, 532. 36	8, 595, 215. 19	10, 240, 303. 42	1, 445, 329. 64
7 Connecticut	14, 446, 927. 38	16, 726, 826. 79	561, 726. 23	2, 893, 786. 53	86, 706, 502. 15	2, 764, 839. 01
8 Delaware	1, 549, 360. 43	6, 277, 018. 06	67, 410. 72	388, 211. 26	7, 397, 845. 62	13, 421, 460. 12
9 D. C	428, 374. 86	383, 304. 90	4, 963, 212. 24	18, 117, 286. 95	8, 442, 452. 38	1, 282, 108. 27
10 Florida	19, 805, 883. 68	20, 337, 689. 36	9, 940, 987. 36	5, 271, 655. 22	9, 845, 398. 44	4, 831, 316. 74
11 Georgia	2, 374, 047. 25	39, 071, 974. 81	13, 148, 532. 31	8, 913, 531. 98	20, 531, 220. 58	4, 671, 353. 33
12 Hawaii	1, 107, 732. 15					10, 181. 12
13 Idaho	1, 314, 329. 61	15, 247, 188. 54		7, 976, 601. 03	92, 247. 84	391, 355. 88
14 Illinois	157, 430, 130. 26	150, 150, 500. 30	90, 237, 673. 15	24, 482, 187. 12	275, 320, 805. 62	38, 686, 318. 79
15 Indiana	8, 416, 748. 78	146, 112, 135. 02	11, 686, 888. 15	5, 004, 436. 87	60, 560, 718. 05	39, 519, 430. 83
16 Iowa	10, 662, 131. 58	48, 148, 797. 95	3, 453, 270. 12	11, 248, 136. 73	19, 971, 363. 64	3, 335, 086. 27
17 Kansas	3, 204, 187. 29	82, 707, 198. 02	2, 690, 069. 14	15, 662, 827. 80	26, 136, 292. 50	13, 167, 351. 70
18 Kentucky	15, 671, 447. 74	78, 034, 895. 45	9, 776, 493. 91	5, 145, 409. 90	20, 990, 223. 72	10, 855, 705. 34
19 Louisiana	59, 944, 769. 39	25, 794, 273. 76	15, 232, 782. 65	10, 107, 920. 19	7, 136, 048. 52	4, 579, 463. 35
20 Maine	3, 249, 392. 52	3, 094, 693. 02	6, 485, 920. 88	5, 870, 866. 49	21, 701, 970. 79	1, 197, 040. 22
21 Maryland	30, 431, 480. 96	43, 567, 490. 75		9, 704, 052. 67	55, 230, 764. 38	19, 515, 467. 65
22 Massachusetts	28, 831, 950. 55	22, 805, 611. 29	1, 656, 372. 21	49, 260, 349. 37	35, 606, 911. 90	8, 835, 690. 57
23 Michigan	51, 671, 789. 11	74, 057, 249. 06	1, 300, 480. 86	10, 227, 697. 96	143, 884, 007. 16	28, 669, 031. 63
24 Minnesota	16, 477, 293. 98	53, 870, 370. 69	25, 174, 757. 74	6, 017, 401. 72	15, 151, 178. 99	5, 582, 678. 39
25 Mississippi	17, 959, 791. 80	26, 355, 903. 52	2, 767, 542. 14	3, 182, 928. 47	2, 313, 394. 25	668, 570. 38
26 Missouri	38, 798, 737. 93	62, 059, 763. 45	27, 988, 637. 69	104, 095, 557. 57	20, 567, 764. 98	6, 864, 748. 25
27 Montana	563, 284. 13	45, 968, 152. 77	20, 623. 00	4, 108, 234. 64	16, 596, 296. 14	783, 778. 92
28 Nebraska	2, 696, 340. 68	61, 019, 114. 05		15, 653, 137. 07	4, 514, 693. 64	3, 334, 389. 19
29 Nevada	11, 000. 00	25, 126, 238. 89		847, 542. 52		35, 139. 09
30 New Hampshire	1, 820, 692. 64	4, 885, 433. 36	160, 024. 25	8, 033, 459. 64	8, 059, 734. 29	829, 082. 17
31 New Jersey	114, 251, 891. 44	15, 603, 513. 95	43, 832, 939. 44	25, 586, 280. 24	154, 454, 723. 22	26, 702, 045. 70
32 New Mexico	5, 745, 708. 75	35, 691, 667. 50	4, 263, 283. 88	2, 764, 234. 96	110, 689. 88	2, 312, 839. 29
33 New York	318, 231, 522. 55	59, 512, 485. 41	118, 138, 766. 20	45, 022, 571. 69	531, 359, 772. 43	53, 504, 515. 57

34 North Carolina	45, 848, 526. 94	32, 716, 069. 50	3, 202, 465. 03	8, 721, 581. 99	1, 007, 257. 01	37, 515, 512. 93
35 North Dakota	477, 482. 69	42, 113, 196. 68		245, 437. 80	58, 437. 84	269, 188. 79
36 Ohio	50, 805, 595. 68	136, 475, 741. 94	71, 707, 698. 95	16, 202, 865. 71	145, 959, 783. 50	50, 704, 384. 11
37 Oklahoma	10, 422, 436. 35	37, 303, 171. 14	1, 140, 599. 53	35, 535, 603. 41	9, 024, 919. 25	21, 981, 910. 78
38 Oregon	10, 869, 398. 60	26, 774, 455. 89	8, 511, 735. 37	7, 928, 957. 48	3, 586, 436. 33	1, 342, 382. 94
39 Pennsylvania	56, 619, 371. 52	130, 385, 054. 41	60, 522, 518. 50	27, 627, 796. 35	253, 601, 696. 30	31, 762, 600. 67
40 Philippines				219, 346. 94		4, 027. 73
41 Porto Rico	180, 834. 44			158, 229. 68		19, 250. 00
42 Rhode Island	9, 859, 495. 91	3, 529, 315. 97	1, 737, 851. 14	6, 000, 850. 59	18, 368, 852. 43	1, 447, 906. 32
43 South Carolina	30, 752, 411. 31	24, 043, 725. 27		2, 621, 127. 32	1, 414, 311. 53	5, 976, 457. 68
44 South Dakota	2, 830, 212. 72	24, 346, 300. 94	52, 162. 71	1, 027, 126. 97	16, 083. 81	414, 551. 48
45 Tennessee	57, 378, 440. 98	50, 384, 194. 75	4, 460, 916. 87	6, 137, 550. 22	17, 354, 962. 83	8, 648, 239. 54
46 Texas	46, 730, 454. 38	76, 579, 206. 17	15, 407, 400. 31	35, 506, 864. 19	65, 303, 998. 88	40, 176, 792. 84
47 Utah	3, 917, 116. 92	12, 067, 403. 42	13, 608, 588. 08	2, 352, 238. 66	2, 853, 678. 19	709, 105. 86
48 Vermont	953, 100. 38	1, 633, 609. 98	1, 096, 985. 26	5, 997, 714. 07	4, 678, 346. 82	787, 756. 71
49 Virginia	28, 968, 577. 74	45, 754, 999. 99	12, 549, 158. 73	30, 541, 012. 04	6, 187, 942. 05	12, 248, 679. 23
50 Washington	12, 741, 564. 58	44, 141, 699. 54		9, 612, 503. 93	3, 968, 557. 46	5, 800, 177. 32
51 West Virginia	11, 138, 827. 09	63, 596, 487. 26	2, 720, 955. 39	28, 761, 371. 69	1, 359, 275. 98	19, 668, 536. 77
52 Wisconsin	9, 368, 855. 92	42, 156, 882. 36	7, 282, 526. 49	27, 904, 598. 47	56, 850, 060. 06	10, 789, 865. 98
53 Wyoming	319, 141. 18	23, 080, 829. 81		1, 429, 379. 91	1, 247, 005. 96	1, 729, 340. 99
54 Total U. S	1, 497, 353, 321. 01	2, 229, 336, 606. 63	625, 244, 653. 10	720, 071, 511. 44	2, 381, 131, 482. 75	590, 587, 408. 41
55 Canada	499, 407, 411. 45	65, 698, 908. 43	28, 113, 290. 21	850, 757. 73	55, 399, 876. 81	6, 317, 159. 28
56 Other Foreign	7, 019, 257. 40		753, 251. 55	7, 308, 427. 21	235, 147. 50	49, 194, 554. 37
57 Not Allocated		20, 105, 092. 67		112, 072, 039. 39		318, 486, 478. 52
55 Total	2, 003, 779, 989. 86	2, 315, 140, 607. 73	654, 111, 194. 86	840, 302, 735. 77	2, 436, 766. 507. 06	1, 264, 585, 600. 58

Total bonds and stocks by States and countries—Distribution of life insurance admitted assets (book values of ledger assets) December 31, 1938—Con.

State	All other bonds and stocks, intrastate (8)	U. S. Government bonds (9)	(10)	(11)	Total bonds and stocks (12)
1 Alabama	$2, 759, 908. 25	$104, 073, 337. 52			$238, 537, 770. 75
2 Alaska					9, 531. 97
3 Arizona		14, 867, 619. 65			75, 848, 069. 31
4 Arkansas		73, 408, 872. 00			131, 279, 160. 57
5 California	6, 175, 096. 18	221, 155, 842. 22			707, 973, 943. 85
6 Colorado	2, 524, 865. 74	38, 562, 888. 46			105, 093, 604. 03
7 Connecticut	15, 085, 143. 24	62, 722, 770. 38			201, 908, 521. 71
8 Delaware	7, 524, 496. 69	9, 292, 262. 28			45, 918, 065. 18
9 D. C.	10, 851. 00	22, 766, 042. 58			56, 393, 633. 18
10 Florida	383, 820. 72	59, 935, 091. 70			130, 351, 843. 22
11 Georgia	1, [illegible]63, 435. 50	111, 042, 534. 22			200, 816, 629. 98
12 Hawaii					1, 117, 913. 27
13 Idaho		17, 655, 298. 33			42, 677, 021. 23
14 Illinois	19, 593, 958. 08	282, 949, 386. 37			1, 038, 850, 959. 69
15 Indiana	320, 355. 06	124, 980, 927. 64			396, 601, 640. 40
16 Iowa	2, 500, 000. 00	91, 528, 783. 44			190, 847, 569. 73
17 Kansas	66, 875. 00	66, 904, 288. 40			210, 539, 089. 85
18 Kentucky	185, 090. 00	105, 002, 563. 74			245, 661, 829. 80
19 Louisiana	23, 059. 02	76, 661, 163. 80			199, 479, 480. 68
20 Maine	1, 479, 857. 58	30, 664, 465. 52			73, 744, 207. 02
21 Maryland	2, 607, 466. 30	60, 399, 704. 81			221, 456, 427. 52
22 Massachusetts	5, 978, 574. 00	158, 897, 684. 96			311, 873, 144. 85
23 Michigan	200, 894. 38	173, 765, 304. 60			483, 776, 454. 76
24 Minnesota	5, 464, 041. 84	95, 245, 688. 35			222, 983, 411. 70
25 Mississippi		72, 944, 258. 88			126, 192, 389. 44
26 Missouri	197, 917. 48	143, 565, 452. 20			404, 138, 579. 55
27 Montana		19, 513, 750. 79			87, 554, 120. 39
28 Nebraska		49, 248, 990. 08			136, 466, 664. 71
29 Nevada		3, 716, 904. 91			29, 736, 825. 41
30 New Hampshire	402, 500. 00	18, 119, 911. 45			42, 310, 837. 80
31 New Jersey	3, 357, 239. 64	156, 110, 006. 27			539, 898, 639. 90
32 New Mexico	46, 721. 10	15, 332, 232. 76			66, 267, 378. 12
33 New York	77, 818, 198. 17	466, 006, 953. 25			1, 669, 594, 785. 27
34 North Carolina	3, 588, 863. 46	125, 445, [illegible]40. 76			258, 045, 817. 62
35 North Dakota		25, 553, 721. 27			68, 717, 465. 07
36 Ohio	31, 023, 411. 80	242, 063, 432. 35			744, 942, 914. 04
37 Oklahoma	40, 750. 00	91, 528, 783. 44			206, 978, 173. 90
38 Oregon		36, 704, 436. 00			95, 717, 802. 61
39 Pennsylvania	23, 168, 883. 71	365, 650, 520. 64			949, 338, 442. 10
40 Philippines					223, 374. 67
41 Porto Rico					358, 314. 12

42 Rhode Island	161,755.00	24,624,495.04			65,730,522.40
43 South Carolina	96,047.60	67,368,901.52			132,272,982.23
44 South Dakota		25,089,108.15			53,775,546.78
45 Tennessee	553,178.89	104,073,337.52			248,990,821.60
46 Texas	2,811,316.53	221,620,455.33			504,136,488.63
47 Utah		18,584,524.56			54,092,655.69
48 Vermont	3,065.00	13,938,393.42			29,088,971.64
49 Virginia	467,158.80	97,104,140.81			233,821,669.39
50 Washington	837,046.45	59,470,478.58			136,572,027.86
51 West Virginia	344,432.78	66,904,288.41			194,494,175.37
52 Wisconsin		105,002,563.75			259,355,353.03
53 Wyoming		8,363,036.06			36,168,733.91
54 Total U. S.	218,866,274.99	4,646,131,139.17			12,908,722,397.50
55 Canada	13,012,393.15				668,799,797.06
56 Other Foreign	3,927,138.64				68,437,776.67
57 Not Allocated					750,663,610.58
58 Total	235.805,806.78	4,646,131,139.17			14,396,623,581.81

EXHIBIT NO. 2341–B

[Prepared by the Association of Life Insurance Presidents]

State: Grand Total (Exclusive of Federal Taxes) By States and Countries—Distribution of Reserve, Premiums, and Disbursements—Life Business Including Disability and Double Indemnity, Calendar Year 1938

[Ordinary, Industrial, and Group Combined]

State	Reserve December 31 (items 7, 8, 9, 10, 11, and 34, page 5, annual statement)	Premium income (item 8, page 2)	Losses and matured endowments (item 5, page 3)	Dividends (item 9, page 3)	Surrender values and all other payments to policyholders and beneficiaries (items 6 to 8, incl. page 3)	Insurance taxes, licenses, and fees—State and local—Paid by company and agents: State premium taxes (item 25 (a) page 3, plus reserve taxes)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 Alabama	$149, 015, 969. 36	$19, 059, 217. 24	$8, 936, 207. 43	$2, 335, 600. 47	$4, 234, 575. 17	$398, 362. 95
2 Alaska	4, 339, 658. 92	514, 110. 82	176, 891. 68	57, 592. 13	79, 951. 82	5, 349. 99
3 Arizona	43, 578, 802. 62	5, 349, 851. 42	2, 326, 716. 33	683, 320. 87	1, 129, 515. 32	71, 118. 86
4 Arkansas	97, 693, 394. 79	12, 007, 034. 65	6, 005, 902. 22	1, 314, 509. 77	2, 749, 286. 16	263, 174. 06
5 California	1, 176, 549, 437. 41	186, 733, 029. 79	54, 706, 307. 38	20, 896, 791. 27	50, 219, 429. 35	2, 897, 917. 58
6 Colorado	176, 688, 606. 61	25, 202, 354. 76	8, 323, 720. 46	3, 135, 453. 52	5, 949, 443. 59	436, 915. 86
7 Connecticut	452, 056, 072. 95	72, 124, 186. 70	26, 597, 717. 20	8, 812, 603. 67	18, 064, 823. 30	1, 072, 426. 19
8 Delaware	70, 725, 773. 73	10, 679, 298. 34	2, 631, 930. 71	1, 335, 899. 60	2, 723, 323. 80	122, 018. 45
9 D. C	176, 485, 100. 10	24, 746, 759. 36	8, 299, 144. 34	3, 195, 954. 76	5, 969, 758. 10	328, 785. 72
10 Florida	159, 451, 988. 46	25, 658, 029. 60	10, 505, 778. 04	2, 864, 140. 87	6, 886, 406. 51	372, 921. 01
11 Georgia	257, 986, 378. 51	34, 234, 562. 62	14, 730, 078. 03	4, 211, 504. 80	7, 394, 236. 85	467, 535. 38
12 Hawaii	23, 368, 325. 66	3, 254, 468. 30	944, 562. 74	458, 728. 35	569, 708. 79	50, 557. 20
13 Idaho	36, 781, 068. 63	4, 669, 259. 87	1, 275, 420. 74	622, 963. 17	1, 090, 247. 40	137, 269. 14
14 Illinois	1, 771, 013. 784, 11	264, 348, 657. 14	75, 009, 671. 05	34, 223, 225. 14	59, 102, 138. 45	4, 684, 084. 60
15 Indiana	503, 975, 963. 82	74, 932, 546. 45	24, 825, 789. 88	8, 976, 914. 03	17, 181, 454. 66	1, 101, 596. 07
16 Iowa	374, 190, 563. 88	46, 819, 512. 03	12, 403, 164. 53	6, 457, 187. 35	11, 027, 668. 71	946, 543. 56
17 Kansas	186, 732, 832. 13	26, 105, 410. 14	7, 386, 174. 21	3, 241, 937. 48	5, 864, 781. 67	412, 045. 45
18 Kentucky	251, 315, 262. 68	32, 652, 273. 00	12, 481, 864. 10	4, 813, 792. 12	8, 437, 198. 96	639, 943. 34
19 Louisiana	207, 052, 583. 58	28, 251, 841. 67	11, 021, 286. 19	3, 123, 899. 01	5, 676, 660. 33	455, 119. 04
20 Maine	145, 275, 608. 50	20, 822, 865. 73	6, 988, 634. 91	2, 728, 434. 74	6, 216, 748. 60	306, 491. 71
21 Maryland	332, 303, 089. 19	46, 960, 875. 07	18, 214, 760. 37	6, 409, 689. 92	10, 721, 316. 58	634, 448. 58
22 Massachusetts	1, 112, 141, 365. 32	172, 160, 048. 49	57, 285, 924. 74	22, 967, 012. 01	47, 670, 512. 60	2, 547, 039. 22
23 Michigan	716, 086, 387. 71	115, 056, 948. 01	34, 194, 392. 99	14, 550, 614. 31	24, 324, 914. 01	2, 133, 226. 89
24 Minnesota	465, 929, 875. 47	63, 137, 441. 23	17, 439, 063. 56	8, 152, 180. 85	13, 576, 406. 16	990, 897. 16

25 Mississippi	87, 457, 527. 56	01, 583, 727. 77	4, 932, 476. 94	1, 281, 677. 40	2, 907, 772. 53	199, 507. 03
26 Missouri	669, 399, 719. 10	91, 779, 309. 60	31, 867, 586. 33	12, 148, 894. 18	21, 788, 121. 15	1, 412, 756. 04
27 Montana	64, 207, 685. 75	7, 979, 284. 92	3, 021, 911. 21	1, 007, 596. 77	1, 694, 755. 86	141, 777. 60
28 Nebraska	175, 429, 730. 41	22, 247, 658. 49	7, 765, 937. 19	3, 210, 314. 21	6, 405, 900. 36	384, 001. 86
29 Nevada	11, 433, 842. 20	1, 397, 028. 07	825, 396. 37	177, 129. 78	299, 174. 29	13, 400. 46
30 New Hampshire	102, 607, 630. 41	15, 375, 876. 93	5, 046, 150. 93	2, 027, 479. 92	4, 442, 902. 05	248, 242. 16
31 New Jersey	1, 138, 189, 523. 94	192, 221, 175. 61	56, 045, 644. 26	23, 057, 987. 70	49, 611, 982. 97	2, 484, 357. 09
32 New Mexico	27, 519, 772. 08	3, 315, 198. 97	1, 473, 159. 85	400, 298. 17	753, 399. 83	50, 835. 21
33 New York	4, 751, 721, 997. 25	701, 667, 102. 55	236, 255, 525. 55	89, 827, 711. 67	201, 639, 287. 02	10, 794, 287. 58
34 North Carolina	231, 111, 526. 09	30, 860, 755. 52	11, 503, 515. 26	3, 428, 888. 00	6, 165, 044. 19	676, 432. 66
35 North Dakota	40, 265, 101. 67	4, 406, 239. 73	1, 743, 313. 08	580, 767. 41	1, 697, 271. 04	80, 614. 84
36 Ohio	2, 390, 111, 706. 82	203, 604, 918. 49	70, 375, 795. 87	25, 319, 841. 40	50, 618, 036. 29	4, 018, 696. 18
37 Oklahoma	181, 429, 026. 90	26, 175, 057. 63	8, 544, 016. 07	2, 838, 349. 95	4, 971, 958. 01	377, 822. 51
38 Oregon	136, 213, 952. 21	19, 310, 650. 86	5, 760, 035. 16	2, 546, 384. 77	4, 713, 214. 23	320, 204. 48
39 Pennsylvania	2, 135, 016, 623. 28	319, 578, 241. 01	112, 897, 740. 84	42, 440, 422. 31	78, 633, 657. 64	4, 997, 061. 27
40 Philippines	992, 986. 18	295, 828. 42	92, 402. 33	11, 486. 64	15, 725. 82	931. 95
41 Porto Rico	2, 672, 650. 07	477, 444. 71	180, 771. 50	23, 026. 60	77, 574. 52	8, 119. 55
42 Rhode Island	179, 960, 587. 97	27, 489, 967. 94	10, 023, 521. 67	3, 722, 279. 85	7, 430, 629. 44	437, 307. 86
43 South Carolina	109, 283, 465. 94	14, 088, 866. 90	7, 149, 922. 41	1, 557, 650. 51	3, 187, 209. 80	330, 729. 24
44 South Dakota	53, 908, 968. 12	5, 833, 901. 80	1, 469, 027. 99	845, 803. 07	2, 088, 838. 40	101, 625. 64
45 Tennessee	243, 607, 939. 82	32, 241, 607. 84	12, 941, 114. 83	3, 995, 538. 96	7, 055, 791. 38	401, 460. 49
46 Texas	240, 505, 437. 63	43, 829, 672. 33	15, 423, 407. 94	2, 639, 760. 93	7, 130, 154. 39	705, 236. 35
47 Utah	59, 419, 151. 40	8, 083, 626. 96	2, 400, 669. 85	1, 010, 964. 27	1, 751, 765. 59	140, 652. 75
48 Vermont	77, 143, 829. 02	10, 431, 025. 93	3, 713, 504. 30	1, 319, 208. 17	3, 371, 401. 13	159, 032. 03
49 Virginia	282, 795, 074. 53	36, 393, 145. 20	14, 896, 084. 04	4, 387, 131. 08	8, 454, 169. 03	757, 823. 85
50 Washington	241, 474, 648. 24	32, 719, 057. 81	10, 397, 564. 83	4, 248, 208. 65	9, 123, 174. 71	759, 485. 76
51 West Virginia	181, 003, 033. 09	25, 152, 930. 09	9, 073, 187. 20	3, 096, 104. 99	5, 877, 643. 74	446, 422. 49
52 Wisconsin	507, 734, 206. 59	70, 737, 996. 17	19, 842, 878. 33	10, 257, 041. 24	14, 863, 963. 49	959, 167. 11
53 Wyoming	21, 801, 258. 29	2, 847, 939. 47	702, 238. 03	337, 105. 23	612, 808. 22	81, 190. 44
54 Total U. S.	22, 236, 156, 496. 73	3, 276, 605, 820. 15	1, 089, 075, 603. 99	413, 714, 950. 04	824, 243, 834. 01	52, 964, 971. 10
55 Canada	439, 195, 697. 60	70, 244, 478. 93	22, 952, 491. 93	9, 298, 877. 15	23, 392, 879. 47	1, 162, 376. 35
56 Other Foreign	40, 521, 744. 68	6, 626, 128. 56	4, 949, 619. 93	834, 446. 41	1, 955, 420. 97	32, 218. 14
57 Not Allocated	39, 917, 394. 75	20, 900, 265. 70	2, 621, 236. 80	1, 347, 237. 03	5, 780, 726. 34	52, 737. 64
58 Total	22, 755, 791, 333. 76	3, 374, 376, 693. 39	1, 119, 798, 952. 65	425, 195, 510. 63	855, 372, 860. 79	54, 212, 303. 27

State: Grand Total (Exclusive of Federal Taxes) By States and Countries—Distribution of Reserve, Premiums, and Disbursements—Life Business Including Disability and Double Indemnity, Calendar Year 1938—Continued

State	Insurance taxes, licenses, and fees—State and local—Paid by company and agents		Commissions, agency expenses, medical fees and real estate repairs and expenses (items 14 to 19, incl., and 26 (a), page 3)	Taxes on real estate and tangible personal property (item 26 (b), page 3, plus such personal property taxes)	Total of columns 4 to 11, inclusive
	Other State taxes, licenses and fees	County and municipal taxes, licenses, & fees			
	(8)	(9)	(10)	(11)	(12)
1 Alabama	$65, 755. 51	$19, 803. 93	$2, 962, 441. 74	$279, 599. 67	$19, 232, 346. 87
2 Alaska	66. 25		30, 517. 39	9, 143. 20	359, 512. 46
3 Arizona	3, 118. 01	27. 93	495, 564. 70	25, 624. 71	4, 735, 006. 73
4 Arkansas	19, 278. 35	24. 31	1, 856, 214. 30	163, 908. 92	12, 372, 298. 09
5 California	299, 052. 24	120. 00	20, 513, 103. 55	1, 108, 282. 69	150, 641, 004. 06
6 Colorado	34, 425. 21	1, 488. 62	2, 788, 748. 08	129, 950. 16	20, 800, 145. 50
7 Connecticut	1, 162, 562. 51	1, 960. 13	9, 175, 393. 51	1, 141, 031. 02	66, 028, 517. 53
8 Delaware	15, 863. 15		1, 158, 110. 39	4, 732. 68	7, 991, 878. 78
9 D. C	48, 634. 49	21. 18	3, 067, 266. 03	116, 334. 17	21, 025, 898. 79
10 Florida	39, 768. 52	18, 732. 30	3, 175, 955. 53	421, 643. 81	24, 285, 346. 59
11 Georgia	88, 509. 26	151, 546. 91	5, 303, 255. 07	518, 825. 10	32, 865, 527. 40
12 Hawaii	1, 604. 04		309, 932. 37		2, 335, 093. 49
13 Idaho	6, 051. 96	10. 00	464, 978. 89	97, 892. 79	3, 694, 834. 09
14 Illinois	744, 263. 51	5, 232. 98	37, 301, 036. 99	3, 211, 092. 90	214, 280, 745. 62
15 Indiana	209, 819. 86	1, 028. 12	10, 562, 056. 87	625, 800. 10	63, 484, 459. 59
16 Iowa	132, 757. 56	4, 858. 07	9, 111, 200. 60	2, 926, 823. 85	43, 010, 204. 23
17 Kansas	46, 176. 08	3, 730. 47	3, 778, 855. 92	516, 140. 48	21, 249, 841. 76
18 Kentucky	48, 654. 62	35, 875. 72	4, 182, 106. 55	122, 618. 58	30, 762, 053. 99
19 Louisiana	47, 913. 76	141, 786. 40	3, 803, 971. 77	216, 188. 72	24, 486, 825. 22
20 Maine	33, 928. 36	181. 39	2, 187, 863. 44	22, 315. 35	18, 484, 598. 50
21 Maryland	94, 980. 51	417. 84	5, 307, 768. 14	70, 676. 67	41, 454, 058. 61
22 Massachusetts	495, 628. 92	1, 634. 73	21, 051, 397. 39	1, 282, 449. 52	153, 301, 599. 13
23 Michigan	184, 228. 38	45. 78	17, 222, 707. 86	1, 654, 764. 21	94, 364, 894. 43
24 Minnesota	125, 204. 37	1, 022. 93	9, 936, 599. 37	1, 873, 779. 91	52, 095, 154. 31
25 Mississippi	23, 469. 34	1, 798. 38	2, 013, 534. 42	242, 828. 85	11, 603, 064. 89
26 Missouri	343, 530. 20	16, 540. 70	14, 708, 298. 94	1, 651, 253. 19	84, 236, 980. 73
27 Montana	11, 630. 96	224. 89	671, 687. 34	77, 016. 18	6, 626, 600. 81
28 Nebraska	42, 246. 65	2, 568. 66	3, 487, 684. 39	690, 327. 20	21, 988, 980. 52
29 Nevada	1, 397. 06	81. 75	83, 135. 51	4. 25	1, 399, 719. 47
30 New Hampshire	29, 001. 71		1, 630, 932. 26	2, 231. 79	13, 426, 940. 82
31 New Jersey	1, 556, 134. 46	973, 533. 64	26, 662, 235. 32	4, 751, 595. 79	165, 143, 471. 23
32 New Mexico	2, 115. 63		206, 646. 19	258, 741. 72	3, 145, 196. 60
33 New York	2, 254, 825. 82	371, 375. 71	100, 244, 129. 61	13, 238, 136. 12	654, 625, 279. 08
34 North Carolina	114, 396. 66	190. 19	4, 217, 858. 19	312, 883. 30	26, 419, 208. 45

35 North Dakota	10, 680. 93	86. 82	710, 148. 05	412, 717. 26	5, 235, 509. 43
36 Ohio	535, 920. 68	1, 671. 10	26, 472, 423. 21	1, 104, 127. 61	178, 446, 512. 34
37 Oklahoma	43, 032. 14	413. 81	3, 441, 010. 38	459, 987. 11	20, 676, 589. 98
38 Oregon	31, 447. 13	154. 85	2, 833, 555. 90	394, 104. 79	16, 599, 101. 31
39 Pennsylvania	735, 396. 61	99, 872. 05	38, 995, 265. 34	1, 887, 942. 77	280, 737, 359. 43
40 Philippines	554. 75	280. 49	65, 819. 84		187, 201. 82
41 Porto Rico	577. 16		76, 780. 32		366, 849. 65
42 Rhode Island	58, 928. 76	200. 33	3, 094, 320. 52	36, 775. 42	24, 803, 963. 85
43 South Carolina	12, 235. 97	22, 801. 37	1, 933, 588. 78	55, 326. 69	14, 249, 464. 77
44 South Dakota	13, 362. 92	156. 26	1, 797, 056. 37	1, 082, 807. 54	7, 398, 678. 19
45 Tennessee	75, 711. 41	8, 213. 44	5, 894, 511. 13	858, 635. 37	31, 230, 977. 00
46 Texas	56, 228. 32	2, 286. 93	5, 909, 325. 42	657, 437. 79	32, 523, 838. 07
47 Utah	12, 755. 00	107. 87	1, 050, 302. 94	55, 238. 70	6, 422, 456. 97
48 Vermont	89, 781. 06	131. 84	11, 60, 552. 57	25, 777. 01	9, 839, 388. 11
49 Virginia	78, 098. 83	78. 95	4, 361, 145. 04	215, 384. 97	33, 149, 915. 79
50 Washington	61, 440. 01	233. 67	4, 488, 895. 86	442, 519. 43	29, 521, 522. 92
51 West Virginia	39, 690. 99	1, 522. 69	3, 010, 691. 68	109, 114. 76	21, 654, 378. 54
52 Wisconsin	618, 628. 21	13. 04	7, 678, 066. 45	346, 699. 94	54, 566, 457. 81
53 Wyoming	1, 602. 66	103. 04	179, 126. 25	2, 955. 23	1, 917, 129. 12
54 Total U. S.	10, 853, 067. 46	1, 894, 192. 21	442, 825, 774. 67	45, 912, 189. 99	2, 881, 484, 583. 47
55 Canada	171, 733. 97	24, 734. 13	9, 854, 501. 42	329, 044. 76	67, 186, 639. 18
56 Other Foreign	17, 603. 44	3, 087. 74	677, 593. 37	72, 970. 65	8, 544, 960. 65
57 Not Allocated	13, 207. 82	1, 255. 70	2, 145, 457. 69	9, 254. 74	12, 171, 113. 76
58 Total	11, 055, 612. 69	1, 925, 269. 78	455, 503, 327. 15	46, 323, 460. 14	2, 969, 387, 297. 06

EXHIBIT No. 2342

HAUGHTON BELL
Assistant General Counsel

LOUIS W. DAWSON
Vice President and General Counsel

THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK

LAW DEPARTMENT

34 Nassau Street, New York

FEBRUARY 1, 1940.

GERHARD GESELL, Esq.,
Special Counsel, Insurance Section
Securities and Exchange Commission, 1424 K Street NW.,
Washington, D. C.

DEAR MR. GESELL: I am writing to you, as I stated today in our conversation here that I probably should do, regarding the "net cost" tables following page 281 of the statistical summaries prepared by the Securities and Exchange Commission from answers to the Investment Questionnaire and Supplemental Investment Questionnaire.

We are convinced that if these "net cost" tables (pages 284–314, inclusive) are published in their present form, they are likely to furnish uninformed persons with material for making misleading, unfair and improper comparisons between different companies. The possible consequences could be very harmful, and we strongly urge that you give the matter further consideration.

The tables as now printed do not show either the past cost of life insurance or the likekly future cost for any of the companies listed. Dividend scales in life insurance companies, especially in the last decade, have been changed with great frequency and, in some companies, every year. Companies do not expect a given scale to be maintained beyond the year for which it is declared. There is no basis in experience, therefore, for projecting one year's dividend scale, such as the 1939 scale, for ten or twenty years into the future and assuming that the likely future cost of life insurance can be determined from such calculations. No company publishes its current annual dividend scale with the idea that it in any way represents an estimate of likely future results. The dividend material of all the companies emphasizes this fact, and the agents of the companies are instructed that such figures cannot be used as the basis of any estimate or representation.

As a practical matter, it is necessary for the companies to inform their field forces of the current dividend scale, i. e., the dividends payable in the current year on policies issued 1 year ago, 2 years ago, 3 years ago, etc., in order that they may deal intelligently with the holders of previously-issued policies. Summaries of results based on one year's scale serve the useful purpose of illustrating to policyholders and prospective policyholders the comparative effect of exercising the various dividend options from which the insured may choose under the provisions included in his policy. Such illustrations are not furnished, however, as estimates of future results and great care is exercised that they shall not be so interpreted. The New York Insurance Law contains, and has for many years contained, a provision which would make any estimate of this kind by an insurance agent illegal.

It is true that "net cost" summaries on the basis of current dividend scales are available in various independent publications of insurance data. These publications are undoubtedly used almost exclusively by insurance agents and are not often purchased by uninformed persons. Because agents are instructed in the proper use of dividend figures, there is not the same likelihood of widespread misconception as may result from the publication by a governmental agency of similar figures with all the authority with which they would be invested. Moreover, these independent insurance publications generally include actual dividend histories as well as the current dividend scales and thereby give a much fuller basis for a true understanding of dividends and net costs. Furthermore, these insurance services are published annually and even the results on "current" scale basis are available over a period of years and the situation is quite different from that created by the publication of one set of figures based upon the projection of one year's dividend scale.

Publication of your "net cost" summaries based on dividends paid in the single year 1939 will be particularly injurious to this Company, because it will solhouette our very high net costs in that one year against the lower costs in that year of the other companies. Publication of such summaries based on the actual experience over several years would give us a very different comparative rank.

Our objection, however, is not based solely on the effect on this Company, but is a fundamental objection to the use of such tables based upon only one year's "net costs." We believe that the fallacy in the use of such tables is twofold. In the first place, the *experience* of companies may vary widely in one year, both with their own experience over a longer period and also with their long-range comparative experience with other companies, due to such factors as taking a substantial gain or loss through the sale of assets or by necessary adjustments in the valuation of assets in the particular year. In the second place, the results expressed in the "net cost" summaries may be greatly influenced through *controllable policies* pursued with regard to the application of surplus earnings. Thus, taking one year alone, such surplus earnings might be allocated differently by different companies. One company might use them to a greater extent than another in voluntarily writing down its assets or voluntarily increasing its contingency reserves, whereas in that one year another company might apply its gains to the payment of dividends. The former would represent a more conservative policy aimed at affording greater security to policyholders and, other things being equal, also increasing its ability to pay higher dividends in the future. In the "net cost" summaries, however, the company adopting this more conservative policy would be penalized. It seems to us, therefore, that the use of such "net cost" summaries based on one year's dividends is likely to be misunderstood or actually misleading. We do not think that this defect can be cured, as a practical matter, by explanatory testimony or even by explanatory text inserted in the summaries. These final tables will undoubtedly be taken to represent the net results of the whole series of preceding tables and are the one portion of the statistical summaries likely to receive widest publication.

I understand that you have considered that figures based upon actual dividends paid over a period of years in the past would be apt to mislead because of the substantial change in interest rates that has taken place. This argument would be valid only if the results of such calculations were used to establish *absolute* net costs. The tables as they now appear, however, will naturally be used for establishing *comparative* net costs for different companies. Used in this way, they will be far more misleading, for the reasons stated, than tables based upon a past period of years.

Faced with this situation, it seems to us that either the net cost tables should be eliminated from the summaries entirely, because of their inherently misleading character, or, in order to minimize this defect, additional tables should be inserted based on the actual dividends paid over a period of years and safe-guarded by explanatory text pointing out the danger of using them for establishing absolute net costs.

Very truly yours,

HAUGHTON BELL,
Assistant General Counsel.

HB : FD.

Copy to Mr. Ernest J. Howe, Chief Financial Adviser, Insurance Section. Securities and Exchange Commission.

Exhibit No. 2343

[Prepared by The Mutnal Life Insurance Company of New York]

Net cost of $1,000 ordinary life insurance

WHOLE LIFE POLICIES — ..GE 25

I. Standard Participating Policies Sold in the Amount of $1,000 or More

Company	Based upon actual dividends paid 1930 to 1939 on issue of 1929						Based upon actual dividends paid 1920 to 1939 on issue of 1919					
	(1) Annual Premium	(2) 10 Annual Premiums	(3) 10 Years' Dividends	(4) 10 Year Net Cost-Policy Continued (2)−(3)	(5) 10th Year Cash Value	(6) Net Cost-Policy Surrendered End of 10th Year (4)−(5)	(6a) Annual Premium	(7) 20 Annual Premiums	(8) 20 Years' Dividends	(9) 20 Years' Net Cost-Policy Continued (7)−(8)	(10) 20th Year Cash Value	(11) Net Cost-Policy Surrendered End of 20th Year (9)−(10)
Aetna [2]	$18.88	$188.80	$38.36	$150.44	$80.00	$70.44	$21.50	$430.00	$115.86	$314.14	$233.00	$81.14
Bankers Life [3]	20.01	200.10	41.12	158.98	90.16	68.82	19.93	398.60	94.99	303.61	213.04	90.57
Conn. Gen'l	19.43	194.30	36.10	158.20	89.00	69.20	17.87	357.40	54.84	302.56	213.00	89.56
Conn. Mut	20.14	201.40	43.13	158.27	98.94	59.33	20.14	402.80	99.83	302.97	230.50	72.47
Equitable N. Y	21.49	214.90	[4] 64.48	150.42	98.00	52.42	21.49	429.80	[4] 148.32	281.48	230.00	51.48
Equitable Iowa	20.13	201.30	50.81	150.49	89.00	61.49	20.13	402.60	[5] 115.68	286.92	213.00	73.92
Guardian Life	20.14	201.40	47.03	154.37	98.94	55.43	20.14	402.80	98.38	304.42	230.50	73.92
John Hancock [3]	19.70	197.00	45.09	151.91	90.00	61.91	19.63	392.60	90.89	301.71	213.00	88.71
Mass. Mutual	20.14	201.40	45.72	155.68	98.94	56.74	20.14	402.80	116.18	286.62	230.50	56.12
Metropolitan [6]	18.19	181.90	39.80	142.10	90.00	52.10	18.19	363.80	94.49	269.31	[7] 227.90	41.41
Mutual Benefit	20.14	201.40	49.60	151.80	98.94	52.86	20.14	402.80	118.52	284.28	230.50	53.78
Mutual N. Y	21.49	214.90	57.61	157.29	98.94	58.35	21.49	429.80	127.98	301.82	230.50	71.32
National Life	20.14	201.40	46.23	155.17	98.94	56.23	20.95	419.00	126.33	292.67	230.50	62.17
N. E. Mutual	20.70	207.00	60.57	146.43	98.94	47.49	20.70	414.00	127.83	286.17	230.50	55.67
N. Y. Life	21.49	214.90	[5] 58.61	156.29	98.00	58.29	21.49	429.80	[5] 166.75	263.05	230.00	33.05
Northwestern	20.55	205.50	66.30	139.20	98.94	40.26	20.55	411.00	145.31	265.69	230.50	35.19
Pacific Mutual	19.95	199.50	37.71	161.79	82.00	79.79	19.95	399.00	73.05	325.95	207.00	118.95
Penn. Mutual	20.14	201.40	50.90	150.50	98.94	51.56	20.14	402.80	121.11	281.69	230.50	51.19
Phoenix Mutual [2]	17.52	175.20	25.43	149.77	89.42	60.35	21.02	420.40	118.09	302.31	232.56	69.75
Provident Mut	17.36	173.60	37.32	136.28	89.00	47.28	18.88	377.60	109.41	268.19	213.00	55.19
Prudential [6]	17.72	177.20	27.35	149.85	90.00	59.85	17.66	353.20	80.52	272.68	213.00	59.68
State Mutual	20.14	201.40	50.65	150.75	98.94	51.81	20.14	402.80	109.83	292.97	230.50	62.47
Union Central	19.12	191.20	34.45	156.75	89.00	67.75	19.12	382.40	78.95	303.45	213.00	90.45

WHOLE LIFE POLICIES [1]—AGE 35

Aetna [3]	$24.89	$248.90	$45.39	$203.51	$125.00	$78.51	$27.70	$554.00	$139.27	$414.73	$331.00	$83.73
Bankers Life [3]	26.41	264.10	47.27	216.83	137.14	79.69	26.28	525.60	117.55	408.05	310.75	97.30
Conn. Gen'l	25.49	254.90	44.07	210.83	135.00	75.83	23.64	472.80	68.77	404.03	311.00	93.03
Conn. Mut	26.35	263.50	50.39	213.11	146.01	67.10	26.36	527.00	121.96	405.04	327.58	77.46
Equitable N. Y	28.11	281.10	[4] 72.15	208.95	146.00	62.95	28.11	562.20	[4] 166.08	396.12	327.00	69.12
Equitable Iowa	26.38	263.80	60.02	203.78	136.00	67.78	26.38	527.60	[5] 138.16	389.44	311.00	78.44
Guardian Life	26.35	263.50	52.95	210.55	146.01	64.54	26.35	527.00	116.84	410.16	327.58	82.58
John Hancock [3]	26.00	260.00	51.30	208.70	137.00	71.70	25.88	517.60	107.49	410.11	311.00	99.11
Mass. Mutual	26.35	263.50	54.61	208.89	146.01	62.88	26.85	527.00	134.55	392.45	327.58	64.87
Metropolitan [6]	24.00	240.00	42.46	197.54	137.00	60.54	24.00	480.00	109.85	370.15	[7] 332.84	37.31
Mutual Benefit	26.35	263.50	56.14	207.36	146.01	61.35	26.35	527.00	138.90	388.10	327.58	60.52
Mutual N. Y	28.11	281.10	66.36	214.74	146.01	68.73	28.11	562.20	158.12	404.08	327.58	76.50
National Life	26.35	263.50	53.75	209.75	146.01	63.74	27.41	548.20	154.32	393.88	327.58	66.30
N. E. Mutual	27.00	270.00	70.11	199.89	146.01	53.88	27.00	540.00	152.42	387.58	327.58	60.00
N. Y. Life	28.11	281.10	[8] 68.56	212.54	146.00	66.54	28.11	562.20	[8] 188.37	373.83	327.00	46.83
Northwestern	26.88	268.80	76.78	192.02	146.01	46.01	26.88	537.60	170.04	367.56	327.58	39.98
Pacific Mutual	26.30	263.00	45.79	217.21	125.00	92.21	26.30	526.00	90.84	435.36	303.00	132.36
Penn. Mutual	26.35	263.50	61.63	201.87	146.01	55.86	26.35	527.00	142.94	384.06	327.58	56.48
Phoenix Mutual [3]	23.10	231.00	28.01	202.99	135.76	67.23	27.54	550.80	140.42	410.38	331.45	78.93
Provident Mut	22.89	228.90	40.29	188.61	135.00	53.61	24.89	497.80	126.01	371.79	310.00	61.79
Prudential [3]	23.32	233.20	35.12	198.08	137.00	61.08	23.20	464.00	102.31	381.69	311.00	50.69
State Mutual	26.35	263.50	56.85	206.65	146.01	60.64	26.35	527.00	128.21	398.79	327.58	71.21
Union Central	24.89	248.90	38.35	210.55	135.00	75.55	24.89	497.80	90.08	407.72	310.00	97.72

WHOLE LIFE POLICIES [1]—AGE 45

Aetna [3]	$35.43	$354.30	$57.46	$296.84	$188.00	$108.84	$38.61	$772.20	$177.40	$594.80	$450.00	$144.80
Bankers Life [3]	37.71	377.10	61.78	315.32	205.43	109.89	37.42	748.40	158.48	589.92	426.90	163.02
Conn. Gen'l	36.12	361.20	53.80	307.40	202.00	105.40	33.77	675.40	84.26	591.14	427.00	164.14
Conn. Mutual	37.08	370.80	61.65	309.15	212.62	96.53	37.08	741.60	155.59	586.01	441.35	144.66
Equitable, N. Y	39.55	395.50	[4] 76.14	319.36	212.00	107.36	39.55	791.00	[4] 198.03	592.97	441.00	151.97
Equitable Iowa	37.36	373.60	74.81	298.79	202.00	96.79	37.36	747.20	[5] 173.97	573.23	427.00	146.23
Guardian Life	37.08	370.80	62.97	307.83	212.62	95.21	37.08	741.60	146.24	595.36	441.35	154.01
John Hancock [3]	37.12	371.20	62.46	308.74	205.00	103.74	36.86	737.20	136.48	600.72	427.00	173.72
Mass. Mutual	37.09	370.90	61.52	309.38	212.62	96.76	37.09	741.80	166.93	574.87	441.35	133.57
Metropolitan [6]	34.27	342.70	47.80	294.90	205.00	89.90	34.27	685.40	134.56	550.84	[7] 462.16	88.68
Mutual Benefit	37.08	370.80	64.97	305.83	212.62	93.21	37.08	741.60	181.93	559.67	441.35	118.32
Mutual N. Y	39.55	395.50	82.75	312.75	212.62	100.13	39.55	791.00	209.94	581.06	441.35	139.71
National Life	37.09	370.90	66.54	304.36	212.62	91.74	38.56	771.20	200.06	571.14	441.35	129.79
N. E. Mutual	38.00	380.00	82.71	297.29	212.62	84.67	38.00	760.00	195.82	564.18	441.35	122.83
N. Y. Life	39.55	395.50	[5] 82.50	313.00	212.00	101.00	39.55	791.00	[8] 225.66	565.34	441.00	124.34
Northwestern	37.82	378.20	90.43	287.77	212.62	75.15	37.82	756.40	209.31	547.09	441.35	105.74
Pacific Mutual	37.40	374.00	59.71	314.29	188.00	126.29	37.40	748.00	132.36	615.64	416.00	199.54
Penn. Mutual	37.08	370.80	71.12	299.68	212.62	87.06	37.08	741.60	170.06	571.54	441.35	130.19
Phoenix Mut. [3]	32.89	328.90	27.68	301.22	202.47	98.75	38.83	776.60	172.86	603.74	450.32	153.42

See footnotes at end of table.

Net cost of $1,000 ordinary life insurance—Continued

WHOLE LIFE POLICIES—AGE 45—Continued

I. STANDARD PARTICIPATING POLICIES SOLD IN THE AMOUNT OF $1,000 OR MORE

Company	Based upon actual dividends paid 1930 to 1939 on issue of 1929						Based upon actual dividends paid 1920 to 1939 on issue of 1919					
	(1) Annual Premium	(2) 10 Annual Premiums	(3) 10 Years' Dividends	(4) 10 Year Net Cost-Policy Continued (2)−(3)	(5) 10th Year Cash Value	(6) Net Cost-Policy Surrendered End of 10th Year (4)−(5)	(6a) Annual Premium	(7) 20 Annual Premiums	(8) 20 Years' Dividends	(9) 20 Years' Net Cost-Policy Continued (7)−(8)	(10) 20th Year Cash Value	(11) Net Cost-Policy Surrendered End of 20th Year (9)−(10)
Provident	$32.61	$326.10	$41.78	$284.32	$202.00	$82.32	$35.43	$607.60	$165.10	$543.50	$426.00	$117.50
Prudential [8]	33.27	332.70	41.19	291.51	205.00	86.51	32.98	659.60	124.62	534.98	427.00	107.98
State Mutual	37.08	370.80	64.84	305.96	212.62	93.34	37.08	741.60	166.71	574.89	441.35	133.54
Union Central	35.02	350.20	44.72	305.48	202.00	103.48	35.02	700.40	120.35	580.05	426.00	154.05

20 PAYMENT LIFE POLICIES [9]—AGE 25

Company	(1)	(2)	(3)	(4)	(5)	(6)	(6a)	(7)	(8)	(9)	(10)	(11)
Aetna [10]	$27.24	$272.40	$41.94	$230.46	$173.00	$57.46	$31.28	$625.60	$144.97	$480.63	$507.00	−$26.37
Bankers Life	28.55	285.50	43.55	241.95	184.14	57.81	28.55	571.00	112.46	458.54	456.00	2.54
Conn. Gen'l	27.97	279.70	38.64	241.06	184.00	57.06	27.93	558.60	98.13	460.47	456.00	4.47
Conn. Mutual	29.98	299.80	49.15	250.65	208.95	41.70	29.98	599.60	128.83	470.77	504.58	−33.81
Equitable N. Y.	31.83	318.30	[4] 73.89	244.41	208.00	36.41	31.83	636.60	[4] 187.09	449.51	504.00	−54.49
Equitable Iowa	28.86	288.60	54.10	234.50	184.00	50.50	28.86	577.20	[5] 131.69	445.51	456.00	−10.49
Guardian Life	30.12	301.20	54.15	247.05	208.95	38.10	30.12	602.40	126.73	475.67	504.59	−28.92
John Hancock	28.55	285.50	54.22	231.28	184.00	47.28	28.55	571.00	117.23	453.77	456.00	−2.23
Mass. Mutual	30.07	300.70	52.47	248.23	208.95	39.28	30.07	601.40	151.68	449.72	504.59	−54.87
Metropolitan	26.29	262.90	37.74	225.16	184.00	41.16	26.29	525.80	109.49	416.31	[11] 483.36	−67.05
Mutual Benefit	30.12	301.20	54.79	246.41	208.95	37.46	30.12	602.40	146.33	456.07	504.59	−48.52
Mutual N. Y.	31.83	318.30	70.24	248.06	208.95	39.11	31.83	636.60	167.17	469.43	504.59	−35.16
National Life	29.90	299.00	49.47	249.53	208.95	40.58	30.92	618.40	155.24	463.16	504.59	−41.43
N. E. Mutual	30.40	304.00	66.15	237.85	208.95	28.90	30.40	608.00	155.69	452.31	504.59	−52.28
N. Y. Life	31.83	318.30	[6] 70.25	248.05	208.00	40.05	31.83	636.60	[6] 207.61	428.99	504.00	−75.01
Northwestern	30.63	306.30	75.24	231.06	208.95	22.11	30.63	612.60	179.68	432.92	504.58	−71.66
Pacific Mutual	28.55	285.50	42.37	243.13	175.00	68.13	28.55	571.00	93.08	477.92	456.00	21.92
Penn. Mutual	30.12	301.20	54.71	246.49	208.95	37.54	30.12	602.40	150.35	452.05	504.59	−52.50
Phoenix Mut.[10]	25.54	255.40	25.24	230.16	184.14	46.02	30.77	615.40	142.76	472.64	506.64	−34.04

Provident Mut	25.35	253.50	39.24	214.26	184.00	30.26	27.24	544.80	127.02	417.78	456.00	−38.2[illegible]
Prudential	25.80	258.00	33.13	224.87	184.00	40.87	25.80	516.00	99.21	416.79	456.00	−39.21
State Mutual	29.90	299.00	56.28	242.72	208.94	33.78	29.90	598.00	137.50	460.50	504.58	−44.08
Union Central	27.29	272.90	36.34	236.56	184.00	52.56	27.29	545.80	90.61	455.19	456.00	−.81

20 PAYMENT LIFE POLICIES [9]—AGE 35

Aetna [10]	$33.32	$333.20	$49.01	$284.19	$219.00	$65.19	$37.08	$741.60	$164.43	$577.17	$613.00	−$35.83
Bankers Life	34.97	349.70	50.05	299.65	232.19	67.46	34.97	699.40	135.43	563.97	566.15	−2.18
Conn. Gen'l	34.10	341.00	46.00	295.00	232.00	63.00	34.25	685.00	116.60	568.40	566.00	2.40
Conn. Mut	35.82	358.20	54.09	304.11	255.78	48.33	35.82	716.40	146.84	569.56	609.92	−40.36
Equitable N. Y	38.34	383.40	[5] 81.66	301.74	255.00	46.74	38.34	766.80	[4] 207.50	559.30	609.00	−49.70
Equitable Iowa	35.18	351.80	63.55	288.25	232.00	56.25	35.18	703.60	[5] 153.38	550.22	566.00	−15.78
Guardian Life	36.22	362.20	60.01	302.19	255.78	46.41	36.22	724.40	145.14	579.26	609.92	−30.66
John Hancock	34.87	348.70	60.46	288.24	232.00	56.24	34.87	697.40	134.00	563.40	566.00	−2.60
Mass. Mutual	36.17	361.70	61.29	300.41	255.78	44.63	36.17	723.40	171.61	551.79	609.92	−58.13
Metropolitan	32.13	321.30	40.24	281.06	232.00	49.06	32.13	642.60	125.05	517.55	[11] 599.96	−82.41
Mutual Benefit	36.22	362.20	61.38	300.82	255.78	45.04	36.22	724.40	167.48	556.92	609.92	−53.00
Mutual N. Y	38.34	383.40	78.81	304.59	255.78	48.81	38.34	766.80	196.01	570.79	609.92	−39.13
National Life	36.00	360.00	56.96	303.04	255.78	47.26	37.27	745.40	183.40	562.00	609.92	−47.92
N. E. Mutual	36.70	367.00	75.46	291.54	255.78	35.76	36.70	734.00	179.67	554.33	609.92	−55.59
N. Y. Life	38.34	383.40	[5] 80.52	302.88	255.00	47.88	38.34	766.80	[8] 230.71	536.09	609.00	−72.91
Northwestern	36.85	368.50	85.54	282.96	255.78	27.18	36.85	737.00	204.36	532.64	609.92	−77.28
Pacific Mutual	34.95	349.50	50.33	299.17	220.00	79.17	34.95	699.00	113.44	585.56	566.00	19.56
Penn. Mutual	36.22	362.20	65.22	296.98	255.78	41.20	36.22	724.40	172.72	551.68	609.92	−58.24
Phoenix Mutual [10]	31.19	311.90	27.94	283.96	232.19	51.77	37.16	743.20	166.24	576.96	613.09	−36.13
Provident Mut	30.95	309.50	42.07	267.43	232.00	35.43	33.32	666.40	142.55	523.85	566.00	−42.15
Prudential	31.51	315.10	40.50	274.60	232.00	42.60	31.51	630.20	120.43	509.77	566.[illegible]	−56.23
State Mutual	36.00	360.00	62.48	297.52	255.78	41.74	36.00	720.00	156.57	563.43	609.92	−46.49
Union Central	33.13	331.30	40.27	291.03	232.00	59.03	33.13	662.60	101.77	560.83	566.00	−5.17

See footnotes at end of table.

Net cost of $1,000 ordinary life insurance—Continued

20 PAYMENT LIFE POLICIES—AGE 45

I. STANDARD PARTICIPATING POLICIES SOLD IN THE AMOUNT OF $1,000 OR MORE

Company	Based upon actual dividends paid 1930 to 1939 on issue of 1929						Based upon actual dividends paid 1920 to 1939 on issue of 1919					
	(1) Annual Premium	(2) 10 Annual Premiums	(3) 10 Years' Dividends	(4) 10 Year Net Cost-Policy Continued (2)−(3)	(5) 10th Year Cash Value	(6) Net Cost-Policy Surrendered End of 10th Year (4)−(5)	(6a) Annual Premium	(7) 20 Annual Premiums	(8) 20 Years' Dividends	(9) 20 Years' Net Cost-Policy Continued (7)−(8)	(10) 20th Year Cash Value	(11) Net Cost-Policy Surrendered End of 20th Year (9)−(10)
Aetna [10]	$42.99	$429.90	$60.74	$369.16	$275.00	$94.16	$46.62	$932.40	$198.56	$733.84	$729.00	$9.84
Bankers Life	45.22	452.20	64.48	387.72	291.42	96.30	45.22	904.40	175.41	728.99	688.24	40.75
Conn. Gen'l	43.85	438.50	54.85	383.65	291.00	92.65	44.33	886.60	147.79	738.81	688.00	50.81
Conn. Mut	44.82	448.20	60.38	387.82	311.52	76.30	44.82	896.40	169.72	726.68	723.24	3.44
Equitable, N. Y	48.52	485.20	[4] 85.26	399.94	311.00	88.94	48.52	970.40	[4] 237.40	733.00	723.00	10.00
Equitable Iowa	45.26	452.60	78.14	374.46	291.00	83.46	45.26	905.20	[5] 186.58	718.62	688.00	30.62
Guardian Life	45.73	457.30	69.16	388.14	311.52	76.62	45.73	914.60	171.59	743.01	723.24	19.77
John Hancock	44.92	449.20	70.50	378.70	291.00	87.70	44.92	898.40	160.05	738.35	688.00	50.35
Mass Mutual	45.69	456.90	67.48	389.42	311.52	77.90	45.69	913.80	201.54	712.26	723.24	−10.98
Metropolitan	41.42	414.20	45.42	368.78	291.00	77.78	41.42	828.40	147.71	680.69	[11] 729.28	−48.59
Mutual Benefit	45.73	457.30	69.76	387.54	311.52	76.02	45.73	914.60	206.63	707.97	723.24	−15.27
Mutual N. Y	48.52	485.20	93.47	391.73	311.52	80.21	48.52	970.40	241.21	729.19	723.24	5.95
National Life	45.54	455.40	69.41	385.99	311.52	74.47	47.21	944.20	226.96	717.24	723.24	−6.00
N. E. Mutual	46.50	465.00	87.26	377.74	311.52	66.22	46.50	930.00	217.49	712.51	723.24	−10.73
N. Y. Life	48.52	485.20	[8] 93.92	391.28	311.00	80.28	48.52	970.40	[8] 265.69	704.71	723.00	−18.29
Northwestern	46.57	465.70	98.25	367.45	311.52	55.93	46.57	931.40	239.56	691.84	723.24	−31.40
Pacific Mutual	45.20	452.00	64.05	387.95	276.00	111.95	45.20	904.00	155.31	748.69	688.00	60.69
Penn. Mutual	45.73	457.30	74.47	382.83	311.52	71.31	45.73	914.60	199.72	714.88	723.24	−8.36
Phoenix Mut. [10]	40.14	401.40	27.75	373.65	291.42	82.23	47.19	943.80	199.11	744.69	728.81	15.88
Provident Mut	39.83	398.30	43.06	355.24	291.00	64.24	42.99	859.80	175.32	684.48	688.00	−3.52
Prudential	40.52	405.20	46.15	359.05	291.00	68.05	40.52	810.40	141.37	669.03	688.00	−18.97
State Mutual	45.53	455.30	70.08	385.22	311.52	73.70	45.53	910.60	191.09	719.51	723.24	−3.73
Union Central	42.41	424.10	46.34	377.76	291.00	86.76	42.41	848.20	128.63	719.57	688.00	31.57

20 YEAR ENDOWMENT POLICIES [1]—AGE 25

Aetna	$45.92	$459.20	$49.91	$409.29	$385.00	$24.29	$49.00	$980.00	$199.36	$780.64	$1,000.00	−$219.36
Bankers Life	47.55	475.50	49.31	426.19	396.21	29.98	47.55	951.00	148.34	802.66	1,000.00	−197.34
Conn. Gen'l	47.07	470.70	43.15	427.55	396.00	31.55	47.03	940.60	134.43	806.17	1,000.00	−193.83
Conn. Mutual	49.21	492.10	73.65	418.45	407.79	10.66	49.21	984.20	217.20	767.00	1,000.00	−233.00
Equitable, N. Y	49.33	493.30	[4] 79.24	414.06	407.00	7.06	49.33	986.60	[4] 233.54	753.06	1,000.00	−246.94
Equitable Iowa	47.78	477.80	60.30	417.50	396.00	21.50	47.78	955.60	[5] 167.72	787.88	1,000.00	−212.12
Guardian Life	48.15	481.50	66.95	414.55	407.79	6.76	48.15	963.00	177.91	785.09	1,000.00	−214.91
John Hancock	48.48	484.80	74.77	410.03	396.00	14.03	48.48	969.60	176.06	793.54	1,000.00	−206.46
Mass. Mutual	48.03	480.30	65.45	414.85	407.79	7.06	48.03	960.60	214.65	745.95	1,000.00	−254.05
Metropolitan	44.56	445.60	36.23	409.37	396.00	13.37	44.56	891.20	140.96	750.24	[13] 1,050.00	−299.76
Mutual Benefit	48.15	481.50	64.16	417.34	407.79	9.55	48.15	983.00	196.30	766.70	1,000.00	−233.30
Mutual, N. Y	49.19	491.90	82.88	409.02	407.79	1.23	49.19	983.80	217.52	766.28	1,000.00	−233.72
National Life	47.53	475.30	55.32	419.98	407.79	12.19	48.95	979.00	207.10	771.90	1,000.00	−228.10
N. E. Mutual	48.10	481.00	76.17	404.85	407.79	−2.96	48.10	962.00	206.33	755.67	1,000.00	−244.33
N. Y. Life	49.33	493.30	[5] 81.25	412.05	407.00	5.05	49.33	986.60	[12] 244.14	742.46	1,000.00	−257.54
Northwestern	48.86	488.60	91.46	397.14	407.79	−10.65	48.86	977.20	242.40	734.80	1,000.00	−265.20
Pacific Mutual	47.80	478.00	57.64	420.36	396.00	24.36	47.80	955.00	153.83	802.17	1,000.00	−197.83
Penn. Mutual	48.46	484.60	65.44	419.16	407.79	11.37	48.46	969.20	208.99	760.21	1,000.00	−239.79
Phoenix Mut	43.48	434.80	24.72	410.09	396.21	13.87	48.33	966.60	184.89	871.71	1,000.00	−218.29
Provident Mut	43.21	432.10	43.57	388.53	396.00	−7.47	45.92	918.[illegible]	166.34	752.06	1,000.00	−247.94
Prudential	44.41	444.10	48.49	395.61	396.00	−.39	44.41	888.20	145.81	742.39	1,000.00	−257.61
State Mutual	47.52	475.20	66.49	408.71	407.79	.92	47.52	950.40	187.50	762.90	1,000.00	−237.10
Union Central	45.56	455.60	40.65	414.95	396.00	18.95	45.56	911.20	116.93	794.27	1,000.00	−205.73

See footnotes at end of table.

Net cost of $1,000 ordinary life insurance—Continued

20 YEAR ENDOWMENT POLICIES [9]—AGE 35

I. STANDARD PARTICIPATING POLICIES SOLD IN THE AMOUNT OF $1,000 OR MORE

Company	Based upon actual dividends paid 1930 to 1939 on issue of 1929						Based upon actual dividends paid 1920 to 1939 on issue of 1919					
	(1) Annual Premium	(2) 10 Annual Premiums	(3) 10 Years' Dividends	(4) 10 Year Net Cost-Policy Continued (2)−(3)	(5) 10th Year Cash Value	(6) Net Cost-Policy Surrendered End of 10th Year (4)−(5)	(6a) Annual Premium	(7) 20 Annual Premiums	(8) 20 Years' Dividends	(9) 20 Years' Net Cost-Policy Continued (7)−(8)	(10) 20th Year Cash Value	(11) Net Cost-Policy Surrendered End of 20th Year (9)−(10)
Aetna	$47.63	$476.30	$55.20	$421.10	$384.00	$37.10	$50.24	$1,004.80	$203.18	$801.62	$1,000.00	−$198.38
Bankers Life	49.43	494.30	55.04	439.26	395.99	43.27	49.43	988.60	162.45	826.15	1,000.00	−173.85
Conn. Gen'l	48.73	487.30	50.07	437.23	395.00	42.23	48.88	977.60	145.33	832.27	1,000.00	−167.73
Conn. Mutual	50.36	503.60	74.65	428.95	407.45	21.50	50.36	1,007.20	219.23	787.97	1,000.00	−212.03
Equitable N. Y	51.91	519.10	[4] 89.30	429.80	407.00	22.80	51.91	1,038.20	[1] 253.48	784.72	1,000.00	−215.28
Equitable Iowa	49.62	496.20	68.57	427.63	396.00	31.63	49.62	992.40	[5] 178.86	813.54	1,000.00	−186.46
Guardian Life	49.85	498.50	69.67	428.83	407.45	21.38	49.85	997.00	184.03	812.97	1,000.00	−187.03
John Hancock	50.14	501.40	76.18	425.22	396.00	29.22	50.14	1,002.80	179.01	823.79	1,000.00	−176.21
Mass. Mutual	49.75	497.50	71.16	426.34	407.45	18.89	49.75	995.00	221.53	773.47	1,000.00	−226.53
Metropolitan	46.12	461.20	40.77	420.43	396.00	24.43	46.12	922.40	153.28	769.12	[12] 1,050.00	−280.88
Mutual Benefit	49.85	498.50	68.57	429.93	407.45	22.48	49.85	997.00	206.85	790.15	1,000.00	−209.85
Mutual N. Y	51.47	514.70	88.27	426.43	407.45	18.98	51.47	1,029.40	232.73	796.67	1,000.00	−203.33
National Life	49.33	493.30	61.40	431.90	407.45	24.45	50.90	1,018.00	222.99	795.01	1,000.00	−204.99
N. E. Mutual	50.00	500.00	82.88	417.12	407.45	9.67	50.00	1,000.00	217.38	782.62	1,000.00	−217.38
N. Y. Life	51.91	519.10	[5] 91.84	427.26	407.00	20.26	51.91	1,038.20	[11] 262.54	775.66	1,000.00	−224.34
Northwestern	50.64	506.40	97.74	408.66	407.45	1.21	50.64	1,012.80	252.26	760.54	1,000.00	−239.46
Pacific Mutual	49.75	497.50	63.26	434.24	396.00	38.24	49.75	995.00	159.85	835.15	1,000.00	−164.85
Penn. Mutual	50.11	501.10	73.55	427.55	407.45	20.10	50.11	1,002.20	218.18	784.02	1,000.00	−215.98
Phoenix Mut	44.92	449.20	27.67	421.53	395.99	25.54	50.36	1,007.60	199.94	807.66	1,000.00	−192.34
Provident Mut	44.62	446.20	45.01	401.19	395.00	6.19	47.63	952.60	170.70	781.90	1,000.00	−218.10
Prudential	45.77	457.70	52.74	404.96	396.00	8.96	45.77	915.40	157.30	758.10	1,000.00	−241.90
State Mutual	49.32	493.20	70.27	422.93	407.45	15.48	49.32	986.40	195.73	790.67	1,000.00	−209.33
Union Central	47.12	471.20	43.58	427.62	395.00	32.62	47.12	942.40	121.61	820.79	1,000.00	−179.21

20 YEAR ENDOWMENT POLICIES[9]—AGE 45

Aetna	$52.01	$520.10	$64.70	$455.40	$385.00	$70.40	$54.27	$1,085.40	$216.70	$868.70	$1,000.00	−$131.30
Bankers Life	54.15	541.50	67.90	473.60	397.54	76.06	54.15	1,083.00	191.35	891.65	1,000.00	−108.35
Conn. Gen'l	53.06	530.60	58.00	472.60	397.00	75.60	53.54	1,070.80	166.43	904.37	1,000.00	−95.63
Conn. Mut	53.88	538.80	77.69	461.11	408.62	52.49	53.88	1,077.60	225.58	852.02	1,000.00	−147.98
Equitable N. Y	57.34	573.40	[4] 94.34	479.06	408.00	71.06	57.34	1,146.80	[4] 276.35	870.45	1,000.00	−129.55
Equitable Iowa	54.30	543.00	81.28	461.72	398.00	63.72	54.30	1,086.00	[5] 198.36	887.64	1,000.00	−112.36
Guardian Life	54.22	542.20	75.20	467.00	408.62	58.38	54.22	1,084.40	196.49	887.91	1,000.00	−112.09
John Hancock	54.53	545.30	80.41	464.89	398.00	66.89	54.53	1,090.60	188.15	902.45	1,000.00	−97.55
Mass. Mutual	54.15	541.50	74.01	467.49	408.62	58.87	54.15	1,083.00	233.99	849.01	1,000.00	−150.99
Metropolitan	50.23	502.30	48.15	454.15	398.00	56.15	50.23	1,004.60	172.74	831.86	[12] 1,050.00	−218.14
Mutual Benefit	54.22	542.20	74.51	467.69	408.62	59.07	54.22	1,084.40	230.95	853.45	1,000.00	−146.55
Mutual N. Y	56.69	566.90	98.94	467.96	408.62	59.34	56.69	1,133.80	261.82	871.98	1,000.00	−128.02
National Life	53.84	538.40	72.13	466.27	408.62	57.65	55.70	1,114.00	252.29	861.71	1,000.00	−138.29
N. E. Mutual	54.80	548.00	91.72	458.28	408.62	47.66	54.80	1,096.00	238.53	857.47	1,000.00	−142.53
N. Y. Life	57.34	573.40	[5] 104.03	469.37	408.00	61.37	57.34	1,146.80	[13] 287.16	859.64	1,000.00	−140.36
Northwestern	55.15	551.50	105.85	445.65	408.62	37.03	55.15	1,103.00	269.27	833.73	1,000.00	−166.27
Pacific Mutual	54.50	545.00	73.51	471.49	398.00	73.49	54.50	1,090.00	182.88	907.12	1,000.00	−92.88
Penn. Mutual	54.41	544.10	80.50	463.60	408.62	54.98	54.41	1,088.20	231.98	856.22	1,000.00	−143.78
Phoenix Mutual	48.79	487.90	27.96	459.94	397.54	62.40	55.32	1,106.40	223.00	883.40	1,000.00	−116.60
Provident Mut	48.44	484.40	44.44	439.96	397.00	42.96	52.01	1,040.20	187.30	852.90	1,000.00	−147.10
Prudential	49.40	494.00	54.48	439.52	398.00	41.52	49.40	988.00	166.22	821.78	1,000.00	−178.22
State Mutual	53.84	538.40	75.22	463.18	408.62	54.56	53.84	1,076.80	215.05	861.75	1,000.00	−138.25
Union Central	51.22	512.20	48.24	463.96	397.00	66.96	51.22	1,024.40	138.36	886.04	1,000.00	−113.96

[1] In cases in which a company did not sell the "Whole Life" Policy the nearest comparable form of policy was taken and the details reported in footnotes.

[2] For 1919 Issue—Endowment at Age 85.

[3] For 1929 Issue—Endowment at Age 85.

[4] Includes "extra" dividend paid at end of fifth policy year.

[5] Includes "extra" dividends paid at end of fifth and tenth policy years.

[6] For 1919 and 1929 Issues—Endowment at Age 85.

[7] Includes "cash settlement" dividend of $26.16, payable in addition to guaranteed cash value of policy, in event policy is surrendered at end of 20th policy year.

[8] Includes "extra" dividends paid at end of fifth, tenth, fifteenth and twentieth policy years.

[9] Footnotes call attention to any variations from the straight 20 payment life policy contract.

[10] For 1919 issue—20 Payment Endowment at age 85.

[11] Includes "cash settlement" dividend of $27.36, payable in addition to guaranteed cash value of policy, in event policy is surrendered at end of 20th policy year.

[12] Includes "maturity" dividend of $50.00 payable in addition to guaranteed maturity value of policy, when policy matures at end of 20th policy year.

[13] Includes "extra" dividends paid at end of fifth, tenth and fifteenth policy years.

EXHIBIT No. 2344

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Net Cost—Policy Surrendered End of 20th Year

	1939 Scale	Historical Net Cost	Historical Net Cost as a Percentage of Net Cost Based on 1939 Scale
Aetna	$97.90	$81.14	82.88%
Bankers Life	95.82	90.57	94.52
Conn. Gen'l	92.44	89.56	96.88
Conn. Mut	87.94	72.47	82.41
Equitable NY	89.60	51.48	57.46
Equitable Iowa	78.67	73.92	93.96
Guardian Life	108.75	73.92	67.97
John Hancock	88.80	88.71	99.90
Mass. Mutual	91.67	45.12	61.21
Metropolitan	36.20	41.41	114.39
Mutual Benefit	88.99	53.78	60.43
Mutual NY	133.94	71.32	53.25
National Life	65.01	62.17	95.63
N. E. Mutual	85.39	55.67	65.19
N. Y. Life	66.09	33.05	50.00
Northwestern	59.81	35.19	58.84
Pacific Mutual	80.49	118.95	147.78
Penn Mutual	72.58	51.19	70.53
Phoenix Mutual	93.22	69.75	74.82
Provident Mut	61.50	55.19	89.74
Prudential	67.33	59.68	88.64
State Mutual	91.52	62.47	68.26
Union Central	105.91	90.45	85.40

Source: Information furnished by the companies.

SUPPLEMENTAL DATA

The following material appears at this point in connection with a statement of Senator O'Mahoney, supra, p. 14699.

TEMPORARY NATIONAL ECONOMIC COMMITTEE

Apex Building

Washington

Following is a letter by Senator Joseph C. O'Mahoney, Chairman of the Temporary National Economic Committee, to Representative Edward T. Taylor of Colorado in connection with the Temporary National Economic Committee's insurance studies.

The letter is being made public in response to a number of inquiries on the same matter.

Attached are certain documents referred to in Senator O'Mahoney's letter.

[Copy]

JOSEPH C. O'MAHONEY
Wyoming

UNITED STATES SENATE
Washington, D. C.

JANUARY 22, 1940.

Hon. EDWARD T. TAYLOR,
House Office Building, Washington, D. C.

DEAR MR. TAYLOR: Mr. James R. Brackett, Executive Secretary of the Temporary National Economic Committee, has handed me your letter of January 15 with enclosures from two of your constituents commenting upon the study of insurance which has been presented to this committee by the Securities and Exchange Commission. Since both of these letters give expression to certain misapprehensions which are now current with respect to this study, I shall venture to discuss the matter in more detail than might otherwise seem necessary. I shall also take the liberty of making the letter public.

In the first place let me say that as long ago as November 14, 1939, in response to an inquiry from Hon. George E. Allen, Commissioner of the District of Columbia, who had an engagement to speak to the Massachusetts Insurance Society the following week, I wrote him a letter with respect to these reports. In that letter I said:

"I am most happy to authorize you to say on my behalf that there isn't the slightest basis for the intimations appearing in certain insurance journals that the committee, or any member of its staff, is promoting any scheme for government competition with the insurance industry * * *

"As has been indicated by the message of President Roosevelt in which he recommended this economic study and by frequent statements of the chairman, statements which have never been controverted by any member of the committee or its staff, the sole objective of the committee is to promote free, private enterprise. Statements to the contrary are wholly unwarranted."

These statements are as correct today as when I wrote them. Moreover, before my letter to Mr. Allen was placed in his hands I submitted it to Commissioner Leon Henderson of the Securities and Exchange Commission and to Mr. Gerhard A. Gesell, Special Counsel for the Securities and Exchange Commission, who has presented the insurance study to our committee. Neither of these gentlemen offered any objection to the letter so that it may be taken not only as the expression of the chairman of the Temporary National Economic Committee, but also as the expression of those members of the committee and of its staff who are associated with the Securities and Exchange Commission.

If you will examine again the letters which you have received you will find that like others which have been sent to other members of Congress they rely not upon anything that has been recommended by this committee, but solely upon the predictions, assumptions, suspicions and fears of the writers as to what the committee may do. No one knows better than you how perfectly impossible it is to disprove the accuracy of a prophecy yet practically all of the allegations which are now being circulated among members of Congress are based upon predictions of what the Committee intends to do. I can only say to you that I have no reason whatever to place any credence in these direful predictions.

Upon investigation I find that the letters now coming to members of Congress from persons engaged in the insurance industry and from a few state commissioners appear to have been based upon a memorandum recently distributed to the industry by Colonel C. B. Robbins, Manager and General Counsel of the American Life Convention with offices in Chicago. Colonel Robbins was good enough to place a copy of this memorandum in my hands last Saturday. I have since read it and find in it and in the special bulletin and form letter which accompanied it at least several statements which are not substantiated by any facts which have come to my knowledge. Let me list some of them:

1. The covering letter transmitting the American Life Convention pamphlet explains its circulation with the statement:

"It was thought advisable to warn them (members of Congress) of the desire of some members of the Temporary National Economic Committee for federal supervision of all life insurance together with the taking over by the government of industrial insurance and merging it with the social security system."

2. The letter implies that it is the purpose of the committee, or some of its members, to abolish the agency system of selling life insurance.

3. These inferences are carried throughout the pamphlet with certain additional inaccuracies as, for example, the following prophecy which, so far as I can find out, is altogether without foundation:

"Any proposal for Federal supervision and control would not emanate from policyholders—its source would be purely political—and *should one of the principal purposes behind it be* to secure indirect but effective dominion over the thirty billion dollars held in trust by the companies, its accomplishment would be a calamity."

4. The pamphlet sets forth that the insurance business "has been subjected to an injurious and unfair attack" and that "No opportunities have been given for companies to reply to insinuations in questions as to their practices, nor have the witnesses been permitted to make full statements while answering trick questions propounded to them by the Counsel."

There are other inaccuracies which could be noted as, for example, the statement in the covering letter that the Securities and Exchange Commission has 64 investigators at work among the companies while, as a matter of fact, the Securities and Exchange Commission advises me that at the present time it has only 8 investigators in the field and has never had more than 12. Let me, however, deal with these important statements which I have listed.

1. No member of the committee, or of its staff, has ever intimated to me that the government should take over industrial insurance, nor has any suggestion ever been made to me by any person associated with this committee that industrial insurance should be merged with the social security system. Moreover, the committee has never discussed any such proposal at any meeting and it has never made any recommendation at all.

It is true that Senator Wagner of New York has been quoted in the newspapers as favoring a federal annuity system under the Social Security Board. It should be noted that Senator Wagner is not a member of this committee and therefore his views cannot be imputed to the committee. Moreover, his proposal has never been discussed by the committee.

2. With respect to the allegation that this committee wants to undermine the agency system, I am glad to be able to assure you that there is not the slightest foundation for any such report. I know of no member of the committee or of the staff who has even intimated such a proposal.

3. The suggestion that one of the principal purposes behind the study is to enable the federal government to secure domination of insurance company reserves is utterly fantastic. Even if such a proposal were suggested, and no such suggestion has been made, I do not hesitate in expressing my opinion that this committee would never for one moment consider submitting any report or any recommendation which would in the slightest degree lend color to this assertion.

4. With respect to the charge that witnesses have been compelled to answer trick questions and that no opportunity has been given to the companies to reply to insinuations, let me say that in the insurance hearings, as in every other hearing, every witness was given full opportunity to be accompanied by his lawyer on the stand. In most cases the witnesses knew in advance the type of question that was to be submitted and the general tenor of the examination. From the very outset the committee has taken every precaution to give the fullest opportunity to every witness and to every company. It may be worth while noting that only last week at the conclusion of the study of cartels, two very distinguished business executives, Mr. Cornelius F. Kelley, head of the Anaconda Copper Company, and Mr. E. T. Stannard, President of the Kennecott Copper Company, both publicly commented at the hearings upon the fairness with which the Committee had acted and the fairness of the hearing itself.

Let me assure you that we have not been conscious of any purpose or desire to be otherwise with the representatives of the insurance industry. Several months ago this committee issued a public invitation to industry to make presentation to the committee of its own views in its own way. This invitation was accepted by the oil industry and by the steel industry. I think an examination of the record in the former case will support the statement that more complete and authoritative study of the oil industry has never been made. I trust that the same may be true of the steel industry the hearings upon which are still in progress.

This invitation has been open to the insurance industry. It is still open and at the next executive meeting of the committee it will be my purpose to propose that a special invitation be extended to the insurance industry to present to this committee its own story in its own way. .In order that you may know the manner in which such hearings are conducted, I am attaching a copy of the procedure which the committee has laid down for such an industrial presentation.

It is just as true now as it was in the beginning of these hearings that the only purpose of the committee has been to make an objective study of our economic system. You may, with perfect confidence, thus assure all persons who make inquiry of you.

I venture to add here the opinion which I have expressed upon many occasions, that economic freedom is just as essential to the happiness and prosperity of our people as religious and political liberty, that the extreme need of our time is the elimination of all restraints upon economic opportunity and that business itself needs the liberation of the natural person from regimentation from economic forces as well as his protection from regimentation by government. Both business and government are intended to serve people. My interest in the work of the Temporary National Economic Committee and, so far as I have been able to observe, the interest of every member of the committee has been to preserve this economic freedom.

Sincerely yours,

———— ————.

JCOM: M

[Copy of Special Bulletin Referred to in Paragraph 7 of Senator O'Mahoney's Letter]

Special Bulletin

AMERICAN LIFE CONVENTION

Executive Offices

230 North Michigan Ave. Chicago

Special Bulletin December 1, 1939

LIFE INSURANCE SHOULD BE SUPERVISED, REGULATED AND GOVERNED BY LAW IN THE STATES

Enclosed herewith is a copy of the pamphlet just issued by the Convention, prepared by a Committee composed of Messrs. C. A. Craig, T. A. Phillips and Claris Adams, working in conjunction with Convention Headquarters.

The pamphlet has been examined, edited and approved by the Executive Committee of the Convention. It is being sent to all Vice-Presidents of the Convention, together with a letter, a copy of which is enclosed with this bulletin, and which is self-explanatory.

Should you desire more copies of this pamphlet, kindly notify Convention Headquarters and we will mail them to you for use by your officers and agents in the manner in which you think will be most useful.

C. B. ROBBINS,
Manager and General Counsel.

[Copy of form letter referred to in Paragraph 7 of Senator O'Mahoney's letter]

[Copy]

AMERICAN LIFE CONVENTION,
December First, 1939.

Dear Mr. ———— ————: A resolution was passed at the last annual meeting of the American Life Convention, directing the Executive Committee to prepare a vigorous and effective campaign of education for the purpose of advising members of Congress of a possible purpose behind the present investigation by the Temporary National Economic Committee in Washington. It was thought advisable to warn them of the desire of some members of the Temporary National Economic Committee for Federal supervision of all Life insurance, together with the taking over by the Government of industrial insurance and merging it with the Social Security System. During the course of the investigation Savings Bank Life Insurance has been held up as a model institution in view of the fact that no agents' commissions are paid, and the Agency System of selling life insurance has been severely criticized.

Pursuant to this resolution, the enclosed pamphlet has been prepared, and approved by the Executive Committee, with the thought that each State Vice-President of the Convention would contact, through personal interviews, the members of Congress from his state, and give them a copy of the pamphlet for their information. He could also ascertain the attitude of the members of Congress towards the objectives of those members of the TNEC who desire Federal supervision and absorption by the Government of industrial insurance. I am sending you under separate cover twenty-five (25) copies of the pamphlet. Should you desire any more from time to time please advise us and they will be forwarded to you promptly. Inserted in the pamphlet you will find a mimeographed copy of a recent address by Hon. James M. McCormack, Commissioner of Insurance and Banking for the State of Tennessee.

The ------ companies in ---------- are likewise members of the Convention. I am sure that they will cooperate with you in this matter, and if you will contact them, asking that they see the Congressmen nearest their home offices, the work of interviewing all the members of Congress from your state will be distributed so that your task will be considerably lessened. I am sending each company a copy of this letter so that they may be advised as to what is being done.

May I have your assurance that you will see to it that every member of Congress and both Senators from your state are interviewed by you or by one of the executives of the member companies in your state.

We do not believe Congressional members of the TNEC are in sympathy with the critical attitude of the Departmental members in the investigation—criticism seems to come largely from the Securities and Exchange Commission and other Departmental members of the Committee.

It will also be interesting to you to know that, at the present time, we are informed that the SEC has sixty-four investigators among the companies, obtaining minute information as to conduct of the offices of the companies, examining files, etc. You are probably familiar with the questionnaire which was recently sent to all state Insurance Commissioners, inquiring closely into the conduct of the various State Departments. It is our undertsanding that this questionnaire will be considered at the Commissioners' meeting in Biloxi, Mississippi, December 6–9, inclusive.

Copies of the pamphlet are being sent to non-member as well as member companies and if you know some executives of non-member companies in your state, I am sure they will assist in the work of contacting members of Congress.

I enclose a list of the Congressmen and Senators from your state. Will you please advise me from time to time, as you have interviewed them, what the results of your efforts have been.

If you desire further information, or if we can be of any assistance to you, please write me and I will be delighted to give you anything which the Convention has on this matter.

Cordially,

C. B. Robbins,
Manager and General Counsel.

[Copy of pamphlet referred to in Paragraph 7 of Senator O'Mahoney's letter]

LIFE INSURANCE

Should be Supervised, Regulated and Governed by Law in the States

AMERICAN LIFE CONVENTION

Executive Offices, 230 N. Michigan Avenue, Chicago Illinois

This pamphlet is issued in pursuance of a resolution of the American Life Convention, adopted at its Annual Meeting in Chicago, Illinois, on October 4, 1939, the resolution being as follows:

"WHEREAS, the American Life Convention did on the 5th day of December, 1905, adopt the following resolution:

"'*Resolved*, That we are opposed to any interference with state supervision and control of Life Insurance companies, that Federal supervision is not expedient, * * *. We endorse strict state supervision,' and

"WHEREAS, on the 10th day of October, 1914, the Convention did approve the following declaration:

"'Inasmuch as an insurance congress is to be held at San Francisco in 1915, at which congress the subject of Federal supervision of Life insurance is likely to be one of the topics under discussion, we recommend that any delegate or delegates of the American Life Convention to said insurance congress be instructed to advocate at all seasonable times the original declaration and the subsequently reiterated expressions of the American Life Convention in favor of state supervision and against Federal supervision, and to oppose all efforts to commit the insurance congress to Federal supervision, whether by constitutional amendment or otherwise,' and

"WHEREAS, under the existing system of State supervision in the most trying times in the country's history by the faithful discharge of obligations, Life insurance benefits accruing to living insureds and beneficiaries of the deceased have unquestionably greatly relieved the economic stress and demonstrated the soundness of the institution of Life insurance, and

"WHEREAS, the record of performance of Life insurance is proof of the efficiency and adequacy of state regulation;

"NOW THEREFORE, the American Life Convention, composed of 154 Life insurance companies, with home offices in 40 states of the Union, and the District of Columbia, does reaffirm its previous declarations of principle affecting examinations, favoring State supervision and opposing Federal regulation; and be it

"*Resolved*, that an organized effort be made to more fully inform the public, and that the Executive Committee of the American Life Convention be and is hereby authorized to take such action as by it may be deemed to be advisable to conduct a vigorous and effective campaign of education."

LIFE INSURANCE SHOULD BE SUPERVISED, REGULATED AND GOVERNED BY LAW IN THE STATES

Life insurance is an institution serving sixty-five million American citizens through more than three hundred companies domiciled in virtually every state in the Union. Through this instrumentality the people of this country have accumulated savings of approximately $450 per policyholder. This is the result of a century of effort through individual initiative and is an achievement of free enterprise. In many ways it is uniquely an American institution, for while there are Life insurance companies in every nation in the world, almost two-thirds of all Life insurance is held by thrifty Americans.

The amazing growth in Life insurance didn't just happen; it was due to a number of causes. People came to realize that the system on which it was founded provided the greatest measure of safety for those seeking economic security.

This public confidence was due to strict investment laws and thorough supervision in the various States, to the wise management of companies themselves, and to the earnest and conscientious efforts of two hundred thousand Life underwriters who are the apostles of optimism, spreading the gospel of Life insurance and its benefits to every nook and corner of the nation.

Prior to the recent great depression Life insurance had successfully weathered the disastrous effects of the crises of 1857, 1873, 1893 and 1907, meeting its obligations in full, while other financial institutions had failed in great numbers, with consequent losses to their investors and depositors. When the crisis of 1929 started the great depression, Life insurance met this greatest stress of all with the same degree of reliability and solvency.

During the darkest days in the early years of the depression the Life insurance companies paid out to their policyholders $8,360,000 per day, and for the total of this period, ending in 1938, the sum of $23,590,268,703. They are continuing to meet their responsibilities and discharge their obligations with a full measure of financial honor. For more than half of our population, consisting of frugal and thrifty people who endeavor to provide not only for their loved ones in case of death, but for their own old age as well, Life insurance is the greatest Social Security in the world.

While a few companies had their reserves impaired by reason of the tremendous fall in the value of securities, the total loss to policyholders by reason of liens imposed upon their reserves in companies which failed, amounted to less than two-thirds of 1 per cent of the total sum entrusted to the companies by their policyholders.

It is unfortunate that this magnificent structure which has been built by the thrift and frugality of our citizens, and maintained through strict State laws, thorough supervision and able management, should be subjected to an unjust and unfair attack.

The investigation now being carried on by the Temporary National Economic Committee was primarily authorized for the purpose of investigating monopoly in the United States. The actual investigation of Life insurance as carried on through the instrumentality of the Securities and Exchange Commission has wandered far afield from this stated purpose and from the original intent of the investigation as proposed in the message of the President to the Congress suggesting an investigation, from the resolution of Congress itself authorizing it, and from the statement of William O. Douglas, then Chairman of the Securities and Exchange Commission, made on February 6, 1939, in which he defined the purpose of the investigation. Until recently it has been difficult to evaluate the motives behind the Securities and Exchange Commission investigation. After starting out with an investigation of the election of Directors in mutual companies, the Committee passed to an investigation of premium rates, lapsation, agency turn over, agency commissions, and in fact, has run the gamut of nearly every phase of Life insurance activity except that which it was authorized to investigate, and the investigation itself has been critical to the extreme. No opportunities have been given for companies to reply to insinuations in questions as to their practices, nor have the witnesses been permitted to make full statements while answering trick questions propounded to them by the Counsel. In fact, the tenor of the investigation is that of a prosecution rather than an impartial inquiry, and anything of a critical character has been head-lined and publicized through every facility at the command of the Securities and Exchange Commission. The entire course of the investigation as conducted and the attitude of those charged with conducting it, would indicate that the ultimate object of the investigation is to build up a case against State supervision and for Federal control of the business. The evidence introduced in regard to Industrial Life insurance would indicate an intention to recommend the introduction of a bill which has as its object the virtual elimination of all private Industrial Life insurance in the United States by enlarging the scope of the activities of the Social Security Board to provide for such Industrial Life insurance at the expense of the taxpayers of the United States.

The United States Government entered the Life insurance business during the war as a means of Life insurance protection for the men engaged in military service. The total war risk insurance issued to 4,529,000 individuals at one time amounted to $39,606,000,000, and the total amount of premiums paid on this insurance to September 30, 1939, is $453,973,000, and there has been paid in death and total permanent disability claims thereunder the sum of $2,048,000,000, and about $218,000,000 more will be required to complete the monthly installment benefits under this insurance. United States Government Life insurance since the war has decreased to $2,546,144,568, and has been carried on with the entire cost of administration paid from the general fund of the United States Government raised through taxation. Nevertheless, the cost to policyholders is little if any less than that which could be obtained in a number of representative private companies.

Should the United States Government take over the business of Industrial Life insurance and merge it with the Social Security Act the overhead cost thereof would be borne by the people of the United States through taxation, just as the overhead cost of the present government Life insurance is borne.

The natural inquiry which comes to the mind of any impartial observer is the question as to any necessity of interfering with and upsetting the present magnificent structure of Life insurance, in order to have the Government of the United States, with an enormous cost to its people further enlarge its activities in this field, and the further question as to why it is necessary for the Federal Government to endeavor to regulate, supervise and control Life insurance companies when the very record of the institution of Life insurance itself speaks louder than any words can speak for the efficiency of State regulation, and the wise protection afforded policyholders by the various laws throughout the States governing Life insurance.

Let us now consider, briefly, the reasons why supervision of Life insurance should be maintained under State jurisdiction rather than Federal jurisdiction.

ADVANTAGES OF STATE SUPERVISION

The State system of regulation by Commissioners enables quick decisions on timely subjects and the decentralization of this system makes possible the application of individual attention to special circumstances within each particular locality. The exigent nature of the business demands that the offices of authority be instantly available when needed. State Commissioners, being local men familiar to the community, are accessible to the policyholder, the small company and the large company alike.

Necessary regulatory adventures in new fields, although designed to be beneficial, may be disastrous for lack of means to judge their effects. Under decentralized State supervision the consequences of these mistakes are localized and the very sine qua non of insurance—wide distribution of risk—proves the worth. By withdrawal from a State, the strength of a national structure may be saved from the well-intended but misguided requirements of a single supervisory authority. No escape would be possible from the errors of a Federal authority.

The dangers which would beset the industry should such an abundance of power and responsibility be centralized in one person's hands, are manifest. Today, these decisions, so vital to the security of the entire nation are the product of the independent observations of the Commissioners of forty-eight States, the District of Columbia and the territories, brought together in the national meetings and frequent conferences of the National Association of Insurance Commissioners, to be sifted and tested by the experience of men familiar with peculiarities of each corner of the country. State supervision is good or bad, according to the merits of the best of the Commissioners, whereas Federal Supervision must be good or bad according to the qualities of one man, unchecked by the work of coordinate officials.

The National Association of Insurance Commissioners, which comprises within its membership the insurance governing body of every State and territory in the Union, has its committees dealing with every phase of Life insurance, and a system of coordination of laws, rules and regulations has been built up by this body which has synchronized the general supervision of Life insurance, while leaving State laws free to deal with conditions peculiar to any one State. The growth of Life insurance in volume and its strength attest the efficiency of this method of supervision.

DISADVANTAGES INHERENT IN TRANSFER OF CONTROL

Transition to Federal supervision would mean the abandonment of a great body of common law which time alone can replace. Years of litigation have so thoroughly tested and interpreted the now generally standardized provisions of the State insurance codes that obligations may be undertaken with the degree of certainty which is essential to a business founded on legal relationships. Policy forms and general practices have been developed and designed to conform to these laws so construed.

Companies doing business in several States would be answerable to one authority—the Federal Government—while a company doing business entirely within its home State would be answerable to another—the State government. The competitive advantage to be had in differences between the laws governing a nationally supervised and a locally supervised company operating in the same State will foster a rivalry for legislative favoritism. A business now united in its appeal for just and non-discriminatory legislation would be divided in a struggle for regulatory advantage.

DISADVANTAGES OF FEDERAL SUPERVISION

Federal supervision would serve only to centralize still further the power of our central government where there is already too much centralization.

There is no indication that a National Administrator of insurance would be any more efficient than State Commissioners.

The past record of Federal administration of various commercial activities, such as the railroads and the national banks, certainly has nothing to commend it by way of success.

Life insurance recognizes the need of supervision for its own good as well as in the interest of policyholders and the public. It is mostly concerned, however, in the quality of supervision and naturally shrinks from dual supervision. It does not believe that all State laws (both case and statutory) governing the relation between insurer and insured can be replaced by a body of Federal laws, and only in such case can we have Federal supervision. Supervision and regulation must derive authority from the same source whence come the laws regulating the business supervised.

It is utterly impossible to have a centralized Federal Code which could govern the investment functions of the companies' business, for the reason that conditions differ so widely in various parts of the country that what is advisable under conditions in New York, and now permitted by law there, would be inadvisable under conditions prevailing in some western or midwestern State and its laws.

Centralized control of Life insurance by a single governmental agency naturally arouses apprehension of political tampering with the investment of trust funds of the most sacred character. We frankly fear that the power of coercion inherent in supervision by a single Federal bureau might be used to force the financing of Federal projects, economic experiments and pet political schemes by successive administrations.

Any proposal for Federal supervision and control would not emanate from policyholders—its source would be purely political—and should one of the principal purposes behind it be to secure indirect but effective dominion over the thirty million dollars held in trust by the companies, its accomplishment would be a calamity. Few things are more important to more people in America than keeping politics out of Life insurance. The decentralized nature of State supervision minimizes such a danger. The centralized character of Federal control would magnify it.

If it is proposed to superimpose Federal supervision upon State supervision, as has been vaguely hinted by some members of the Temporary National Economic Committee, you would have Federal supervision making a decision in one State which would be contrary to the decision it would have to make another State, due to the divergence of State laws, and the whole matter of supervision would be involved in such a mass of contradictory decisions that the only result would be a continued harrassing of companies who would be trying to serve two masters at the same time.

PRESENT STATUS OF LIFE INSURANCE AS DETERMINED BY THE SUPREME COURT OF THE UNITED STATES

The status of insurance as commerce was first brought before the Supreme Court of the United States in 1863, and that Court decided, in the case of

Paul v. Virginia, 8 Wall. 168, that insurance contracts were not articles of commerce in any sense of the word, and the decision in that case was not questioned until 1913, when the Supreme Court in deciding the case of New York Life Ins. Co. v. Deer Lodge County, 231 U. S. 495, held:

> "The character of a policy of insurance as a personal contract is not changed by their number or the residence or the parties, by centralization of control at the home office, by employment of agents with limited authority, nor by great and frequent use of the mails,"

and decided that Life insurance was not commerce. This line of decisions has been upheld in more than twenty cases by the Supreme Court, and as recently as 1938. The Honorable Frank N. Julian, Superintendent of Insurance of Alabama, and then President of the National Association of Insurance Commissioners, in discussing this line of decisions, said, last December:

> "Shall the sound decisions of our highest courts be set aside, that new powers may be taken over and lodged in centralized Federal Bureaus? Shall the rights of the State be ruthlessly cast aside? Shall the supervision through State Departments—a plan that for 70 years has proven its worth and aided in building the greatest insurance system in the world—be relegated to the long list of powers usurped by Federal Agencies? Shall the great institution of insurance be placed beside those business enterprises that cannot develop because of red tape * * *?"

SUMMARY

To summarize the Life Insurance business is being conducted economically and with a degree of financial honor and integrity unsurpassed by any other financial institution. It has grown and prospered under State supervision until it has become the greatest financial institution of the United States, and has grown because the people have confidence in it. Federal supervision at best would be an illogical and probably an unconstitutional arrogation of power to the detriment of State sovereignty and State rights.

Procedure with Respect to Hearings Before the Temporary National Economic Committee by Various Member Departments and Commissions Under Section 3 (b), Joint Resolution No. 113, 75th Congress

(Adopted November 18, 1938)

I. HEARINGS ON REPORTS

It is the view of the Executive Committee that as a general practice, it will not be necessary or desirable to have public hearings on reports submitted to the Temporary National Economic Committee by the various departments and commissions. Certainly as respects reports based on material deduced at public hearings, a public hearing on such a report would be wholly unnecessary. As respects statistical and general economic reports, the same conclusion seems obvious. There may be, however, some types of reports on which there should be public hearings. In such cases it is recommended that the procedure for presentation of the report at a public hearing be worked out by the Committee case by case.

II. HEARINGS ON INVESTIGATIONS

It is our conclusion that hearings based on data and evidence, collected as a result of investigations and assembled by the various departments and commissions represented on the Committee, be conducted in the following manner:

A. These hearings will be before the full Committee, or sub-committee, as the case may be, and presented by the representatives of the department or commission which conducted the investigation.

B. The list of witnesses to be called will be prepared and submitted by the department or commission which has conducted the investigation.

C. Each witness will appear under subpoena and testify under oath.

D. In all examinations of witnesses, the rules of evidence shall be observed, but liberally construed.

124491—41—pt. 28——59

E. Witnesses will not be allowed to substitute prepared statements for testimony; nor will prepared statements dealing with facts be allowed to be introduced at the hearings except with the consent of the department or commission making the presentation, unless the Committee in a particular instance otherwise orders.

F. At a later stage in the hearings, opportunity will be afforded interested persons to present to the Committee their views as to what solution or solutions of particular problems would be desirable or necessary. The agenda for presentation of such suggestions should be prepared in the first instance by the respective departments and commissions and presented to the Committee for approval before such hearings are held.

(Adopted February 9, 1939)

The Temporary National Economic Committee has adopted certain additions to its Statement of Procedure which are designed to routinize the reception of various material which may be submitted for the Committee's Official record. The additions follow:

1. Material requested by Committee members from witnesses at hearings, and later submitted by witnesses, will be introduced into the record at a subsequent convenient hearing with a direction to the reporter that it be inserted in the officially printed record in conjunction, insofar as possible, with the hearings with which the material is considered.

2. Unsolicited material apropos to previous hearings or of general character otherwise relevant to the Committee's work and voluntarily offered by interested persons at other times than during hearings will be received by the Chairman or the Executive Secretary and the question of its inclusion in the record be decided by the Executive Committee subject to review by the full Committee. When such material is accepted for the record it should be introduced as outlined in paragraph 1 above.

In both instances, it is requested that the material be addressed to the Executive Secretary, Temporary National Economic Committee, Apex Building, Washington, D. C.

(Adopted June 2, 1939)

PROCEDURE FOR SUBCOMMITTEE HEARINGS

Resolved: The Executive Committee is authorized to approve and set the date for

(a) subcommittee hearings, and
(b) special subcommittee hearings

when in their discretion such methods seem advisable in developing relevant data for the Committee.

SUBCOMMITTEE HEARINGS

Subcommittees shall be appointed by the Committee and shall include a representative of the agency under the auspices of which the hearings are to be held and a member of Congress.

Subcommittee hearings shall be conducted by the Committee representative of the agency and the Congressional member shall act as chairman of such subcommittee. Any other member of the Committee interested in the matter on which hearings are being held shall automatically become a member of such subcommittee by his attendance at the hearings.

The subcommittee hearings called pursuant to the resolution shall be public. The same rules shall prevail relative to the conduct of the hearings as prevail for the full Committee hearings.

SPECIAL SUBCOMMITTEE HEARINGS

The Committee is further authorized to appoint special subcommittees of one member or more to hear relevant material in the nature of a deposition. The stenographic transcript of such a hearing shall be run off in triplicate, one copy to remain in the custody of the department or agency for whom the hearings are held, one copy to be filed with the Executive Secretary, and one copy to be furnished the witness or his attorney. The Committee reserves the right to make public the testimony so developed should it so desire.

The witness fees for all individuals called before such subcommittee or for such designee hearing shall be paid for by the Committee. Any expenses incurred for stenographic aid shall likewise be borne by the Committee.

The following schedule is included herewith in connection with the testimony of Ernest Howe, supra, p. 14700 ff.

Mutual Life's Acquisition of Railroad Securities Where Issuers Interlock Directly or Indirectly With Mutual Life's Board of Trustees

Year 1910:
Total of all railroad bonds acquired $12,343,000
Total railroad bonds acquired where issuers interlock .... $ 6,752,000 54.7 percent

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$309,000	Colorado & Southern Railway	George F. Baker [1]	George F Baker [1]	Controlled by Chic. Bur. & Quincy.
$61,000	Colorado Springs & Cripple Creek District Ry		George F. Baker [1]	Controlled by Colo. & Southern Ry.
$506,000	Central of Georgia Railway	Charles A. Peabody [1]	Charles A. Peabody [1] Cornelius Vanderbilt	100% of stock owned by Ill. Central Railway.
$108,000	New York Central & Hudson River Railroad	George F. Baker [1]		
$3,129,000	New York Central Lines	George F. Baker [1]		
$300,000	Michigan Central Grand River	Charles A. Peabody [1]	George F. Baker [1]	Controlled by N. Y. Central & Hudson River Railroad.
$75,000	Lake Shore & Michigan Southern Railway	Charles A. Peabody [1]	George F. Baker [1]	Controlled by NY Cen. & Hud. Riv. RR.
$1,000,000	Jamestown, Franklin & Clearfield RR		George F. Baker [1] Charles A. Peabody [1]	Controlled by Lake Sh. & Mich. So. Ry.
$85,000	Peoria & Eastern Railway		George F. Baker [1]	Controlled by Clev. Cinn. Chic. & St. Louis Railroad.
$179,000	Toledo & Ohio Central Railway		George F. Baker [1] Charles A. Peabody [1]	Controlled by Lake Sh. & Mich. So. Ry.
$1,000,000	So. Pacific Co. San Francisco Terminal		Charles A. Peabody [1]	Controlled by So. Pacific Ry.

Year 1911:
Total of all railroad bonds acquired $19,293,000
Total railroad bonds acquired where issuers interlock $10,218,000 52.7%

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$696,000	Colorado & Southern Railway	George F. Baker [1]	George F. Baker [1]	Controlled by Chic. Burl. & Quincy Ry.
$64,000	Colo. Springs & Cripple Creek District Ry		George F. Baker [1]	Controlled by Colo. & Southern Ry.
$500,000	Erie Railroad	George Baker [1] & Chas. Peabody [1].		
$500,000	Illinois Central Railroad	George Baker [1] & Cornelius Vanderbilt.		
$22,000	Central of Georgia Railway	Charles A. Peabody [1]	Geo. Baker [1] & Corn. Vanderbilt.	Controlled by Ill. Central RR.
$1,260,000	New York Ontario & Western Railway		George F. Baker [1]	Controlled by NY, NH & Hartford RR.
$23,000	New York Central & Hudson River Railroad	George F. Baker [1]		
$600,000	New York Central Lines	George F. Baker [1]		
$200,000	Cleveland, Cin., Chic. & St. Louis Ry	George F. Baker [1]	George F. Baker,[1] Charles A. Peabody.[1]	Lake Shore & Mich. So. thru control of Clev., Cin., Chic. & St. Louis Ry.
$74,000	Peoria & Eastern Railway		George F. Baker [1]	Over 50% of stock owned by C. C. C. & S. L.
$1,500,000	Detroit River Tunnel Company	Charles A. Peabody [1]		

$250,000	Seaboard Air Line Railway	H. Rieman Duval		
$500,000	Southern Pacific Co. San Francisco Terminal		Charles A. Peabody [1]	Assumed by Southern Pacific Company.
$1,029,000	Los Angeles Pacific Company		Charles A. Peabody [1]	100% of stock owned by So. Pac. Co.
$500,000	Great Northern Railway	William B. Dean		
$2,000,000	Oregon-Washington RR & Navigation Co		Charles A. Peabody [1]	Controlled by Union Pacific RR thru Oregon Short Line Railroad.
$500,000	Cincinnati, New Orleans & Texas Pac. Ry		George F. Baker [1]	Jointly controlled by Cin., Hamilton & Dayton and Southwestern Constr. Co.

Year 1912:
Total of all railroad bonds acquired $18,991,246
Total railroad bonds acquired where issuers interlock .... $8,678,000 47.2 percent

$2,000,000	Atchison, Topeka & Santa Fe Railway	A. D. Juilliard & H. Rieman Duval.[1]		
$343,000	Central of Georgia Railway	Charles A. Peabody [1]	Charles A. Peabody [1] & Cornelius Vanderbilt.	100% of stock owned by Ill. Central R. R.
$64,000	Colorado Springs & Cripple Creek Dist. Ry		George F. Baker [1]	Over 50% of stock owned by C. B. & Q.
$1,000,000	Great Northern Railway	William B. Dean		
$391,000	Los Angeles Pacific Company		Charles A. Peabody [1]	100% of stock owned by So. Pacific Ry.
$50,000	Morgan's La. & Texas RR & Steamship Co		Charles A. Peabody [1]	100% of stock owned by So. Pacific Ry.
$882,000	New York Central Lines	George F. Baker [1]		
$78,000	New York Central & Hudson River Railroad	George F. Baker [1]		
$25,000	New York Ontario & Western Railway		George F. Baker [1]	Controlled by NY Cent. & Hudson Riv. RR.
$150,000	Cleveland, Cin., Chicago & St. Louis Ry	George F. Baker [1]	George F. Baker [1]	Controlled by Lake Sh. & Mich. So. Ry.
$118,000	Peoria & Eastern Railway		George F. Baker [1]	Controlled by C. C. C. & St. Louis Ry.
$47,000	Indianapolis & St. Louis Railway		George F. Baker [1]	Controlled by C. C. C. & St. Louis Ry.
$50,000	Toledo & Ohio Central Railway		George F. Baker [1]	Controlled by Lake Sh. & Mich. So. Ry.
$255,000	Kanawha & Michigan Railway		George F. Baker [1]	Jointly controlled by Lake Sh. & Mich. So. Ry. & Chesapeake & Ohio Ry.
$111,000	Rutland Railroad		George F. Baker [1]	Jointly controlled by NY Central & Hudson Riv. RR & NY NH & Hartford RR.
$78,000	Consolidated Railway & Power Company		Charles A. Peabody [1]	Controlled by Union Pac. thru Ore. Sh.
$3,000,000	Oregon-Washington RR & Navigation Co		Charles A. Peabody [1]	Controlled by Union Pac. thru Ore. Sh.
$36,000	St. Joseph & Grand Island Railway		Charles A. Peabody [1]	Controlled by Union Pacific Railway.

[1] Denotes member of Mutual Life Finance Committee.

Mutual Life's Acquisition of Railroad Securities Where Issuers Interlock Directly or Indirectly With Mutural Life's Board of Trustees—Con.

Year 1913:
Total of all railroad bonds acquired, $7,885,000
Total railroad bonds acquired where issuers interlock, $4,428,000 56.1 percent

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$3,000	Consolidated Railway & Power Company		Charles A. Peabody [1]	Union Pac. controlled thru Ore. Sh. Ll.
$1,070,000	Illinois Central Railroad	Cornelius Vanderbilt, Charles A. Peabody,[1] and John G. Shedd.		
$250,000	Chicago, St. Louis & New Orleans RR		Cornellus Vanderbilt, Charles A. Peabody, [1] and John G. Shedd.	Leased to Illinois Central.
$500,000	Mobile & Ohio Railroad		George F. Baker [1]	Controlled by Southern Railway.
$10,000	Morgan's Louisiana & Tex. RR & Steamship Co.		Charles A. Peabody [1]	Controlled by Southern Pacific Ry.
$50,000	New York Central & Hudson River RR	George F. Baker [1]		
$1,000,000	New York Central Lines	George F. Baker [1]		
$1,500,000	Canada Southern Railway		George F. Baker [1]	52% of stock owned by Mich. Cent. RR.
$11,000	Indianapolis & St. Louis Railroad		George F. Baker [1]	Controlled by Cleveland, Cincinnati, Chicago & St. Louis RR.
$24,000	Peoria & Eastern Railway		George F. Baker [1]	Controlled by Cleveland, Cincinnati, Chicago & St. Louis RR.
$10,000	Rutland Railroad	George F. Baker [1]		

Year 1914:
Total of all railroad bonds acquired $11,492,000
Total railroad bonds acquired where issuers interlock $7,527,000 65.3%

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$200,000	Baltimore & Ohio Railroad	Charles A. Peabody [1] & John G. Shedd.		
$1,000,000	Delaware & Hudson Company	Charles A. Peabody [1] & C. Vanderbilt — Members, Board of Managers.		
$33,000	Erie Railroad	George F. Baker [1] & Charles Peabody.[1]		
$500,000	Chicago, St. Louis & New Orleans RR		C. Vanderbilt, Chas. Peabody [1] & John Shedd.	Leased to Illinois Central Railroad.
$79,000	N. Y. Central & Hudson River RR	George F. Baker [1]		
$3,000,000	Northern Pacific Railway	George F. Baker [1]		
$2,715,000	Chicago, Burlington & Quincy RR	George F. Baker [1]	George F. Baker [1] & William B. Dean.	Jointly controlled by Northern Pac. Ry. & Great Northern Railway.

Year 1915:
Total of all railroad bonds acquired $22, 565, 954. 55
Total railroad bonds acquired where issuers interlock $10, 450, 454. 55 46. 4%

$6, 846, 000	Atchison, Topeka & Santa Fe	H. Rieman Duval & A. D. Juilliard.[1]		
$750, 000	Chicago, St. Louis & New Orleans RR		Charles A. Peabody [1] John G. Shedd.	Leased to Illinois Central RR.
$132, 000	Central of Georgia Railway	Charles A. Peabody [1]	Charles A. Peabody [1] John G. Shedd.	100% of stock owned by Ill. Central.
$100, 000	Chicago, Burlington & Quincy RR		George F. Baker [1] William B. Dean.	Jointly owned by Northern Pacific Ry. and Great Northern Railway.
£468, 900	St. Paul, Minn. & Manitoba Ry. $2,273,454.55		William B. Dean	Controlled by Great Northern Ry. Co.
$154, 000	Oregon-Washington RR & Navigation Co		Charles A. Peabody [1]	Controlled by Union Pacific Ry. Thru Oregon Short Line.
$195, 000	Erie Railroad		George F. Baker [1]	

Year 1916:
Total of all railroad bonds acquired $33, 522, 212. 22
Total railroad bonds acquired where issuers interlock $22, 404, 212. 22 67. 1%

$654, 000	Atchison Topeka & Santa Fe	Edward J. Berwind, H. Rieman Duval & A. D. Juilliard.[1]		
$943, 000	Illinois Central Railroad	C. Vanderbilt, John G. Shedd & Charles A. Peabody.[1]		
$137, 000	Central of Georgia Railway	Charles A. Peabody [1]	C. Vanderbilt, John G. Shedd & Charles Peabody.[1]	100% of stock owned by Ill. Central.
$1, 684, 000	Chicago, St. Louis & New Orleans RR	Cornelius Vanderbilt	C. Vanderbilt, John G. Shedd & Charles Peabody.[1]	Leased to Illinois Central RR.
$553, 000	Baltimore & Ohio Railroad	Charles Peabody [1] & John Shedd.		
$1, 500, 000	Chicago Union Station	John J. Mitchell		
$303, 000	Erie Railroad	George F. Baker [1] & Edward J. Berwind.		
$11, 000, 000	New York Central	George F. Baker [1]		
£ 1, 114, 000	St. Paul, Minn. & Manitoba Railway $5,401,212.12		William B. Dean	Controlled by Great Northern Ry.
$229, 000	Oregon-Washington RR & Navigation Co		Charles A. Peabody [1]	Controlled by Union Pacific Ry thru Oregon Short Line.

[1] Denotes member of Mutual Life Finance Committee.

Mutual Life's Acquisition of Railroad Securities Where Issuers Interlock Directly or Indirectly With Mutual Life's Board of Trustees—Con.

Year 1917:
Total of all railroad bonds acquired $6, 636, 545. 45
Total railroad bonds acquired where issuers interlo. $3, 636, 545. 45 54. 7%

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$52, 000	Illinois Central Railroad	C. Vanderbilt, John G. Shedd & Charles A. Peabody.[1]		
$17, 000	Chicago, St. Louis & New Orleans RR		C. Vanderbilt, John G. Shedd & Charles Peabody.[1]	Leased to Ill. Central RR.
$1, 000, 000	Great Northern Railway Company	William B. Dean		
£35, 000	St. Paul, Minn. & Manitoba Ry $174, 545. 45		William B. Dean	Controlled by Great Northern Ry.
$1, 000, 000	Delaware & Hudson Company	Charles A. Peabody,[1] Cornelius Vanderbilt, Members of Board of Managers.		
$93, 000	Erie Railroad	George F. Baker[1] & C. Vanderbilt.		
$1, 300, 000	Missouri Pacific Railroad	Cornelius Vanderbilt		

Year 1918:
Total of all railroad bonds acquired $1, 469, 000
Total railroad bonds acquired where issuers interlock $104, 000 07. 1%

$104, 000	New York Central & Hudson River RR		George F. Baker[1]	

Year 1919: No railroad bonds purchased for this year.
Year 1920:
Total of all railroad bonds acquired $4, 207, 000
Total railroad bonds acquired where issuers interlock $3, 207, 000 74. 3%

$1, 800, 000	Delaware & Hudson Company	Charles A. Peabody,[1] C. Vanderbilt, Members of Board of Managers.		
$1, 332, 000	Erie Railroad	George F. Baker[1] & Edward J. Berwind.		
$75, 000	New York Central & Hudson River RR		George F. Baker[1]	Consol. with NY Central RR.

Year 1921:
Total of all railroad bonds acquired = $5, 500, 000.
Total railroad bonds acquired where issuers interlock = $3,500,000. 63.6%

$2, 500, 000	Great Northern Railway Company	William B. Dean		
$1, 000, 000	Oregon Short Line Railway Co		Charles A. Peabody [1]	Controlled by Union Pacific Railroad.

Year 1922:
Total of all railroad bonds acquired = $7, 369, 909. 09
Total railroad bonds acquired where issuers interlock = $5, 159, 909. 09 70%

$270, 000	Baltimore & Ohio RR Company	Charles A. Peabody [1]		
$2, 075, 000	Chicago, Burlington & Quincy RR		William B. Dean	Jointly owned by Great No. & No. Pac.
£$7, 200	St. Paul, Minn. & Manitoba Ry. Co. $34,909.09		William B. Dean	Controlled by Great Northern Ry.
$250, 000	Delaware & Hudson Company	Charles A. Peabody [1] & Cornelius Vanderbilt.		
$1, 500, 000	Illinois Central Railroad	Charles A. Peabody,[1] John G. Shedd & C. Vanderbilt.		
$40, 000	New York Central Lines Equip	George F. Baker [1]		
$990, 000	Union Pacific Railroad Co	Charles A. Peabody [1]		

Year 1923:
Total of all railroad bonds acquired $21, 736, 053. 27
Total railroad bonds acquired where issuers interlock $6, 833, 000. 00 31. 4%

$500, 000	Delaware & Hudson Company	Charles A. Peabody,[1] Cornelius Vanderbilt, Members Board of Managers.		
$135, 000	Albany & Susquehanna Railroad		Charles A. Peabody,[1] Cornelius Vanderbilt, Board of Man.	Leased to Delaware & Hudson Co.
$450, 000	Baltimore & Ohio Railroad	Charles A. Peabody [1]		
$301, 000	Cincinnati, New Orleans & Tex. Pac. Ry		Charles A. Peabody [1]	Jointly owned by B & O and Ala. Great Southern thru Southwestern Construc.
$548, 000	Atchison, Topeka & Santa Fe Ry	Edward J. Berwind [1]		
$1, 513, 000	Illinois Central RR Company	Charles A. Peabody,[1] John G. Shedd & C. Vanderbilt.		
$1, 500, 000	New York Central Equip. Trust	George F. Baker [1]		
$1, 594, 000	Union Pacific Railroad	Charles A. Peabody [1]		
$292, 000	Oregon-Washington RR & Navigation Co	Charles A. Peabody [1]	Charles A. Peabody [1]	Owned by Union Pacific RR thru Oregon Short Line RR.

[1] Denotes member of Mutual Life Finance Committee.

Mutual Life's Acquisition of Railroad Securities Where Issuers Interlock Directly or Indirectly With Mutual Life's Board of Trustees—Con.

Year 1924:
Total of all railroad bonds acquired $23,847,000
Total railroad bonds acquired where issuers interlock $13,827,000 58.1%

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$282,000	Atchison, Topeka & Santa Fe Ry	Edward J. Berwind [1] & Myron C. Taylor.		
$10,500,000	Baltimore & Ohio Railroad Co	Charles A. Peabody [1]		
$900,000	Illinois Central Railroad	Charles A. Peabody,[1] John G. Shedd & C. Vanderbilt.		
$375,000	Central of Georgia Ry. Company	Charles A. Peabody [1]	Charles A. Peabody,[1] John G. Shedd & C. Vanderbilt.	100% of stock owned by Ill. Cent.
$25,000	Chicago, St. Louis & New Orleans RR	Charles A. Peabody [1] & C. Vanderbilt.	Charles A. Peabody,[1] John G. Shedd & C. Vanderbilt.	Leased to Illinois Central RR.
$750,000	New York Central Lines Equipment Trust	George F. Baker [1]		
$50,000	New York Central & Hudson River RR		George F. Baker [1]	Consol. with N. Y. Central.
$990,000	Union Pacific Railroad	Charles A. Peabody [1] & James H. Perkins.[1]		

Year 1925:
Total of all railroad bonds acquired $17,986,000
Total railroads bonds acquired where issuers interlock $9,452,000 52.5%

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$88,000	Albany & Susquehanna Railroad		Charles A. Peabody [1] & C. Vanderbilt, Mems. Bd. of Man.	Leased to Del. & Hudson.
$2,933,000	Illinois Central Railroad	C. Vanderbilt, Charles A. Peabody [1] & John G. Shedd.		
$1,128,000	Chicago, St. Louis & New Orleans RR	C. Vanderbilt & Charles A. Peabody.[1]	C. Vanderbilt, Charles A. Peabody [1] & John G. Shedd.	Leased to Ill. Central RR.
$1,880,000	Central of Georgia Ry	Charles A. Peabody [1]	Same as above	100% of stock owned by Ill. Cent.
$1,604,000	N. Y. Central & Hudson River RR		George F. Baker,[1] & Myron Taylor.	Consol. with NY Central.
$750,000	Missouri Pacific Railroad	Arthur V. Davis		
$379,000	Oregon Railroad & Navigation Co		Charles A. Peabody,[1] James H. Perkins.[1]	Owned by Union Pacific RR.

Year 1926:
Total of all railroad bonds acquired $35,222,000
Total railroad bonds acquired where issuers interlock $11,002,000 31.1%

$250,000	Delaware & Hudson Company	Charles A. Peabody,[1] Cornelius Vanderbilt, Members of Board of Managers.		
$134,000	Albany and Susquehanna RR Co		Charles A. Peabody [1] & C. Vanderbilt, Mems. Bd. of Man.	Leased to Delaware & Hudson Co.
$39,000	Atchison, Topeka & Santa Fe Ry	Edward J. Berwind,[1] Myron C. Taylor.		
$1,100,000	Canadian Pacific Railway	Edward W. Beatty		
$36,000	Minn., St. Paul, Ste Marie Ry. Co		Edward Beatty	Controlled by Can. Pacific Railway.
$1,966,000	Illinois Central Railroad	Cornelius Vanderbilt, Chas. Peabody,[1] Chas. H. Markham, & John G. Shedd.		
$211,000	Central of Georgia Railroad	Chas. Peabody [1] & Chas. Markham.	C. Vanderbilt, Chas. Peabody,[1] Chas. Markham & John Shedd.	100% stock owned by Ill. Central RR.
$35,000	Chicago, St. Louis & New Orleans RR	Chas. Peabody,[1] Chas. H. Markham & C. Vanderbilt.	Same as above	Leased to Illinois Central RR.
$755,000	Northern Pacific Railway	Theodore Merseles		
$37,000	Chicago, Burlington & Quincy		Theodore Merseles	Jointly controlled by No. Pac & Gr. No.
$500,000	Erie Railroad	George F. Baker [1]		
$4,439,000	New York Central	Geo. F. Baker [1] & Myron Taylor.		
$500,000	Jamestown Franklin & Clearfield RR		Geo. F. Baker [1] & Myron Taylor.	Assumed by New York Central thru Mich. Central R. R. owning over 50% of stock.
$1,000,000	Detroit River Tunnel Company	George F. Baker [1]	Same as above	
$482,000	Oregon RR & Navigation Company		Charles A. Peabody,[1] James H. Perkins.[1]	Owned by Union Pacific Railroad.

[1] Denotes member of Mutual Life Finance Committee.

Mutual Life's Acquisition of Railroad Securities Where Issuers Interlock Directly or Indirectly With Mutual Life's Board of Trustees—Con.

Year 1927:
Total of all railroad bonds acquired $22,285,000
Total railroad bonds acquired where issuers interlock $12,441,000 55.7%

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$155,000	Canada Southern Railway		Myron C. Taylor[1] George F. Baker.[1]	N. Y. Central thru Mich. Central RR owning over 50% of stock.
$655,000	Detroit River Tunnel	George F. Baker[1]	Same as above	Same as above.
$3,129,000	Illinois Central Railroad	Chas. A. Peabody,[1] Chas H. Markham & C. Vanderbilt.		
$125,000	Central of Georgia Railway	Chas. A. Peabody[1] & Charles H. Markham.	Chas. Peabody,[1] Chas. H. Markham & C. Vanderbilt.	100% of stock owned by Ill. Central.
$2,500,000	Chicago, St. Louis & New Orleans RR	Chas. Peabody[1] & Chas. Markham.	Same as above	Leased to Illinois Central RR.
$4,791,000	Chicago, Burlington & Quincy		Theodore Merseles	Jointly controlled by No. Pac. & Gt. No.
$350,000	Erie Railroad Company	George F. Baker[1]		
$225,000	Minn., St. Paul & Sault Ste Marie Ry		Edward W. Beatty	Controlled by Can. Pacific Ry.
$500,000	Missouri Pacific RR	Arthur V. Davis		
$11,000	Oregon-Washington RR & Navigation Co		Chas A. Peabody,[1] James H. Perkins.[1]	Controlled by Union Pacific RR thru Oregon Short Line.

Year 1928:
Total of all railroad bonds acquired $14,106,500
Total railroad bonds acquired where issuers interlock $2,784,000 19.8%

Par Value of Bonds Acquired	Issuer	Mutual Life Directors Interlocking with Issuer	Mutual Life Directors Interlocking with Co. Controlling Issuer	Nature of Control
$500,000	Atchison, Topeka & Santa Fe Ry	Edward J. Berwind[1] & Myron C. Taylor.[1]		
$60,000	New York Central & Hudson River RR		George F. Baker[1] & Myron Taylor.[1]	Consol. with N. Y. Central.
$100,000	Canada Southern Railway	George F. Baker[1]	Same as above	N. Y. Central thru Mich. Central owning over 50% of stock.
$650,000	Erie Railroad Company	George F. Baker[1]		
$500,000	Missouri Pacific Railroad	Arthur V. Davis		
$209,000	Chicago, Burlington & Quincy RR		Theodore Merseles	Jointly controlled by Northern Pacific Ry. & Great Northern Ry.
$765,000	The Western Ry. of Alabama	Directors of Union Trust Co. of N. Y.	Edwin Thorne, Cornelius Vanderbilt.	Jointly controlled by Louisville & Nashville RR & Central Union Trust Company of New York.

Year 1929:				
	Total of all railroad bonds acquired			$7,480,000
	Total railroad bonds acquired where issuers interlock			$3,365,000 42.1 percent
$300,000	Baltimore & Ohio Railroad	Daniel Willard		
$800,000	Canadian Pacific Railway	Edward W. Beatty		
$630,000	Erie Railroad Company	George F. Baker [1]		
$760,000	Missouri Pacific Railroad Company	Arthur V. Davis		
$875,000	New York Central	George F. Baker [1] and Myron C. Taylor.[1]		
Year 1930:				
	Total of all railroad bonds acquired			$6,822,000
	Total railroad bonds acquired where issuers interlock			$782,000 11.4 percent
$120,000	Erie Railroad Company	George F. Baker [1]		
$250,000	Morris & Essex Railroad Company	William H. Truesdale	George F. Baker,[1] Wm. H. Truesdale, David F. Houston,[1] Clarence M. Woolley, Members of Bd. of Managers.	Controlled by Del. Lackawana & Western.
$62,000	Railway Express Agency, Inc	Lawrence A. Downs		
$200,000	Vicksburg, Shreveport, & Pac. Ry. Co		Lawrence A. Downs, Cornelius Vanderbilt, Charles A. Peabody.[1]	Controlled by Ill. Central RR.
$150,000	Virginian Railway Company	James H. Perkins [1]—Trustee of voting trust.		

[1] Denotes member of Mutual Life Finance Committee.

Compiled from information submitted by the Mutual Life at the request of the Commission and the following manuals: Poor's Manual of Railroads, 1910-1923; Poor's and Moody's Railroads, 1924; Poor's Railroads, 1925; Poor's, Railroads and Banks, 1926; Poor's, Railroads, Banks, Insurance Companies, 1927 and 1928; Poor's, Railroads, Banks, etc., 1929; Poor's, Railroads, Banks, 1930; Moody's, Analyses of Railroad Investments, 1910-1920; Moody's, Rating Books, Railroad Investments, 1921-1923; Moody's Steam Railroads, 1924-1927; Moody's, Railroads, 1928-1930; Report of the Committee Appointed to Investigate the Concentration of Control of Money and Credit, Arsene P. Pujo, Chairman; House Report 1593, 62d Congress, 3d Session, 1913.

The following memorandum is included at this point in connection with Mr. Stevenson's testimony on p. 14763 ff.

MEMORANDUM SUBMITTED BY JOHN A. STEVENSON, PRESIDENT, THE PENN MUTUAL LIFE INSURANCE COMPANY, TO THE TEMPORARY NATIONAL ECONOMIC COMMITTEE, FEBRUARY 29, 1940

CLASSIFICATION OF RISKS—NEW BUSINESS CONTROLS

In classifying applicants for life insurance, it is usually found that by far the great majority have no physical impairments of any consequence, whereas a comparatively small percentage have one or more specific impairments. The first group comprises what is ordinarily known as the "standard" risk.

In the second group will be found some risks which, even though they are impaired, may be insured by the charge of an additional premium to cover the extra hazard. These are ordinarily known as "substandard" risks. Also in the second group will be found some risks which are so seriously impaired that the extra hazard cannot be anticipated with any degree of accuracy and, therefore, the risk cannot be covered by an additional premium charge. Such cases are known as "unacceptable" risks.

An example of a "substandard" risk, where the extra hazard can be anticipated with a reasonable degree of accuracy and therefore covered by an extra premium charge, would be the case of a man with a history of stomach ulcer. An example of an "unacceptable' risk, where the impairment is so great that the extra hazard cannot be measured with reasonable accuracy, would be one in which there was a diagnosis of heart disease. However, the chief management problem does not lie in the field of substandard and unacceptable risks because well established and carefully checked statistics are available for the classification of these cases.

The greater problem comes in connection with that large group of cases which have no serious impairment; namely, the standard group. To illustrate this point, let us consider three standard risks:

> *Case Number 1* is a man, age 35, who is of normal build, has never been seriously ill and in all ways passes a first-class physical examination. His father died at age 58 of heart disease and his mother is still living at age 59. He is a typical normal standard risk.
>
> *Case Number 2* is a man of 46 who has never been seriously ill, is of good build and passes a perfect physical examination. His father and mother are still living at ages 81 and 76, respectively. He is also a standard risk, but because of this exceptionally good family history, he is a somewhat better risk than Case Number 1.
>
> *Case Number 3* is a man, age 30, who passes an excellent physical examination, but is just slightly under normal weight. His family history shows that both his mother and sister died of tuberculosis. This combination of circumstances makes the risk somewhat more hazardous than Cast Number 1.

While these three cases all fall within the standard classification, the last case (Number 3) is commonly known as the "borderline" risk.

There is some difference between the cases which are typical normal standard risks, like Case Number 1, and those which, like Case Number 2, are a little better and those which, like Number 3, are a little worse. The degree of difference is comparatively slight and, in the usual volume of standard business, it will be found that the large percentage of the risks are normal, the balance being about equally divided between the other two groups.

It will be seen, however, that if a company received a very large proportion of its standard risks from the borderline area, as illustrated by Case Number 3, then its mortality would be higher than if, among its standard group, there were not such a large proportion of borderline cases.

The management control of this problem involves classifying these variations of standard risks for the Company as a whole, for each General Agency and for each personal producer (agent). The General Agents and agents whose records are good are encouraged as much as possible whereas those with poor records receive corrective attention. This method of anticipating the future effect of present operations gives the management fairly complete control over new business from the standpoint of the mortality to be expected.

This method of control is included in what may be called the Penn Mutual Merit Plan, under which certain expense allowances to General Agents and

Branch Managers are conditional upon the quality of business they submit to the Company. This plan consists of six adjustable factors, three of which are concerned with mortality and three with factors affecting expenses. The following three factors are related to mortality:

1. There must not be a disproportion amount of borderline business.
2. The proportion of unacceptable cases submitted must not exceed a stated maximum.
3. The proportion of large risks must not exceed a given percentage of the total volume.

The remaining three factors have an effect on expenses:

4. The average policy must equal or exceed a stated amount.
5. The average premium per $1,000 of insurance must equal or exceed a stated amount.
6. The first-year lapse rate must not exceed a stated percentage.

An analysis of each General Agent's and Branch Manager's business is made monthly. The analysis is cumulative and, at the end of each year, those who have qualified for the full twelve months under the Merit Plan receive additional expense allowances which, under the supervision of the Company, are to be used in the further development of the type of good business they have already produced.

Those not qualifying receive such helpful advice or correction as the circumstances warrant. Thus, by means of a short-range analysis, the long-range results are anticipated with reasonable accuracy. An effort is made to develop production operations from which good results are anticipated, and to check those from which the anticipated results appear to be poor.

The Company also attempts to anticipate the probable persistency of new business by use of a Rating Chart. The Life Insurance Sales Research Bureau evolved this chart after a study of about 16,000 policies covering about $60,000,000 of insurance over the first two policy years. This study showed that certain factors in a case, known at the outset, had a bearing on persistency positively and negatively. By testing each of these factors, the relative significance of each was determined and points were allowed to each factor.

The use of the Rating Chart results in an immediate benefit from directing the soliciting agent's attention to the elements affecting persistency, so that there is an improvement in the general quality of his business. At the same time, the data being accumulated will eventually serve as means of checking and adjusting the Rating Chart so that it may become a more effective aid in appraising new business from the standpoint of persistency.

MAINTENANCE OF A COMPETENT PRODUCING ORGANIZATION

Selection of Field Personnel.—The Penn Mutual's policy, in selecting field personnel, is to emphasize recruiting through personal contacts of the General Agent or Branch Manager and his staff rather than through advertising or other less personal means. The Company believes that better selection results from this method and that, through its use, the emphasis is placed on higher average production per man rather than on number of men recruited.

The following procedures are included in the selection program:

1. Each new agent is investigated as to his background and character by means of a credit report.
2. A surety company bond is required.
3. Such additional personal or business references must be furnished as the General Agent may consider necessary.
4. By means of an "Aptitude Index," the factors involved in the individual's background and personality are rated.

The Penn Mutual recruited more men with high ratings (greater success probabilities) in 1939 than in 1938, although fewer new contracts were made. While total production from new men in 1939 was less than in 1938, the 1939 recruits showed a higher average production per man and a lower first-year turnover rate.

It is assumed that the selection process extends through the first two or three years of the new agent's field work. During that time, he actually serves a period of apprenticeship. In 1939, approximately one-third of the Penn Mutual's full-time agency contracts had been in force less than three years, but this group of contracts accounted for 80% of the contract terminations during the year.

No data appear to be available which indicate satisfactorily the relation of termination rates of agents' contracts to terminations occurring in other lines of business which are comparable to insurance and which involve direct selling.

Because of the human factor involved, no sure method has been found (nor, perhaps, ever will be) to determine in advance whether or not a new agent will be able to adapt himself to the business of selling life insurance even though his background and personality would seem to forecast success.

Training and Supervision.—The Penn Mutual's primary training course is designed to cover the fundamentals of life insurance. At the same time, it enables new men to recognize the needs of the average buyer and to serve him intelligently through appropriate life insurance plans. This course is usually given in the General Agency or Branch Office, to one or two new men at a time.

Since the primary training course gives the new man the educational background necessary for actual work in the field, it enables the Company to make an early appraisal of the new agent's aptitude for the business of life insurance selling. The course serves, therefore, as an important aid in the selection of new agents.

Training continues beyond the primary period, being so closely integrated with supervision that there can be no clear-cut division between the two. This more advanced training takes various forms:

1. Most Agencies have regular meetings at which educational material is presented; conduct "clinics" for discussion of certain phases of the salesman's work; provide individual instruction in cases where this seems advisable to meet an agent's needs.
2. A library is usually maintained at the Agency from which special studies or readings are recommended to individual agents.
3. Schools are conducted in the Agencies by representatives from the Home Office.
4. Training activities are extended through educational conferences and conventions.
5. Agents are encouraged to complete the course of study required for the designation of Chartered Life Underwriter (C. L. U.) awarded by the American College of Life Underwriters.

It has been the policy of the Company since 1931 to appoint Managers and General Agents from within its own ranks. Members of the field force who appear fitted, therefore, are given training in the Home Office and in the field to enable them to assume management positions. During their stay in the Home Office, time is allotted to enable them to become familiar with each department of the Company. When this part of the training program has been completed, they are assigned to assist in managerial work in various Agencies over a period of six months to a year, after which they may be given definite managerial responsibility. The training for managerial work emphasizes at the same time the importance which the Company attributes to the training and supervisory processes within the Agency.

Compensate Plans.—An adequate plan of compensation for agents should, we believe, meet the following requirements:

1. The scale of compensation should attract men possessing the necessary qualifications for life insurance selling by providing earnings comparable with those offered by competing occupations.
2. The method of compensation should enable the successful agent to make financial progress commensurate with his accomplishment.
3. Some auxiliary income (whether salary or some other form) should be available to new agents during the period when their actual earnings from commissions may not provide adequate income for actual needs.

The problem of making sufficient income available to new men until their actual earnings are built up to the point of adequacy is solved in many instances by the making of advances against future commission earnings. This probably is the most common form of financial assistance and has been widely used.

The Penn Mutual began the development of a salary type contract for new full-time men in 1935. The salary contract for the new man gives him a minimum income for as much as two years, conditioned upon his meeting minimum production requirements, while he is being trained and developed. This salary plan cannot, of course, make a new man successful—its function is to provide a level income during his apprenticeship period, provided he shows satisfactory progress. The results of the Penn Mutual's salary plan thus far have not indicated any advantage of this plan over other plans of providing financial assistance to new agents, but further experiment would be necessary before any specific conclusions could be drawn.

Studies have been made, not only of results under the Company's own salary plan, but also of data concerning various plans for the compensation of agents as reported by the Life Insurance Sales Research Bureau. Continued research is being devoted, by the Company, to this important problem.

Memorandum submitted by Union Central Life Insurance Co. in regard to Item of $10,954,000 shown for that Company on page 177 of Hearings, Part 10–A.

Memorandum

The discussion of an item of $10,954,000 of unpaid mortgage loan interest capitalized for the years 1933 to 1938, inclusive, appearing opposite the name of the Union Central on Table 177 of Part 10A might be interpreted by the laymen to mean that the Company had capitalized such interest to the extent that it exceeded the combined capital, surplus, and contingency reserve at December 31, 1938. This would positively not be true.

We have prepared the following facts and supporting statements and, in addition, we have brought the figures up to date to December 31, 1939.

(Exhibit "A") This exhibit is self-explanatory and is chiefly significant in that it reveals that of the total interest capitalized as reported, 47% of the total as of December 31, 1939 had been collected in cash or written off the Company's books.

It will be noted that approximately 72% of the total capitalization of interest rested in the real estate account. In strict accordance with Company policy, the book value of each parcel or property acquired (this would include any and all capitalization) must be and is backed by an independent appraisal of each unit. The appraisals were and at present are made by qualified appraisers having no interest in the sale or purchase of the properties. The appraisers were investigated as to their integrity, ability, and experience, as well as their familiarity with the locality to which they may be assigned. Many of these men are graduates of Agricultural Colleges, and all have had training in the appraisal of farms; most of them under the Federal Land Bank system. All appraisers submit their reports without knowledge of the Company's investment in the property appraised.

Some of the factors considered in making Company appraisals are types of soil, subsoil, topography, drainage, location, community value, climatic conditions, earning capacity, the agricultural history of the community and the character of the people; also the methods of transportation and facilities for marketing farm products; various conveniences in a community, such as electricity, mail delivery, telephone, local business, social, educational, and religious organizations. The appraisers are also instructed to familiarize themselves with the price which farmers have paid for land over a period of years, as well as the customary terms of rental and the income received therefrom. The appraisers attempt to get the opinion of farmers as to existing land values and the prices farmers could afford to pay for land when crop prices are normal. Finally, to evolve all these factors into a value which would be a good consistent sale price at which the land being appraised would sell, as between a willing owner and a willing buyer for a property of this type and condition, upon terms usual for similar types of property in the community, based on a reasonable marketing effort.

As a direct result of this appraisal policy, the Company has written down real estate values on its books for the years 1929 to 1939, inclusive, in the total amount of $12,429,117.00, a write down in excess of total interest capitalization, in both the real estate and mortgage accounts. In addition to this write down, for the same eleven year period, mortgage loan and sales contract interest was charged off in the total amount of $16,396,187.00. The amount of the above totals that pertains to the years 1933 to 1939, inclusive, is $7,989,129.00 write down in real estate values and $10,590,020.00 mortgage loan and sales contract interest charged off.

The Union Central did not capitalize at will during the depression years but actually wrote off amounts far in excess of those retained, and retained only after appraisal substantiation.

For the year ended December 31, 1939, the Company foreclosed Farm and City Mortgages representing a total cost on the books before final write down of $9,064,304.43. After charging off principal interest, and advances, the properties moved into real estate account at a book value of $8,414,831.59, or at a book value of 92.83% of total cost. These amounts are set forth in Schedule "B" attached.

Capitalization of interest without a definite and comprehensive program could well be criticized, but in the case of The Union Central we did have such a program of operation. We feel that the record shows that the plan has been highly successful and very much to the benefit of our policyholders.

G. A. Gesell : rhr

EXHIBIT "A".—*Mortgage Loan Interest Capitalized With Amounts Subsequently Liquidated in Cash or Write-Off*

INTEREST CAPITALIZED

	By Foreclosure to Real Estate A/C	In Mortgage A/C By Adj. of Mtgs.	Total
1933		$230,714.08	$230,714.08
1934		1,249,514.18	1,249,514.18
1935	2,066,683.93	1,113,743.06	3,180,426.99
1936	2,756,554.34	419,712.56	3,176,266.90
1937	1,687,978.01	153,381.35	1,841,359.36
1938	1,242,074.67	33,804.57	1,275,879.24
	7,753,290.95	3,200,869.80	[1] 10,954,160.75
1939	534,922.29	10,573.44	545,495.73
	8,288,213.24	3,211,443.24	11,499,656.48

[1] As reported in S. E. C. Report.

DISPOSITION OF THE $11,499,656.48 AS OF DECEMBER 31, 1939

Real Estate Owned a/c—	
Farm	$4,274,469.37
City	41,928.21
Sub-Total	4,316,397.58
Real Estate Sold on Contract:	
Farm	773,043.57
City	63,802.48
Sub-Total	836,846.05
Balance Purchase Money Mortgages:	
Farm	326,854.33
City	62,675.97
Sub-Total	389,530.30
Rearranged, Extended and Adjusted Mortgage Loans:	
Farm	521,026.06
City	19,979.70
Sub-Total	541,005.76
Total Capitalized Interest Uncollected and remaining in Accounts	6,083,779.69
Total Capitalized Interest liquidated in cash or write-off	5,415,876.79
	11,499,656.48

EXHIBIT "B."—*Real Estate Acquired from Mortgage Account for the Twelve Months Period Ended Dec. 31, 1939 (Farm and City Combined)*

		Percent to total Book Value	Percent to Total Cost of Acquisition
Summary of Book Value:			
Principal	$7,309,881.82	86.87	80.64
Interest	534,922.29	6.77	6.29
Advances and Costs	570,027.48	6.36	5.90
Total Book Value	8,414,831.59	100.00	2.83
Summary of Total Cost of Acquisition:			
Principal Written Off	180,748.92	2.15	1.99
Interest Written Off	366,453.02	4.35	4.05
Advances Written Off	102,270.90	1.22	1.13
Total Charged Off	649,472.84	7.72	7.17
Total Cost	9,064,304.43	107.72	100.00

The following material is included at this point in connection with the testimony of Norman J. Wall, supra, p. 14857 ff.

Percentage of total farm-mortgage debt held, January 1, 1930 and 1936, and percentage of total distress farm transfers accounted for, 1930–35, by various lender groups, for selected States

State and Lender	Percentage of total farm-mortgage debt held Jan. 1, 1930	Percentage of total distress farm transfers 1930–35 [1]		Percentage of total farm-mortgage debt held Jan. 1, 1936
		Properties	Acreage	
Iowa:	*Percent*	*Percent*	*Percent*	*Percent*
Banks [2]	11.0	9.7	8.9	7.3
Insurance companies	41.9	35.7	40.5	33.6
Federal land banks and Land Bank Commissioner	6.7	3.2	3.2	33.6
Joint stock land banks [3]	7.2	7.4	9.1	2.3
Individuals and others	33.2	44.0	38.3	23.2
All lenders	100.0	100.0	100.0	100.0
Missouri:				
Banks [2]	11.7	10.8	9.7	7.3
Insurance companies	32.5	22.4	25.4	25.0
Federal land banks and Land Bank Commissioner	7.0	2.0	1.8	22.8
Joint stock land banks [3]	4.4	1.4	1.8	1.7
Individuals and others	44.4	63.4	61.3	43.2
All lenders	100.0	100.0	100.0	100.0
South Dakota.				
Banks [2]	4.7	6.5	6.4	1.7
Insurance companies	38.8	36.7	35.4	17.6
Federal land banks and Land Bank Commissioner	10.5	4.3	7.2	40.9
Joint stock land banks [3]	3.2	1.3	1.3	.6
Individuals and others	42.8	51.2	49.7	39.2
All lenders	100.0	100.0	100.0	100.0
Nebraska:				
Banks [2]	10.3	13.5	15.0	6.2
Insurance companies	28.6	19.6	19.9	17.7
Federal land banks and Land Bank Commissioner	9.3	1.5	2.0	36.8
Joint stock land banks [3]	5.1	3.9	4.4	.8
Individuals and others	46.7	61.5	58.7	38.5
All lenders	100.0	100.0	100.0	100.0

[1] Based on all types of distress transfers for selected groups of counties.
[2] All open and closed national, State, and mutual savings banks.
[3] Including banks in receivership.

Percentage of total farm-mortgage debt held, January 1, 1930 and 1936, and percentage of total distress farm transfers accounted for, 1930–35, by various lender groups, for selected States—Continued.

State and Lender	Percentage of total farm-mortgage debt held Jan. 1, 1930	Percentage of total distress farm transfers 1930–35 [1]		Percentage of total farm-mortgage debt held Jan. 1, 1936
		Properties	Acreage	
	Percent	*Percent*	*Percent*	*Percent*
Kansas:				
Banks [2]	9.9	13.8	16.2	7.2
Insurance companies	36.4	32.9	36.0	21.4
Federal land banks and Land Bank Commissioner	8.0	2.2	2.5	39.6
Joint stock land banks [3]	4.2	.8	.8	1.5
Individuals and others	41.5	50.3	44.5	30.3
All lenders	100.0	100.0	100.0	100.0

[1] Based on all types of distress transfers for selected groups of counties.
[2] All open and closed national, State, and mutual savings banks.
[3] Including banks in receivership.

Acquired farm real estate held by leading lending agencies, by Farm Credit districts, January 1, 1939

Farm Credit district	Federal land banks and Federal Farm Mortgage Corporation [1]	Life insurance companies [2]	Joint stock land banks [3]	All active insured commercial banks [4]	State credit agencies
	1,000 dollars	*1,000 dollars*	*1,000 dollars*	*1,000 dollars*	*1,000 dollars*
Springfield	3,091	93	1,525	6,615	
Baltimore	2,741	1,263	464	5,750	
Columbia	916	17,911	1.864	2,322	
Louisville	2,675	38,267	2,923	7,323	
New Orleans	4,095	10,589	381	3.044	
St. Louis	5,830	105,164	6,712	6.409	
St. Paul	51,063	80,576	5,032	4,788	[5] 36,144
Omaha	34,062	334,475	24,717	1,932	[6] 37,157
Wichita	13,143	46,218	2,928	1,327	
Houston	3,678	40,367	6,278	2,322	
Berkeley	3,335	8,366	32	6,356	
Spokane	14,811	19,572	1,029	955	
Total	139,440	702,861	53,885	49,143	73,301

[1] Investment, including sheriffs' certificates and judgments. Excluding prior liens.
[2] Investment—partially estimated.
[3] Carrying value of real estate, including sheriffs' certificates and judgments. Real estate held by banks in receivership included at book value.
[4] Book value. Based on location of banks and not on location of real estate security as in case of other lender groups.
[5] Investment. Department of Rural Credit of Minnesota and Bank of North Dakota.
[6] Investment—estimated. Rural Credit Board of South Dakota.

Interest charges payable on farm mortgages held by various lender groups, United States, for selected years

Year	Federal land banks and Land Bank Commissioner [1]	Joint stock land banks [2]	Life insurance companies	Commercial banks [3]	Individuals and others	All lenders
	1,000 dollars	*1,000 dollars*	*1,000 dollars*	*1,000 dollars*	*1,000 dollars*	*1,000 dollars*
1910			22,385	27,637	153,166	203,188
1915			41,292	49,104	223,859	314,255
1920	17,621	4,135	63,277	86,910	402,147	574,090
1925	53,529	29,416	116,917	81,483	330,267	611,612
1930	63,760	35,750	117,825	63,664	290,777	571,776
1935	114,916	12,689	65,072	30,826	187,461	410,964
1938	101,234	5,650	50,473	31,642	168,181	357,180

[1] Excluding Puerto Rico. Does not include amounts paid by Secretary of Treasury to this lender group as reimbursement for interest-rate reductions granted borrowers.
[2] Including banks in receivership.
[3] 1910–30 open State and national banks, 1935 and 1938 insured commercial banks.

The following letter appears at this point in connection with the testimony of Ernest Howe, supra, p. 14700 ff.

VALENTINE HOWELL
Vice President and Actuary

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Home Office, Newark, New Jersey

MARCH 5, 1940.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Temporary National Economic Committee,
Washington, D. C.

DEAR SIR: The record of the proceedings in connection with the testimony of Mr. Howe before your Committee on Friday, March 1, indicates that there was considerable discussion as to the allocation between the Ordinary and the Industrial departments of the special contingency reserve for fluctuation in security values set up by The Prudential during the period 1931 to 1936, inclusive.

It was not made clear to the Committee that this reserve was set up in anticipation of possible asset losses; that when such losses were actually realized they were allocated directly out of the earnings of the year in proportion to the securities standing to the credit of each department; and that such losses were never charged against the special contingency reserve. This contingency reserve was set up out of surplus purely as a precautionary measure and while it was in existence its method of allocation had an effect upon the relative surplus in the two departments, but when it was finally eliminated in the year 1937 it had been automatically returned to surplus in the same amounts as originally allocated therefrom, and the two departments were in exactly the same position as though such reserve had at no time been held.

The reason for apportioning the investment contingency reserve unevenly between the Industrial and the Ordinary departments was that the surplus of the Ordinary department had already been artificially reduced following the introduction in 1928 of a new monthly Intermediate policy, which to a large extent was written upon the class of lives which previously took out Industrial insurance. These policies were collected upon the debit of the Industrial agents in amounts of insurance averaging $600 per policy, and, although segregated by the Company in the Intermediate Monthly Premium department, were classified as Ordinary insurance for annual statement purposes. They were, however, written in the great majority of cases in substitution for Industrial policies as was indicated by the resulting decrease in the amount of Industrial insurance issued by the Company.

On the level premium reserve basis the issue of new insurance results in very substantial losses to surplus, so that, through what was in effect a transfer of a considerable section of the Industrial new business to the Ordinary department, by the year 1931 the Ordinary statement surplus had been artificially decreased by $20 million and was less than $11 million, whereas the Industrial surplus had been correspondingly increased, the figure being $59 million in 1931 as compared to $34 million in 1927 prior to the issue of this business. It should be emphasized that this decrease was entirely artificial and entirely temporary in its nature, as with added years of renewal income the surplus in the Intermediate Monthly Premium branch improved from this deficit of $20 million in 1931 to a surplus of over $10 million in 1939.

It will thus be seen that, as compared with the Industrial branch, the Ordinary department had in effect an investment in this Intermediate new business of approximately 20 millions of dollars which would be realized as that business grew older. It therefore seemed proper to meet this condition by dividing the investment contingency reserve in such proportions that a large part of this reserve was held in the Industrial department. But, as stated before, when anticipated investment losses were realized, such losses were allocated between departments on their proper basis, so that when this investment contingency reserve was returned to surplus through final elimination in 1937, there was not one cent of loss of any character for the entire period the allocation of which was in the nature of an arbitrary division between the two departments.

I state this again because there appeared to be some confusion in the minds of the Committee between a loss and a reserve for a loss, it apparently not being fully understood that when a reserve is held at the end of the year it effects a reduction in the earnings of that year, but if it is eliminated the following year a corresponding increase in the earnings of the following year from this source results, so that over the two-year period one operation cancels the other.

I am aware that you have indicated that requests to have written information placed in the record should be approved with caution because such testimony is not subject to cross examination. However, I believe this matter to be of considerable importance to both The Prudential and the Committee, and respectfully request that in event this letter be not accepted as part of the record, I be permitted to testify on this matter before the Committee. I am sending copies of this letter to each member of the Committee, and to Mr. Gesell.

Very truly yours,

VALENTINE HOWELL,
Vice President and Actuary.

The following letters, "Exhibits Nos. 2587 to 2604" were entered in the record and are printed at this point in connection with testimony, supra, p. 15339.

EXHIBIT No. 2587

LEON HENDERSON
Commissioner

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON

FEBRUARY 9, 1940.

DEAR SIR: In connection with the study of life insurance which this Commission is conducting for the Temporary National Economic Committee we are assembling much information with respect to sales and agency practices. To date most of our information has been obtained through the testimony of company executives or through questionnaires answered by Home Office officials. On many important agency matters, companies have advised that they do not have material of the character we requested.

Recently there has been a widespread feeling created among life insurance agents to the effect that it is the purpose of the life insurance hearings to undermine the agency system. I can assure you this is not true. As Senator Joseph C. O'Mahoney, Chairman of the Committee, stated recently, there is not the slightest foundation for this statement. I, for one, am convinced that the agency system of a life insurance company when properly managed provides the backbone for the entire business. Both the legislative and administrative members of the Committee have shown great interest in matters affecting the well-being of a life insurance agent. For example, Committee members were surprised and concerned to learn from the testimony of one official of a large life insurance company that our of approximately 4,000 contracts with whole-time agents employed during the calendar year 1938, 1,636 were terminated, the principal cause for termination being lack of production, and that from a study made by that company over 49 per cent of the whole-time agents working in a metropolitan area earned $1,200 or less and 31.4 per cent of the agents earned $750 or less. By reason of this information and other facts which have come to the Commission's attention it desires to obtain further insight into agency problems.

The basic purpose of the Temporary National Economic Committee is to study "concentration of economic power" and its relation to maintenance of free private enterprise. An examination of the life insurance business is an essential part of such a study inasmuch as no business in the United States commands a greater aggregate of capital or has a more substantial effect upon the national economy. This is strikingly apparent from the fact that the five largest legal reserve companies command over 54% of the $27,000,000,000 of assets of such companies. Given this concentration of economic power, it becomes important to know as much as possible of the causes which have brought it into existence.

There is also the question of employment. For example, agency turnover has a direct relationship to this important problem and indeed there are many other questions within the scope of the Committee's study which will be eliminated by an examination of agency practices. Principal among these are the fact that the sales methods used have a direct relation to problems of competition in the business and that sales practices have a direct bearing upon the consumption of the insurance service by the public.

I am writing you in the hope that through you and other agents the Commission may obtain additional information on any critical problems which you may feel from your own personal observations are confronting the life insurance agent at the present time. The Commission has already received many letters from life insurance agents which have been most helpful to it in its study and it is partly for this reason that I thought you might be interested in stating your views. Accompanying this letter you will find a sheet listing several questions which we consider to be of special interest such as compensation, turnover, training, selection, part-time agents, etc. Undoubtedly, there will be other matters which occur to you and upon which you will wish to comment.

Recently we have been conferring with a group of general agents and agents in the District of Columbia in the hope that with their assistance and the aid of their testimony some better understanding of sales and agency practices may be obtained. We should like to supplement this testimony with additional information from agents in other sections of the country. If you will kindly write in your own way your views on the topics mentioned above, or on any other matters of importance affecting the life insurance agent which you wish to bring to the Committee's attention, it will be greatly appreciated. A return envelope addressed to Gerhard A. Gesell, Special Counsel of the Commission's Insurance Section, is enclosed to facilitate your reply. No postage is necessary. We should like to hear from you by February 19 if possible.

If you wish you may indicate in your letter that you desire your name to be treated confidentially and it will not be released under any circumstances. Please be assured that this Commission and the Committee are vitally interested in this matter and sincerely anxious to have the benefit of your advice and your cooperation.

Very truly yours,

(Signed) LEON HENDERSON.
Leon Henderson.

Attachment.

TOPICS

1. Are you a whole-time agent or a part-time agent? Do you earn income from any source other than life insurance?
2. How many years have you been in the life insurance business?
3. What has been your average annual income in recent years and the average annual income of other agents in your territory? Have your earnings increased or diminished in recent years?
4. Have you any observations on the question of agents' compensation, for example, do you believe a guaranteed minimum salary particularly for new agents is desirable or have you any ideas as to how the method of compensation can be changed such as, for example, the reduction of first year commissions and an increasing emphasis upon renewal commissions?
5. Is there a large turnover of agents in your office and what do you think are the factors responsible for this turnover? In this connection you might discuss whether the continual entrance of new agents in your office hinders or helps the sale of life insurance in your territory.
6. Do you believe that the present methods adopted for selection and training of agents in your office are satisfactory and if not what suggestions do you have to make in this connection?
7. What are your views on the subject of the part-time agent?
8. Is the obtaining of new business emphasized in your office and if so do you think this feature is over-emphasized, under-emphasized or suitable?
9. Do you believe the market for life insurance has become to some extent saturated or that a lock of balance exists between the size of the market and the number of agents attempting to sell therein?

EXHIBIT NO. 2588

FEBRUARY 21, 1940.

DEAR SIR: Your letter and questionnaire requesting a reply by February 19 were received Saturday noon, February 17.

After a weekend of study and analysis as to the type of information you are seeking, I specifically answered your questionnaire as follows:

1. I am a full time life insurance agent and my entire income is derived from my life insurance activities.
2. I have been in the life insurance business for 24 years, being identified with the * * * Agency of the Northwestern Mutual Life Insurance Company all that time, as * * *.

My entire business career, therefore, has been in the life insurance business and with one company and one agency.

* * * * * * *

My average income from life insurance during the past five years has been approximately $8,500, of which $2,400 represents my salary as Supervisor.

My earnings have decreased in the past two years, materially so during the past year, because (a) I found life insurance more difficult to sell because people were uncertain and therefore unwilling to make long term committments for premium payments,—(b) when business is difficult, more time is necessary to encourage, work with, and supervise the activities of agents, new and old, and therefore there is less time for personal selling.

4. Because for a number of years I have been identified with the inducting, training and supervising of new men coming into the life insurance business, and because I have been identified with the School of Business, * * * conducting a ten-week seminar with selected seniors who were taking the insurance sequence, I naturally have given considerable thought to agents compensation.

This is a particularly important problem during the early years in which a young man finds difficulty in establishing himself in the life insurance business through lack of experience, lack of confidence in his authoritative knowledge, lack of an adequate and properly developed and qualified field of prospects, and lack of the sustaining income over frequent discouraging dry spells which renewals on previously written business would have afforded.

This Agency has tried numerous experiments here, particularly with what were believed to be qualified young men, recently graduated from the University (three-fourths of the men in this Agency are college graduates) but none of these experiments have worked out.

It is unfortunate that the apprentice in any field has practically been legislated out of existence. I believe that particularly life insurance offers splendid opportunities to the properly qualified young man who has completed his college and university education, for the life insurance business needs the trained minds of ambitious young men who have dedicated themselves to a career in life insurance if life insurance is to render adequately that type of service the public needs and is entitled to.

Maybe some of the many interesting suggestions of reduced first commissions and increased or extended renewal commissions would help stabilize the older agent, but would conversely make definitely necessary some combination of salary and commissions to enable the newer agent to survive his difficult first period.

Maybe this is very desirable and possibly some suitable method of accomplishing this can be worked out that will permit life insurance companies to stay well within the acquisition cost formula for new business.

I have no definite suggestions to make but I do hope that some solution will be found that will both financially sustain the rank and file of the older agents over low productive years and old age, and will permit many well qualified younger and newer agents to survive the difficult first years of acquiring knowledge of product, skill in merchandizing, and an ability to create and maintain a market.

5. Unfortunately we do know that there is a large turnover in the life insurance business. Even in this Agency which has conscientiously tried to build a successful Agency on ability rather than on numbers, and where no contract is offered to any but carefully selected and investigated men, qualified by tests, who wish to enter life insurance as a career work and who are carefully supervised throughout their entire affiliation with this Agency,—still we find that there is a larger turn over than is desirable.

Much of this turnover is caused by some of our most successful agents being offered and accepting positions such as General Agents, Supervisors, Home Office officials, etc., and by many other successful agents who have moved to different localities and climates, many of whom still remain in the life insurance business and a great number of these with this Company.

The heaviest turnover comes in the group of young men right out of school whom the General Agent is trying to develop as career men in life insurance to eventually take the place of other older, successful agents who leave, either for promotion or change of residence. Unfortunately, these young men have had no opportunity to display in their effective class room work many of the necessary qualities or characteristics which require several months of actual selling activity to disclose. Proper viewpoints and work habits must be developed and until they have actually been tried, it is impossible to determine whether they are there or lacking. Sincere efforts are made to help correct any faults or detriments disclosed, and if these efforts are not successful, such contracts are quickly cancelled, so that the young men who has proved to be unfit by field test for the life insurance business may quickly adjust himself to some other calling without consuming too many months of those valuable years immediately following college.

It is unfortunate that several of these young men who showed definite possibilities were compelled to leave the life insurance business because of the inability of the General Agent to further finance them.

In not one instance does a young man leave this Agency after contract has been cancelled without first having a personal interview with the General Agent, where it is emphasized to him that he isn't a failure, but that unfortunately he did not have some of the qualifications or characteristics necessary for success in life insurance, the lack of which would be no barrier towards his success in some other field.

If, however, the major fault is the common one of inability to work or to profitably control his business time, we caution him that the immediate and complete correction of this fault is necessary in whatever business or activity he engages, whether it be salary, commission, or in his own business.

There have been occasions when older men, successful salesmen in other lines, fail in the life insurance business because they find it difficult to sell an intangible rather than a tangible, because they are exposed to more turn downs and delays, because in life insurance they must do creative selling, and because the unit sale in life insurance is much smaller, they take their disappointments of refusals or rejections very hard.

Incidentally, I might here mention that it has been much easier to supervise agents new and old by insisting that they do certain things than it now is under the interpretation of the Social Security Commission that these agents are "independent contractors;" now we can only "suggest" that they do certain things.

While we do, therefore, have our turnover problems in this Agency, I believe that this has been minimized by the continual refusal to contract any man merely because he wants to get into the life insurance business until something better comes along, or to contract him because he might bring in a few thousand dollars of business. Many a good investment man has knocked at our doors during these past few years, but this Agency has never contracted one because the experience of other companies and agencies has proved that they wish merely to mark time until activity reopens in their own business.

We know also that seldom can we make successes out of the other companies failures. Naturally we have made many mistakes. We have seen many a man who seemed to have to a high degree many of the qualifications we were looking for, fail in this business, while many a man who seemed at the time the contract was signed to have far fewer advantages, has become remarkably successful.

Now men coming into the Agency, if they are aggressive, cooperative, and particularly if they are soon successful, are an asset to the entire Agency force. When newer men sit around the office because they are unwilling to or unable to work profitably, when they begin to rationalize their lack of success by complaining about factors outside of themselves,—they are a detriment to the Agency. This applies also to the older agent who has become nonproductive and finds solace in complaints and faults in everybody and everything, but never in himself. If anything, such a disgruntled, inactive older agent is a far more serious detriment to an agency than the newer, timid, inactive agent, for these latter can still be corrected, or eliminated, while the correction or elimination of the older agent is a far more serious problem.

6. Selection at best is a gamble, and all a General Agent can do is to practice definite rules and to exercise long-term judgment and hope and work that this judgment will be vindicated. I believe that the rule universally practiced in this Agency that no man be contracted unless he now meets certain requirements; unless he indicates the ability to work for and acquire the necessary future qualifications; unless he passes with a sufficiently high grade certain aptitude tests; unless we have a very creditable inspection report upon him; unless his health and family pictures are such that he will have a chance to succeed; unless in character and personality he will fit into the family picture of the Agency; unless the man has given us several convincing reasons why he

wants to go into the life insurance business; unless he has evidenced an earnest ambition to succeed in life insurance; unless the General Agent would have been willing to employ this man and pay him a salary if this were possible,—no contract is made.

No agent, when once contract is made, is permitted to go into the field until after three weeks of intentive education, *personal* training, and examinations have been completed. Emphasis in training is placed on developing the ability to recognize and diagnose needs and the acquiring of knowledge and skill to properly prescribe for those needs. Then for the next three week period, the agent is in the field on about a half time basis, making definite analysis and having personal discussions on each call and interview. Following this period, the agent is on a thirteen week personal reporting system to the Agency Department at Milwaukee in which the Agency cooperates in a follow through of suggestions and recommendations. From that point on, the agent continues to receive sought or forced supervision in his life insurance work.

7. I do not believe that the part time agent *or broker* has any place in the life insurance selling program, even in the smaller towns and villages. I believe that the insurance buyer in the smaller communities is entitled to exactly the same service from a well trained agent as is the resident of the metropolitan areas. Our office does have several part time men in small communities, but they have proved unprofitable to the Agency and I believe, in many instances, unprofitable to the buyer. This Agency has not employed a part time man in our major centers since 1918.

8. Yes, the obtaining of new business is emphasized in this Agency and I imagine will continue to be emphasized so long as the General Agent and the agents are convinced that properly sold and programmed life insurance offers the only proved certain method by which 90% of the people can acquire, through their own initiative and enterprise, a guaranteed estate that will definitely provide the minimum income requirements for dependents and for old age. New business will be stressed because the low cost of high quality protection is retained by the constant acquiring of new risks, fresh from the Medical Examiner. New business will be emphasized so long as we know that without the acquiring of new business, a company, an agency, and an agent is gradually liquidating old business.

But acquiring new business is not emphasized at the expense of conservation or of service. New business is necessary for the growth of the agent in terms of proper service and an enlarged clientele. Constant effort is necessary in this Agency, as in others, to impress the agent that he must widen his circle of work, that he must adopt plans and work methods which will take him out of a certain restricted small circle of activity into a broader field of selling activity so that a larger part of his annual production will be on new lives.

Never, however, does this Agency emphasize quantity at the expense of quality for it recognizes that a large volume of business which does not stay on the books is an unprofitable business to the agent, to the Agency, and to the company, and too often develops adverse centers of influence.

The ambition of the General Agency of this Agency, encouraged and abetted by the attitude of the Agency Department of this Company, is to establish a progressive successful agency of a limited number of capable and successful agents, placing an adequate amount of properly written, programmed and serviced life insurance on the lives of qualified, insurable prospects whose needs and plans are known.

Because the emphasis is here placed on quality business through quality agents, this Agency today is ranking its agents on actual commissions earned. The agent's attention is focused more on the factor of his first and renewal commissions than on the amount of volume written, because first commissions earned indicate present activity in the field, and a careful watch of renewal commissions indicates the proper servicing and programming of insurance to meet the changing needs of clients.

Commission earnings, however, is merely an efficiency guage, for never is the agent permitted to place his own interest above that of the insured,—nor to forget the best interests of the policyholder is always paramount.

Knowing, however, from satistics and from personal experience that for a tremendously large percentage of the people, life insurance forms that sole estate that is left, and realizing that every policy of life insurance properly sold to a person needing life insurance will benefit that person and his dependents far more than any commissions on that insurance can possibly benefit the agent,—

this office will stress the acquiring of new insurance compatible with its requirement that this insurance be quality, persisting insurance.

9. I do not believe that the market has been saturated. On the contrary, I believe that most people are way under insured and that many new opportunities in business and estates have been created for life insurance solutions.

I do believe, however, that there are too many unqualified men in the life insurance business, inadequate in knowledge to render proper service, who are burning up territory and creating adverse centers of influence.

This is the short-lived group with a very high turnover who do considerable harm, both to the institution of life insurance and the proper prestige of the qualified life insurance agent. We hear a lot about high pressure salesmen and while this term may be applied to the group just described, we must recognize the fact that unfortunately men do not buy life insurance,—they are sold life insurance.

The American public does believe in and has confidence in life insurance both as an institution and as a practical, certain means of solving their important financial and estate problems, yet very little of this vast amount of insurance would be in force today for the benefit of the insured and the dependents, if some authoritative agent had not overcome the competition of some immediate or personal comfort or luxury by earnestly convincing the man that he should prepare, by premium payments today, for tomorrow's contingencies.

The Agency System is only justified by the knowledge that men of their own volition will not buy life insurance, will delay sacrificing some current enjoyment for some future eventuality,—that men need authoritative service to determine plans for solving their needs, and primarily that men must be led by some convinced agent to act now.

While it is true that even properly placed and programmed life insurance may lapse or terminate due to some future unforseen financial readjustments or family circumstances, we must acknowledge that there are many more instances where today widows and children are enjoying income benefits of the insureds who died early in their life insurance coverage, some of them fresh from the Medical Examiner within the period of one year.

Many times I have seen men come into the cashier's office with maturing policies or full paid dividends, sincerely complaining that the agent had not sold him twice as much insurance as he did, when a careful check of our records show the great difficulty the agent had in convincing the man to act favorably in placing the original contract.

This office does not believe in "high pressure" methods, but it does recognize the necessity of the agent, by conviction and persuasion, to influence a prospect to act now if need for action is indicated.

While the poor agents throw a block against the better equipped man, while there has been a distinct falling off of business during these past few years (as records of the leading companies must show) which decrease in business comes in large measure from factors without the business, such as local and national business and economic factors, world conditions and competition, even by the Government itself in baby bonds, etc.—the market is not saturated so long as men must provide income for the living needs of their dependents and their own old age and so long as capable underwriters can convince men to sacrifice part of the present for the needs of the future.

Probably the best evidence that men are so disturbed by present conditions that they are unwilling to plan premium committments too far ahead, is the large number in this Agency, as well as throughout the country, who are buying more single pay life and endowment contracts than ever before, and that the insureds, with annual premiums, are converting these into single pay policies wherever possible. Unfortunately, the larger number are not financially in the position to do this, but yet are affected by the philosophy of no long-term committments. Most of these are wishfully waiting for a return of so called "normal" times,—when interest rates will prove more attractive to idle capital,—when enterprise and business will expand,—when the horizons will broaden and brighten,—and when they can look more hopefully towards the future.

Life insurance will continue to require hard, determined effort; selling conditions will continue to be difficult, at least throughout this year, for the presidential election years are always years of uncertainty and delay. Unquestionably there will continue to be a high mortality among the numbers of present life insurance agents. The present market, far from saturated, will be more receptive to the competent services of the capable underwriters who will survive and those who will be recruited after a far more rigid and serious selection and training.

* * * * * * *

I realize that this letter may not be read in its entirety. I have answered at length the questionnaire submitted because (a) I believe the Commission is sincere in its efforts to get a complete picture and cross-cut of certain conditions in the life insurance business and (b) I believe that my 24 years in various capacities in one agency have given me a fairly intimate knowledge of the various factors affecting the problems itemized in this questionnaire.

For fear you may believe that my observations may be influenced from a managerial or agency executive viewpoint, permit me to state that I resigned the first of January as Agency Supervisor to devote my entire time to personal selling in the field, because I found that the present difficulties of selling and my need for increasing my personal income preclude my giving but part time work and effort to that field which produces by far the largest percentage of my income.

Therefore I have no official or executive position in this Agency, nor no financial interest in the Agency. I am merely a Special Agent as are the other agents, and depend upon my personal efforts to provide living income for my family.

Yet I could not have been associated for so long a period with an Agency without having rather intimate knowledge of the Agency, of the agents, and of the purpose and viewpoints of the General Agent * * *.

He is an inspirational leader of highest repute in the community, nationally known in life insurance circles, and has the love and loyalty of every man connected with his organization. As previously mentioned, his ambition is to have an effective Agency of a limited number of agents, adequate and competent to serve fully the needs of this community, and every agent a successful agent. In his efforts to accomplish this, he had made personal and financial sacrifices for proper housing, adequate facilities, etc.

This is not a large Agency. There are 26 full time agents, most of whom have been under contract here over 15 years, some of them under contract as long as 30 years. There always has been a close knit, cooperative, friendly and helpful spirit in the Agency, with each agent interested in the success and progress of his fellow agent, which attitude is very helpful to any men coming into the Agency and joining the Agency family, as well as to older men who have gotten into a rut. There is a personal interest and a deep loyalty for the Agency, for each agent realizes that he has a definite asset in being associated with a successful Agency.

I could not have been associated for 24 years with this Agency without realizing that each of us has a real loyalty and admiration for the Company we represent, the Northwestern Mutual Life Insurance Company of Milwaukee. We know from some of our own distressing personal experiences that the officers and administrators of this company seriously guard the great trust imposed upon them to administer the affairs of this Company for the best interests of the present policyholders, who are the Northwestern Mutual.

While recognizing the importance of the establishment and maintenance of an effective Agency force, the Company's primary consideration has been first and last for the insured.

I believe that the Company has been able to build a fine, loyal, permanent Agency force because it has always treated its agents fairly and has protected them wherever possible.

The Northwestern Mutual has never stressed volume. It unquestionably has lost a lot of business by refusing to accept brokerage business, but it has helped the Northwestern Mutual agent by making his franchise more valuable thereby.

The Northwestern Mutual has never adopted temporary expedients and has not adopted sales plans or policies that were not sound or compatible with good underwriting. I doubt whether any other Company or any other Agency force with a lesser degree of loyalty than this would have had the persistent courage to refuse to write disability insurance during the ten-year period in which that was so universally featured. Unquestionably the Company lost a large amount of potential Northwestern Mutual insurance during that period and the Northwestern Mutual agent lost a large number of necessary commission dollars. But the officers of our Company convinced us that they were right and we now have another striking evidence of the far sighted conservatism of the Northwestern Mutual.

True, we should be less than human if at times we did not rebel at what we thought was a too rigid attitude. Declinations, particularly on substantial applications on which we have worked for a long time, are terribly disappointing and discouraging. Often we have resented the refusal of the Company to make personal exception where such exception might permit us to place substantial insurance, but in the long run we know that the Company is right in its attitude of "special privileges to none" and that that Company which is known as a "policyholder's" Company, is also a good agent's Company.

Yes, we are proud of our Agency of which five members have been presidents of the Minneapolis Association of Life Underwriters, and we are proud of our Company for its strong convictions and courage, and we are proud of the institution of life insurance because we sincerely believe that life insurance and the good life insurance agent is performing a very necessary service to the public of the country.

Of course, we know that neither the agent nor the company nor the institution is faultless. Just as in any other business or profession, or in the various departments and bureaus of the government itself, can be found many minor incidents or conditions which could be improved or remedied. Through my membership on numerous local and national committees, I know that companies, agency officers, and the National Association have worked seriously for several years to improve the selection and training of agents, the conservation of business, and the agents' compensation.

It is unfortunate, however, that the American conception that "every man is innocent until proven guilty" does not stand up in public opinion. No matter whether a man brought up before a grand jury for questioning is exonerated, that man is viewed suspiciously by his fellow townsmen.

Therefore, I feel that it is very unfortunate that the T. N. E. C. investigation of life insurance, which I choose to believe was entered into in good faith for the purpose of being helpful, has been so widely publicized that in spite of protestations of the officials of this investigation, the public has been led to believe that there is something definitely wrong with the institution of life insurance.

The Company officials and agents alike will welcome the disclosure and suggestions and corrective measures for those minor faults which your impartial investigation may reveal. I believe you will find, however, that the majority of these faults are the result of strong competition rather than the result of the "monopolistic control" of the leading companies.

But I close voicing the earnest hope, not as an agent but as a policyholder, that the further publicity of the investigation and with the eventual summary findings will be such that men will not lose that strong confidence with which they have turned to this great institution to personally achieve, to the best of their ability, security for dependents and for old age.

For personal reasons, I do not wish my name used.

Sincerely yours,

——— ———.

EXHIBIT NO. 2589

FEBRUARY 16, 1940.

DEAR SIR: In answer to your letter of February 9, 1940, I am pleased to give you my views on the topics mentioned in your letter.

I am very pleased with your statement regarding the agency system of life insurance when properly managed. I am afraid that the companies were spreading this propaganda amongst agents to frighten them—but they can't fool them.

I will now answer your questions:

1. (a) I am a whole-time agent.
   (b) I also have income from general insurance.
2. Over twenty years selling life insurance. Last nineteen years with same agency.
3. (a) In my own case over $4,000.
   (b) The income of other agents in my agency has greatly diminished, especially the old timers. This is mainly due to the fact that after nine years, for business on the books, the agent no longer receives any renewals, although much service in connection with servicing policyholders has to be given by the agent. This is very unfair, as everybody from the President of the Company, down to the office boy receives his regular pay without cuts. In other words, everybody gets something out of the premiums collected except the agent whose efforts are responsible for premium income. More than 50% earn much less than $3,000 a year. Very conservatively speaking, out of a total of

over one hundred agents domiciled in our offices, at least fifty earn less than $2,000 a year. Some much less than $1,500.

(c) Although my own earnings have increased in the last two years, they are not nearly as much as they have been in 1925 to 1932.

4. Yes. My observations on the question of agent's commissions or compensation are as follows: I do not believe that a salary should be paid to a new agent. A salary would attract too many adventurers and otherwise lazy persons, who had nothing at stake and nothing to lose, and soon they would be out. The agency would then be out money and the policyholder would be left without the agent's services. Of course if a more careful selection of agents would be undertaken by our companies, properly training them and not sending them out in the field until they were fully equipped and educated in the proper manner to care for the needs of the prospective clients, the company could pay a small salary during the training period only. Then they should receive the regular rate of commissions. It is my belief that the new men, after their training period and when they are ready to go into the field to sell, should receive an advance against their future earnings, which is only fair if the company wants to have first class men because they must live like human beings, and it is not always easy to earn sufficient commissions during the first year in the business to make a decent living. It is also my belief that the present basis of commissions are entirely wrong and inadequate, as far as the agent who makes life insurance his life work, is concerned. Permit me to elaborate on this question of compensation, because in the final analysis it concerns the policyholder's welfare.

Some time ago, the Secretary of my Company discussed in the Agency Bulletin the question of lapsation which is always a problem under the present system. Being a close observer of these problems, I wrote to give my personal observations as follows:

"This question of lapsation will always be with us unless the companies change their method of doing business. The truth of the matter is that in the rush for new business, a great game of kidding each other has sprung up. By that I refer to the practice of life insurance companies to release their monthly statements, showing the amount of new business written, while nothing is being told of old business being cancelled or lapsed.

"Because of this situation, the general agents kid the companies, the agents kid the general agents and the companies kid the public. What good does a company derive from writing $100,000,000 new business in a twelve month period, when more than the amount written in the same period is cancelled and lapsed. This kind of business gets the company nowhere.

"You state in your article, 'with new policies there is a drain on surplus for a few years in setting up required reserves. Only after a number of years does a policy become, so to speak, self-supporting and begins to get out of the "red", from the company's standpoint.'

"If this is true, then why doesn't the company take steps to remedy this situation? The trouble is many of the company's executives haven't the guts to start something which will benefit all concerned. I shall explain what I mean.

"All emphasis is put on the securing of new business, and it is heralded all over the land, forgetting entirely the importance *of increasing the business in force.* To my mind, increasing the business in force, if it is done properly and without pressure, should be the paramount duty of the heads of the agency department of a life insurance company.

"You may say that this is being done by the Conservation Department of the companies. That is true, but it would be unnecessary to have this extra department, if agents in the field would know that they are expected to conserve business. Of course, under the present system, an agent may write a half million new business in a year, and the company will spread his name all over the Agency Bulletin. At the same time the same agent may cancel out or lapse a like amount or more during the same year and nothing is said about it. The company even pays him for doing it, when he should be penalized.

"As to the high-pressure salesmanship, which you mentioned in your article, I think that it can be traced directly to the companies' glorifying the agents who qualify for the quarter million and half million dollar clubs. Under the rules of these clubs, only new business counts. Regardless of cancellations and lapses, I can't see any justification in this kind of encouragement.

"As a policyholder, I am also interested in the expense account of the Company. By this method of giving agents recognition for new business only, the company will have most of its policies in the 'red' for a long time to come.

Sooner or later this system will have to go, and a 'new deal' for life insurance companies and policyholders will take its place. The sooner the better.

"Next, the Company should make up its mind that agents do not exist merely on glory, and that they are entitled to some method of compensation in addition to first year and renewal commissions for nine years of 5% which are now paid. You will have to admit that it would be more profitable to the company to pay the agent something, even if it is only an additional 5% from the 11th year on and for the life of the policy, to keep the old business on the books, rather than pay him 50% for rewriting the business. Besides, the new business written is not always as good as the business that was already on the books and out of the 'red.'

"On the other hand, you can't blame an agent, who has no more financial interest in keeping a policy in force, especially as the company will pay 50% commission on rewritten business. He has to live, so he takes the easiest way out.

"If we would adopt such a plan for compensation for agents, that of paying life long renewals, the agents' income would never diminish to the starvation line and he would gladly keep the old business on the books, which in the end would mean less overhead for the companies and cheaper rates for policyholders, because more policies would get out of the 'red.' If only somebody will have the courage to start something—then watch the results."

* * * a week later I received the following reply:

"(Personal)

"Dear ———: I have been reading with a great deal of interest your letter of March 28th, which has been going the rounds here.

"In principle I agree with your ideas all the way through. I do not think that the trouble is lack of courage. It is rather lack of means.

"Our aim in conducting the business is profit, for it is only through profit that we can improve dividends to policyholders. The best methods of compensation and recognition of the agency organization are to emphasize those things which are profitable and penalize for those things which are not. In other words, the agent who makes money for the Company should make money for himself.

"We have many times considered how we could link up the individual agent's conservation record with his new business record. Two years ago I laid this problem before the Executive Committee of the Five Hundred Thousand Dollar Club but the committee felt that it was not possible to write this into our rules.

"Increase in business in force is not a perfect figure for recognition. It gives an advantage to the new agent but penalizes the old agent who most absorb the terminations on a considerable volume of business in force. This would scarcely be fair. Perhaps you have a suggestion.

"We are also faced with a number of obstacles in compensation. The limitations of the New York law do not always permit us to pay for what is profitable. Furthermore, as a rule, anything which is given the agent as under the Nylic plan is usually accompanied by something which is taken from him. I believe that most agents feel that they would prefer that their commissions be disbursed to them as under our present plan than if our commissions were disbursed under an annuity plan. I assure you that our ears are not closed to a new idea.

Sincerely yours,

(Signed) * * * *Vice President.*"

I suggested that the laws be changed so a company will be permitted to pay for business that is profitable. What does your committee think of this suggestion?

5. The turnover of agents in our office is much less than the average. That is mainly due to the fact that we are a better than average agency. Being in business over twenty-five years and having been founded by a great personality, it was only natural that he should attract a better than average class of men. The founder of our agency was always interested in the welfare of his men, and as a result he was rewarded by the greatest show of loyalty that was ever accorded a General Agent and for that matter to any head of an organization. However, since his death, in 1934, this agency is just another agency now. Not doing the business it formerly did and very few new men are being taken on. Although those few who have been taken on, 90% of them are no longer with us. This is due mainly to lack of proper selection and supervision and a great lack of personal interest in the new agents. The older agents need it also for it would help keep their morale up and their spirits high. Naturally, when new men are taken on it does not help the other agents in the same territory much. Unless they are men who come from other companies and they are already established. Otherwise new men hurt the business rather than help it. The new man has to

sell on basis of friendship, and often he gets a policy from a friend just to help him out. However, if this same new man were properly trained, he would not have to ask for business on the basis of friendship, but rather on the basis of his friend's needs. That always results in a better relationship between salesman and client. This business can use many men who would be willing to learn, provided the companies would in turn be willing to provide fine educational facilities to the right men.

6. No. I do not believe the present method of selecting and training of all agents in our office at present is satisfactory. Although a small beginning in the right direction has already been made. Not by the company, however, I am referring to the new law which requires an agent to pass an examination before he can receive a license to sell life insurance. While the examination is not very hard to pass, it will prevent the unscrupulous general agent or manager from hiring every Tom, Dick and Harry. It will put the brakes on every failure in other lines to get himself licensed and sell life insurance. Regardless of his lack of knowledge of the greatest business in the world. Our agency, although limited by lack of agency supervision, does provide opportunities for training to those who want to take advantage. We have a class for those who want to prepare for the degree of Chartered Life Underwriter. This is a very extensive course and is greatly desired by men who want to make life insurance their life work. It would be very hard on the companies, if all agents were required to have a C. L. U. degree before they could be licensed to write insurance. But the policyholders would be the beneficiaries. Of course in time we may come to that too. I am in favor of it.

7. We don't need them. Full time agents are starving now.

8. Yes. It is always talked about. New Business! New Business! Overemphasized. It certainly is not desirable.

9. No. The market for life insurance in my opinion, has not become saturated. The only fault lies with the problem of too many untrained and ignorant agents. The untrained and ignorant agent is mostly employed by the industrial companies, but the companies writing ordinary business have plenty of those too. I will say this, in my opinion the high pressure methods employed by the companies selling industrial insurance is a crime. Many times an industrial agent will sell a 50¢ policy to a mother on the life of a child, while her husband, who is the bread-winner has no insurance. That 50¢ would buy a $1000 ordinary life policy for her husband. However, that does not suit the industrial company. The husband is not home, so why bother. It is so much easier to browbeat and bulldoze an ignorant woman into buying a savings policy for her child. There is your trouble. Only in this respect do I agree with Mr. Siegel, (who in my opinion is strictly a phony) who robs these poor ignorant people of thousands of dollars in fees, for something that they can get gratis, if they would only run to the offices of the industrial companies as readily as they run to Mr. Siegel's office.

According to the papers reporting the hearings, Mr. John A. Stevenson said that the reason the companies are still using the antiquated mortality tables, is because the agents desire it so they can have larger commissions. If Mr. Stevenson did say such a thing, I am very much surprised. After all, the agents have no say in this matter. I know that for years most agents wanted to have the newer uptodate mortality table used so policyholders will get the benefit of lower premiums. The companies just don't like to make any changes unless they are forced by law. Therefore, I am glad to see the New York Legislation doing something about it now.

I wish your commission could find out what's behind the companies' objections to include the agents in Social Security benefits. After all, are we not mainly responsible for the executives getting *their* pensions at retirement? All this comes out of policyholders premiums and the pensions are pretty liberal at that. One of the reasons advanced by the companies, is that we are independent operators. That is the bunk. Why do we have to sign a contract with the company to which the General Agent or Manager is a party and usually it runs for a period of ten years.

Then another practice which refutes the companies' assertion that we are independent operators, is this. In the course of years with an agency, an agent may become indebted to the General Agent or Manager, only to the extent of advances against his renewals. This may be due to sickness and other unforseen contingencies.

If an agent so indebted wants to make a change, say he has an offer from another company which would benefit him more than his present connection, he has no chance to take advantage of his opportunity. The General Agent of the other company will first get in touch with his present General Agent to find out if it is Okay to hire him, but his present General Agent will say—"oh no, you can't have him—he owes us some money which we advanced". And the other company can't have him even if it wants him. So what kind of independence is this? There is such an agreement (not in writing of course) amongst all the General Agents in New York. It happened to me, so I know what I am talking about.

About four years ago, another life insurance company offered me a General Agency and the only way I was free to go was to pay up at once what I owed my agency at that time, which I could not do. So I lost a fine opportunity. I have since repaid everything and I am now *free* to go somewhere else, if I want to. But think of the other poor slaves. Maybe the commission can give publicity to this nefarious practice or even stop it.

I wish to avail myself of the privilege of having my name treated confidentially although I will not hesitate to testify regarding the above.

Very truly yours,

——— ———.

EXHIBIT NO. 2590

[Copy]

FEBRUARY 21, 1940.

DEAR MR. HENDERSON. Your letter of February 9th was received by me today and I am delighted to be of service to your Commission as well as to the country in general, and the life insurance business in particular.

I am a whole-time life insurance agent of the Massachusetts Mutual Life Insurance Company, although I broker business through a great many other companies. I have been in the life insurance business 18 years and my average annual income in commissions in recent years has been approximately $10,000.00. My earnings have increased in recent years, although some years have been better than others. I have a salary of $1,000 a year as an officer of a small corporation, which is the only other earned income that I have. As I am not a general agent, I do not know what the average annual income of other agents in my terrtiory would be, but I am sure that it is very small.

I believe that a guaranteed minimum salary for new agents is desirable because better agents would be selected if salaries were paid. I believe the insurance business could be benefited as a whole by having better agents, and by offering men a salary until they are launched into the business would be one of the ways of obtaining a higher grade type of agent Moreover, the general agents would be more particular as to the type of man they employed if they had to make an investment in the agent instead of the agent taking the gamble on commissions only.

We all agree that the cost of insurance can be reduced by selling the business properly and having the business stay on the books instead of having policies bought then surrendered, new policies bought, and the procedure continued. With a few rare exceptions, I personally have not had this experience, but I know that I am in the small minority in this respect.

It seems to me that the first year commission could be reduced and a bonus paid for business that is continued in force. Furthermore, I believe that commissions should run longer than 10 years. The same service is expected and is given 12, 15 and 20 years after a policy is bought, and there is no reason why the agent should not be compensated for same. In the long run it would be a wise procedure to pay the agents who originally placed the business on the books for as long as premiums are paid on the contracts.

It seems to me that insurance premiums could be reduced, particularly if two things were done, i. e. (1) a modern up-to-date mortality table used, and (2) by paying a smaller first year commission and spreading the commission over a longer period. Furthermore, commissions are supposed to be based on the ordinary life contract. Policies with higher premiums, such as 20 payment life, are supposed to pay the agent more money than the ordinary life, but in many companies this is not true. In other words, I think the whole schedule of commissions should be revised, and in no case, with the exception of term insurance, should an agent get a smaller commission than that which is paid on the ordinary life basis. Furthermore, a great many companies reduce the commission after a certain age. For example, many companies pay the same commission on policies issued at age 63 that they do on age 60, even though the premium is greater. In other words, there is a penalty for doing business on older men, although the same mortality table and acquisition cost is in the premium. This does not seem fair to me.

Because of the investment problem of the insurance companies, they have done everything to discourage agents selling annuities and single premium policies, and today are paying approximately ½ of the commission that they formerly paid. The life insurance business is supposed to be a non-profit sharing business for the benefit of the public, and if there is a need for annuities, the companies should fill that need at the lowest possible cost. As most of the agents are having a difficult time making a living, I think it is poor policy to cut commissions as they have steadily done for many years, which has made the situation as regards the agents even more difficult.

I believe that there is a terrific amount of money wasted through the General Agency system: (1) In advances to agents who leave the business and the general agent or company is left holding the bag; (2) through the training of agents who are not adapted to the business; (3) through advertising, sales contests and inefficient methods of obtaining business; and (4) by business that is not properly sold so that it is not continued in force. If this waste could be stopped, the acquisition costs of insurance would be reduced, with the corresponding result that the public would obtain insurance at a lower cost.

There is a large turnover of agents, not only in my office, but in every office in my locality, and from what I am told, in the whole country. The main factor responsible for this is that general agents are anxious to make a showing and, therefore, take every available man who is unemployed and give him a contract to sell life insurance. A great many of these men are not equipped to sell insurance and sell their friends and relatives and then drop out of the business, with the result that the business does not stay on the books. I think that the crux of the whole matter is in picking salesmen who, first, have character, second, selling ability, and, third, an aptitude for the life insurance business. The life insurance business takes no capital and so if a man is out of a job, he turns to this business to make some money. I believe that the continual entrance of new agents in my office and in other offices, hinders the sale of life insurance not only in my territory, but in all territories.

I started in the business as a part-time agent, and I am grateful for the opportunity of having been able to start as I did. It seems to me that it is satisfactory to allow men to be part-time agents while learning the business and to see whether they have an aptitude for same. However, I do not think that in the larger cities that part-time agents should be allowed to stay in the business beyond a probationary period.

I think the obtaining of new business is overemphasized in my office, and in most offices.

I do not believe that the market for life insurance has become saturated or has anywhere near reached the saturation point. There is a real need for life insurance among the people of our country and if we had more insurance in force we would have less need for relief, orphan asylums, homes for the aged, etc. However, I believe the number of agents attempting to sell insurance is altogether beyond the number necessary, and I believe the business could be much more efficiently handled and maintained by a smaller corps of more able underwriters.

Further, I believe that there are too many companies in the life insurance business. In my opinion, safety should be the prime requisite of an insurance company and if several hundred of the smaller companies were to go out of business or merged into larger units, I think it would be better for the business. It seems to me that fifty well-managed life insurance companies could serve the United States much more efficiently than the hundreds of companies now in business.

I would like to state that I am for federal supervision of the life insurance companies if that means that it will be in place of, and not besides, state supervision. A great many states have not only inadequate insurance laws, but poor insurance laws and the public is not properly protected. Furthermore, the fees for licenses and the taxes of insurance companies to the various states, are in excess of the amount necessary for the state supervision. If this could be eliminated, it would tend to make the cost of insurance less. Furthermore, the examination of the various insurance companies by the various states is a very expensive and inefficient way of doing business. With federal supervision and the federal government checking these companies, this cost also could be reduced substantially.

I wish that you would treat my letter confidentially, but if there are any additional questions that you would like answered, I would be glad to do so. Or, if you would like me to appear before any hearing, I would be glad to do so at my own expense.

Yours very truly,

——— ———

Exhibit No. 2591

My Dear Mr. Henderson: In reply to your letter of February 9th and the questionaire attached:

(1) I am a whole-time agent. I do not earn income from any source other than life insurance.

(2) I have been in the life insurance business two years and eleven months.

(3) My average annual income from first year commissions during this period has been $1,400. I have no information as to the average income of other whole-time agents in this territory. We have a few whole-time agents whose income is between $3,000 and $5,000. We have some agents whose income from production and supervisory work exceeds $10,000. The income which I have derived from life insurance selling is slightly smaller than the salary I received from my last job.

(4) I believe a guaranteed minimum salary for new agents is desirable. My answer to this question should be considered in the light of my very limited experience in the business. A reduction of first-year commissions would seem to me to be very detrimental because it is the very small income during the first few years that is now keeping capable young men out of the business. The compensation recently inaugurated by the Northwestern National Life Insurance Company appears to me to be greatly superior to the plan now in general use.

(5) There is no turnover of agents in our office. In the Penn Mutual office where I worked during my first eleven months in the life insurance business, there was a very large turnover. This was due to recruiting methods under which any man who would accept a contract was given one, and the failure of the supervisor to keep his promises regarding help which he was to give the new agents. That supervisor is no longer with the Penn Mutual. Their practice seems to have changed radically since the time I was with them. The continual entrance of new agents into this territory hurts the sale of life insurance in some degree because they build up a resistance by their unskillful methods. Also, they cause a certain amount of dissatisfaction by their lack of knowledge. This feature, however, should have very little, if any, bearing on rules regarding the entrance of new men into the business. Our primary interest must be that the insuring public is well served. Service should be the standard by which recruiting is judged.

(6) The present methods adopted for selection and training of agents by the general agency in which I work are very satisfactory. The very high standards maintained have resulted in the entrance of very few new men into this agency (the Kansas City Agency). The training methods leave nothing to be desired. This question is answered from the standpoint of the agent. It has seemed to me sometimes that the Company is unnecessarily handicapping itself in the production of new business by failure to recruit. However, that is a matter of Company management, and the present system certainly works to my benefit.

(7) There may have been a time when the part-time agent was justified. The development of automobiles and hard roads has certainly eliminated any justification. The public can be better served by a full-time professional man than by any part-timer. It is possible now for a full-time man to travel about rapidly and cheaply enough to service everyone in this territory. The part-timer is a menace to the insuring public, and a nuisance to the full-time agent. He is a leech living on the prestige built up for the institution by well qualified men. His work constantly tears down that prestige.

(8) The obtaining of new business is emphasized in this office. The emphasis is constantly on a high quality of new business. I believe the feature is suitable.

(9) The market for life insurance is so many times greater than the present amount of insurance in force that I cannot visualize an end. In 1909 a friend of mine in northern Indiana, who had made a considerable success selling

automobiles, sold out his agency and went into another business because the public had at that time, he said, "bought all the automobiles they were going to buy." From the testimony of Mr. John A. Stevenson, President of the Penn Mutual, before your committee, and from life insurance magazines, I learned that the American public is now putting away in life insurance premiums almost exactly the same sum that it spends for liquor, and approximately half the sum that it spends for tobacco. Our own Company's figures indicate that two-thirds of our payments go to living policy holders and only one-third to beneficiaries. We have, it seems, been able to presuade American men to set aside for the benefits of their widows and orphans one-third the amount they pay for alcoholic liquor, and one-sixth the amount they spend for tobacco. Not a very impressive record.

The best information available indicates that more than 50% of the property values of the United States are insured. I am told that the figure in Topeka is 70%. Equally authentic information indicates that not more than 10%, and perhaps only 7%, of the human life values of the United States are insured. It would seem that our market is far from saturated.

You have suggested that the agents express their own opinions as to phases of the life insurance business. It is my opinion that if the Temporary National Economic Committee were forthwith to discontinue its sessions and destroy all its records that they would be contributing more to the welfare of the American people than any other action it might take. This is not because there is anything in your records that a well-managed life insurance company need fear, but because the constant reaching out of government to take control of private business has kept us in the worst and longest depression this country has ever known.

If your Committee has any genuine desire to be of service to the American investing public, there is one place you can start immediately. That is in the investigation and eventual control of the sale of insurance in all its forms by mail and radio. This racket is quite outside the power of the State Insurance Department to control.

Exhibit No. 2592

Dear Mr. Henderson: I was rather glad to receive your letter of February 9 with respect to the whole subject of sales and agency practices of life insurance companies. Incidentally, your letter did not arrive until this morning, and it has therefore, not been possible to get my reply to you by February 19 as requested.

In as much as I intend to the best of my ability to answer in as much detail as possible it occurs to me that you might be interested in a description of the writer. Briefly then, I am married with two dependent minor sons, and a self supporting adult daughter. I am 42 years of age. I was born of a Swedish father and a Scotch American mother, and as an educational background, I completed two years of college.

1. I am a full time life underwriter. My income, however, is supplemented by commissions from:

(a) Annuities
(b) Accident and Health Insurance
(c) Group Insurance
(d) General Insurance

2. I have been in the life insurance business for 16 years as of last December.

3. My average annual income during the past ten years approximates $3,500. In brief detail, my income since entering the business is as follows:

1924	$1700 plus	(first year in business)
1931	$9000 plus	
1933	$2200 plus	(bottom of depression)
1939	$6000 plus	

The average annual income of other agents in this territory has undoubtedly been less than $1,200 per year. This statement is based on a general knowledge of conditions locally among life underwriters, rather than a detailed knowledge among insurance men as individuals. The general picture, of course, will show decidedly decreased earnings from 1929 to 1933, and some increase from 1933 to 1939.

4. From the point of view of the new agent a guaranteed minimum salary would undoubtedly be desirable. From the point of view, however, of established agents, it might result in penalizing them. It has been my experience that changes in methods and plans for compensating agents have invariably resulted in lesser compensation for the same production.

My conviction is that a flat commission of say 10% over a longer period of years than the present ten year contract would work out to the best advantage of the insureds, insurance companies, and the field men. Most of my associates and competitors in this business would not agree with this suggestion. The weakness in it is that field men are entrely unorganized for collective barbaining, and probably would not receive their fair share of the benefits resulting from the better persistency thus secured.

Several years ago, I read an article to the effect that in a certain company ordinary life policies on the average lapsed at about the 10th year, limited pay contracts on the average at about the 11th year, and endowment contracts lapsed on the average at about the 12th year. Along with the facilities available to your commission, the exact figures on this point can no doubt be secured, and a rather interesting and logical conclusion arrived at.

5. The writer has been under contract in his present connection for 7½ years. The number of new men under contract during this period has been about 16, of whom one is at present earning an average of about $3,000 per year. The other 15 have failed. The ratio of successful new men to the number placed under contract in this agency is, therefore, one to sixteen.

The factors responsible for this turnover are as follows:

a. Insufficient funds with which to finance period of becoming established (with consequent worry and inefficiency).

b. Insufficient education in insurance (both as to quantity and quality).

c. No particular minimum production requirements (on this point, it is to be noted that my Company, for example, has a minimum requirement for payment of full renewal commissions of $3,000 in new premiums, and an agent, for example, who pays for but $2,000 of new premiums is penalized by the loss of his 7th to 10th year renewals inclusive. Many managers are satisfied to let agents with sub-standard production continue along because of the fact that these "residuals" revert to them.

d. No reasonable sales ability established before being placed.

The continual entrance of new agents in our office is a detriment, though the company would undoubtedly sign up several more likely youngsters with little or no urging (we have had as many as 13 under contract at one time). Our office facilities such as desk space, and particularly secretarial service are cramped, and insufficient as is. When in the past our force was more than double its present size, there was constant bickering and wrangling about prospects.

I might add that our office is at present composed of four full time agents whose average annual earnings approximate $3,500, and one part time woman agent whose average annual earnings approximate $300.00.

The best answer, I believe, as to whether or not the continual entrance of new agents into our office hinders or helps the sale of life insurance in this territory is evidenced by the fact that the five agents above mentioned last year paid for a total of about $25,000 in new premiums, whereas, in 1934 (a year not uncomparable with 1939) 13 men (composed of three established life underwriters and ten new men) paid for $21,000 in new premiums. In my opinion, the doubling of our force, at the present time, would result in a smaller total production from the entire group.

6. I believe that the *present* methods in use for the selection and training of agents in our office are satisfactory. Emphasis is here placed on present methods because those used heretofore were not satisfactory, and the probabilities are with the removal of the present manager that the previous unsatisfactory methods would be resumed.

I believe that the methods used generally (by all companies, including my own) are unsatisfactory. Corrections could be made as follows:

a. By determining that funds from some source are available (without going into debt) with which to finance the period of becoming established.

b. By educating adequately for the insurance business.

c. By rigidly adhering to reasonable minimum production requirements (some such arrangement for example, as allowing full renewals to a first year man in the business based upon a first year production of new premiums of approximately $1,200, and to a second year man based upon a second year production of approximately $2,400 in new premiums, and to a third and subsequent year man based upon a third and subsequent year production of approximately $3,500.

7. In my opinion, there is no place in the field of life underwriting for part-time agents. Twisting, rebating, misrepresentation, incomplete and unfair comparisons, and all of the other evils incidental to this business flourish where the ill-trained, uneducated, ill-financed part-time insurance agent abides. In my 16 years in the business, I have yet to meet the first part-time agent whoever became even a good class "B" life underwriter, and it is my conviction that the very few exceptions to this rule are those exceptions which prove the rule.

8. In my opinion, the obtaining of new business in our office as *presently managed* is suitable. In the past, the obtaining of new business has been widely over emphasized largely by contracting too many men who had no prospects of ever achieving satisfactory minimum income in life underwriting. In the future, under another manager, the odds are that it probably would be again over emphasized.

9. I do not believe that the market for life insurance has become saturated, to any noticeable degree, at least.

It is my conviction that a definite lack of balance exists between the size of the life insurance market and the number of agents attempting to sell therein. As you probably know, 80% of the business is now being written by 20% of the life underwriters (probably the better trained and better equipped group). If we could have another 30% of the life underwriters trained to do as good a job as the top 20% and eliminate the lower 50%, a situation would undoubtedly result much more satisfactory to the public and the companies.

The writer is not surprised that the company executives and home office officials who have thus far testified before your Commission have plead that they do not have the material which you have requested of them. We, in the field, continually receive evasive and incompleted answers to questions which are asked. I have never been able to ascertain for example how many life underwriters the Connecticut General has under contract. I have before me, the Honor Roll list of 1940, and I note that 168 agents have qualified. What percentage this represents of the total agents under contract, I do not know, and in 7½ years, have not been able to ascertain. I have also before me the list of those qualifying for the "President's Club", and find that this list is composed of 48 agents whose average first year premiums amount to $8,000, which means that in first year commissions, they earned approximately $3,200. On the average, I assume that their renewal commissions would equal a like amount so that a general conclusion would be that these 48 top agents enjoyed an annual gross income last year of about $6,000 plus. Generally speaking, I would say their business expense ran somewhere around $1,000, and their net income therefore, approximately $5,000 plus.

The writer has not been one concerned with any efforts on the part of the TNEC to undermine the agency system. In fact, he has been amused by the change of attitude on the part of the company executives. Years ago, you know, it was a rather common practice to advocate Federal control as opposed to state supervision. Today, the broadsides eminating from all home offices (so far as I know without exception) are blasting away at the possibility of any Federal control whatsoever. Frankly, it is my opinion, that until such time as we have unified control, we will continue to have situations arising such as in Illinois during most of the depression (I refer, of course, to the fact that company after company went under until the situation became intolerable, and was finally corrected by the passing of new and improved legislation pertaining to insurance). The situation here in Ohio, for that matter, was none too good. At least two Ohio companies went into receivership, several were absorbed, and I don't know how many dozens of the 40 odd companies which went into receivership elsewhere were doing business in Ohio at the time of their bankruptcy.

The figures which you quote concerning a large life insurance company are not surprising to anyone who has been in this business for any length of time. The only question in my mind is, "Were they typical or were they better than the average?"

I believe that the proposition of having the TNEC study life insurance and life insurance companies is sound, and wonder if it would be pertinent to inquire as to why it is that those of us working in the field and representing companies which write group life insurance are unable to buy group life insurance although our companies tell us it is a good service to sell, or why those of us representing companies which write group accident and sickness insurance and group hospitalization insurance are unable to buy these services although we are told they are good services to sell, or why those of us representing companies which write group pension insurance are unable to buy this service although we are told it is an excellent service to sell. (Any man employed by my company on the home office pay roll whose income, and years of service are approximately the same as mine, is entitled to all of the above benefits. We field men are not.) In speaking of concentration of economic power, I believe that the above is a good manifestation of it in the insurance business.

One of the largest problems confronting the life insurance agent at the present time is his insecurity. As you know, a very small precentage of our American people ever achieve even the most modest degree of financial independence, and I have a deep conviction that if your commission will attempt to get at the facts, it will be discovered that a substantially smaller percentage of life insurance agents ever achieve this goal. A check up of the records will show, I believe, that the home office officials of the various companies literally spent thousands of dollars in preventing their agents from being included under the benefits of the Social Security Act. They have classified us as independent operators. Other than for the purpose of excluding us from Social Security, I, for one, am at a loss to know from whence derives the so called independence.

I have been actively interested in insurance organizations ever since I entered the business over 16 years ago, and to my own knowledge, can list less than a half dozen men who have achieved in a life time of effort in this business, even the most modest degree of financial independence.

Another point which, in my opinion, is pertinent and important would be arrived at by asking some member of your commission to examine the contracts which the life insurance companies place before us for signature when we enter the business. Even the most cursory perusal of these contracts will readily indicate to you that they are biased, one-sided, and unfair. We agents, being without collective bargaining power, either sign them or remain out of the business. It is my opinion that no man, dealing with another man on a basis of equality, fairness, and reasonableness, would ever sign these agents' contracts.

Because of the frankness and detail used in answering your letter, I believe it advisable to request that my name and connection be held confidential. Please be assured that I will be happy to answer any further inquiry which you might wish to send me. I hope that the length of this letter has not detracted too much from whatever value it may have for your purposes

Sincerely yours,

——— ———.

EXHIBIT No. 2593

FEBRUARY 17, 1940.

DEAR SIR: In reply to your letter of February 9, 1940, relative to my experiences in the life insurance business, I am giving you, in so far as I can, the information you have requested.

* * * * * * *

1. I entered the life insurance business in 1930 * * * without having had any previous experience in the life insurance business and with no preliminary training before being licensed, although I had had approximately twenty-five years experience in selling which covered various lines. I was deeply in debt when I entered the life insurance field and my Company financed me for a period of approximately two years investing a sum of approximately four thousand dollars before I was placed on strictly commission basis. This money has since been repaid and my income now comes almost wholly from renewals and first year commissions * * *.

2. I have been in the life insurance business since December, 1930, which makes this, the year 1940, my tenth year.

3. My average income has been between four and six thousand dollars and has naturally increased as I have constantly put a fairly good volume of new business on the book every year and I have been fortunate enough to have had a renewal ratio of between eighty-five and ninety-five per cent, which naturally has been a factor in gradual increases of income. Agents in my employ, as-well-as other General Agents in this vicinity, as a rule have not done as well, which I attribute in great part to the fact that they have not worked at their job as assiduously as I have and again some of them are in the wrong business.

4. My financing, when I went into the business, was done by a former management of the Company and while they have made good money on my operations, the present management would never have considered making this investment. From the very start I have advocated that Agents should be paid a minimum

salary commensurate with his deeds, which of course would be paid on a minimum production in order to keep the Company safe as to their outlay in Agent's salary and my opinion is not changed in the slightest. In the almost ten years I have had in the business, I still maintain and have written several articles for magazines along this line, but up to the present time the Companies have been very slow in adopting what I consider a fair rate of compensation for the type of men they desire to interest in the life insurance business.

I do not know that I would decrease the amount of first year commissions to Agents, but I do think that the Agents should have a longer interest in the business that stays on the books than the nine years the usual contract provides, because, as long as the Agent stays with the Company and that policy remains on the book, he is constantly called on to service that business and I think he should have a considerably longer period of renewals than the present contract provides for. In my own case, I have one of the old type contracts which provide for nineteen year renewals.

Under this section of item four, I would like to make a few observations and they are this, that the Companies are steadily growing stronger financially, Home Office salaries from President down are well on the increase but the Agent in the field is the man that has to carry the burden because under the present set-up, if, for some reason beyond his control, the business does not come in, he is the one that is left holding the bag and to try to run a life insurance company without the Agents assistance and the Agents, would be like trying to run a Government without the monetary assistance of the tax payers, which you know could not be done and life insurance companies simply would not amount to very much if the agents did not go out and get the business.

5. My office has had about the same experience in Agent turnover as the rest because in the desire to build a sizeable agency force, we have naturally placed under contract people that did not fit in and only trial and error could determine this because some times the least likely to succeed are the ones who, in some cases, turn out to be good producers and vice versa. In this connection, it is my opinion that there are too many men in the life insurance business due to the fact that the Companies Home Office organizations, in order to justify their salary and positions, are constantly urging more production and the only answer to that is to put on new men with the result that under Home Office pressure, new men are constantly being recruited into the business but very few of them are worth having and in a short while they fade from the picture leaving the Company the gainer by whatever business they have written.

6. The only method we have for selecting and training the Agents is to try to induce people we believe will make good Agents to come into the business without any financing from the Company and the training is altogether on our personal contact and coaching as we have no prescribed training course for Agents, consequently, we do not have a large agency organization because it is rather difficult to induce men to come into the business on a strictly commission basis unless he has a wide family connection that are so placed that they will be a constant feeder for him and the Company has repeatedly refused to do any financing of new agents regardless of their possibilities.

7. I have consistently opposed the appointment of part-time Agents in any city that is large enough to support one or two good men on a full time basis but I know it has been the practice of a large number of Companies to spot part-time Agents any and every where hoping that they might write a little business, which of course would mean money to the Company as they would have been put to no expense in the acquiring of this business and the part-time Agent will usually take up two or three good cases a year through personal friendship or business contacts that should go to a full time Agent.

8. The emphasis in my organization is about equally divided between the securing of new business and seeing that old business renews.

9. I do not believe that the market has become saturated from a life insurance standpoint because I am constantly finding people who carry a small amount of insurance but yet do not have enough for their families in the event of their untimely passing but as stated in previous paragraphs, I am firmly convinced that there are too many men under contract to solicit the life insurance business and that the job could be done equally as well with a smaller force.

Digressing from your printed questions, I have some observations that may be of interest to you or may not, and one is about the howl that has been raised by Industrial Insurance Companies relative to your investigation and also by some of the larger Eastern Companies as-well-as some domiciled in the West. I have always found that when I wanted to find out something about a person that they did not want me to know that they attempted to block my investigation and I think this is true in the present instance.

I have always held that Industrial rates were entirely too high for what the buyer gets for his money and I have not changed my mind on that in the slightest, just as I have had to fight the sales practices and methods of Mutual Companies relative to their socalled "Dividends" and the size of the Company. To say that the policy Holders Control Mutual Companies is fine in theory but I think you have already developed the fact that the rank and file of policy holders in Mutual Companies amount to very little when it comes to perpetuating in office, those that were first installed. I believe a recent decision of the Supreme Court of the United States has held that "Dividends can not be called dividends" and I refer to the suit of the Mutual Benefit Life Insurance Company, *vs.* Herman Herald, Collector of Internal Revenue for the State of New Jersey, which was decided in favor of the Company and made it necessary for a rather large sum to be refunded to Mutual Companies that had been previously collected on their "Dividends" and in this connection I am enclosing you part of the page cut from the National Underwriter under date of January 26, 1940 wherein the New York Life Insurance Company is listing "Dividends" for the next twenty years on six different forms of policies. Now, if any company can forceast twenty years in advance what their "Dividends" will be, I think they ought to be given a job of running the Government so that they could forecast exact conditions of the Country twenty years from now.

Personally, I think all insurance rates are entirely too high and I believe if rates were somewhat lower, that it would result in people carrying more insurance even though the money outlay would not be any greater. One has but to look at the annual statements of practically all Companies to realize that there is something wrong with the picture.

Relative to State or National Supervision, I can readily understand why State Insurance Commissioners would oppose any move for Federal Regulation. They do not want to lose their jobs and State Supervision can be very good or it can be very bad, for instance, I would cite the fact that the Insurance Department of the State of New York will not let Examiners from other states make examinations of those Companies domiciled in the State of New York and there are other states, I am informed, whose supervision is rather lax and most anything can get by. I do not advocate Federal control, but I believe the field is wide open for some much needed reform. I believe North Carolina is about as strict in some respects as any other state and new agents that come into the business, must stand a written examination and pass before being licensed, but I am of the opinion that pressure can be brought on our own Insurance Department to favor certain Companies.

For your further information, would like to advise that I have served as President of the Local Underwriters Association and have been National Committeeman for the past six years, having attended the last five national conventions of the National Life Underwriters Association and I am well aware of the pressure that has been brought, or attempted to be brought, in these meetings to off-set the effect of your investigations and I would be just as strongly opposed to any attempt that contemplated the elimination of the agent from the Life Insurance picture. While I do not know it all by any means, I have very sound convictions that the Insurance Companies would not amount to much if the Agents did not go out and get the business as I have stated in a previous paragraph.

I have written you at quite some length in reply to your letter, which I ask you to consider strictly confidential and if there are any further questions that I can answer for you, I will be glad to do the best I can.

Yours very truly,

——— ———.

EXHIBIT No. 2594

FEBRUARY 12th.

Re: Attached article taken from the St. Louis Post-Dispatch of February 11th.

DEAR SIR:—I have not received a questionnaire but, since I believe that the life insurance agent or solicitor is the real forgotten man of our economic system, I welcome the invitation.

I have been in the life insurance business, off & on, in various capacities since 1918. At present, I am general agent for a life company and broker all types of insurance. Because I have recently opened my own office in a new territory, a comparison of incomes with previous years would not reflect the true state of affairs. But I do know that, of the men putting full time into the life insurance business in this territory, not over 10% are making a living. I am excluding the industrial men where income is augmented by their collection commissions.

It is a matter of common knowledge that life companies contract men indiscriminately in the hope that they will at least write a few of their friends and relatives,—and that they *might* develop into producing agents even tho the percentage who come thru is pitifully small. When it is openly said that such agencies as the New York Life St. Louis Branch is operated on that basis with a stream of new men coming in one door as the so-called failures go out the other, this practice is pretty well established.

This practice results in a lower income to those agents who are capable, . low standard of service to the policy holders of the temporary agent, and a large percentage of poor underwriting by men who know little or nothing about covering a risk with the right type of contract.

The part-time agent is a thorn in the side of any agent. He is usually an employed person who wishes to increase his income by chiselling in on his own purchases or those of his friends; or he is an executive or politician who can see an easy and possibly legitimate way to get his cut.

In order to eliminate these evils, part-time agency contracts should not be issued to anyone. Agents should be carefully selected & trained. They should receive some income during the training period; a fair income during a probationary period; and then given a full-time contract at a basic salary plus commission on business over a certain amount. I believe that the companies, the insured & the agents would all gain under such an arrangement.

I can confirm your findings in your investigation of the Industrial Life field and could add dozens of cases to those already in your files as to almost criminal underwriting. There is no question about the pressure put on agents for new business; there is no question about the results. I have felt the one, and experienced the other. This type of insurance should be drastically curtailed as to amount of insurance on each individual life and should be represented for what it is!—burial insurance for industrial workers unable to buy standard insurance.

Frankly, I am not in sympathy with the companies' contention that Federal supervision means Federal control—nor do I believe that the movement for Federal Supervision will end up a Socialistic form of government as outlined in "Nation's Business." State Supervision was, more or less, lax until eight or ten years ago and, while it has improved because State Laws were revised, there is no reason why Federal Supervision along the lines of Supervision over the Banks should not be promulgated.

I wish you success in your work, assure you that I will take every opportunity to explain the situation to the general public as I understand it, and ask you to let me help in whatever way I can.

Very truly yours,

——— ———.

EXHIBIT No. 2595

FEBRUARY 20, 1940.

DEAR SIR: The letter from Mr. Leon Henderson of the ninth was received on the nineteenth.

I am happy to give you what information I can in answer to your nine topics of discussion.

Number 1: I am an Associate General Agent. All of my income is from the Life Insurance business.

Number 2: I have been in the business thirteen years.

Number 3: My income has been on a guaranteed basis, running from $225.00 a month to $5,000 per year.

Number 4: I am of the opinion that the present method of compensation for life insurance agents is out of date and not at all practical. The present system dates many, many years back and in spite of the change in every other line of selling, and the adoption of newer methods, the life insurance business has remained as it was.

A guaranteed minimum salary for new agents is necessary either now or some time in the future if our present Agency System is to survive. Many of the new agents going in now are going in on an advance or drawing account which in many ways is a salary, however, the agent has this disadvantage and mental hazard to overcome and that is he realizes that any deficit must be re-paid if he does not make the grade.

I know of no other selling organization that has such a handicap for a new man.

For the past few years, I personally, have felt that a system of compensation based on smaller first year commissions and increased renewal commissions would be the only salvation for present agents and, at the same time enough lure to attract high type men. I feel that if first year commissions averaged about 25% and the same amount for renewals for a period of five years, making a total of six years altogether, and then 2½% renewal for the next fourteen years, making a grand total of 20 years the agent would have an interest in the policy, would be a far better system. This is close to the system operated by the fire and casualty agents. They have a uniform commission running the life of the policy. Their average living conditions are much higher than the average living conditions of life insurance agents.

This system would keep out a lot of men who jump in the business to write a few big policies and then immediately leave the business.

It would also tend to encourage an agent to select higher type business so that it would remain on the books and build a nice renewal income for him and keep him from working for large premiums and first year commissions and not caring a lot what happens afterwards.

It would also tend to cut down the evil of re-bating of which we have a lot in this business, especially with the companies who have high first year commissions.

The agents are called upon by companies constantly, to do service work for which they receive no pay at all. They are constantly having to settle death claims; handle loan agreements, change of beneficiaries, etc. which takes quite a bit of their time and in my thirteen years of experience, has meant very little in the way of new business for the agents. It means more to the Company than it does to the agent. The agent would feel more like doing this type of errand running if he had a substantial interest in the policy.

The Actuaries will probably say that a revolutionary change of this kind would upset the apple cart and would actually be unsound. In answer to this, I feel that the Actuaries can figure out anything that they care to.

This would also aid General Agents who bring new agents into the business to finance them on a much sounder basis than they now have.

At present, the large first year commission and extremely small renewals is unsound and as out of date as the old Model T Ford cars.

Number 5: There is a lot of turnover of agents in all offices. I don't believe that the Life Insurance Companies and the offices are altogether to blame for this. Many of the men who come into the Life Insurance business have been unsuccessful in other ventures. They have been merchants, school teachers, salesmen in other lines of selling; and because there has been no way in the world of telling whether or not a man could sell Life Insurance, contracts have been given to about 100% of the applicants. Some of the most successful have been men who appeared at first to be the least likely to succeed.

As to the second part of question 5, I believe that the constant turnover and continual entrance of new agents into the business, hinders the sale of Life Insurance. It cheapens the profession. It would cheapen the legal profession, the medical profession, or most any other professional line of endeavor if there were a constant change of men. In other words, if 85% of the lawyers who started out to practice, left the bar in less than two years, it would certainly be a blight on the legal profession. It would be the same way if a Retail Clothing merchant had a constant change in his sales personnel, it would certainly be a bad reflection on that type of work.

Then, in most cases, the older agents resent the ballyhoo and attention shown a new agent. The new man comes in excited and eager to do something and the old agents tell him not to get excited; to keep his feet on the ground; or that the business is hard, or in general they discourage them.

Number 6: I believe that the newer methods adopted for the selection and training of agents in our office is satisfactory. We are making a desperate effort to secure men who we believe will be successful and BELIEVE IT OR NOT, we have turned away several men in the past few years.

Number 7: Except in towns of less than five thousand population, I am against the Part-time Agent. The Part-time Agent has a part to play and a lot of families would have gone unprotected had it not been for the Part-time

Agent and it's impossible for a Full-time man to work in these smaller towns and make a living. The companies are too eager for new business and they allow their managers and general agents in the field to appoint entirely too many part-time agents. They appoint these part-time agents without serious investigation and in many cases they are simply contracts placed in order to write business on the members of their own firm.

Recently, in a town of approximately five thousand population, an owner of a chain store was in the market for approximately $200,000 of Life Insurance on himself and other executives. He began to shop around. One of the agents writing for a New York company told him that he would get him a contract with his company and give him a part of the commission. An agent with a company not operating in the state of New York said that he could have his company give the man a part-time contract and give him a lot more commission. A third agent who is, I am told, related to the prospect, and is with still another company, got the man a contract with his company so that he could get all the commission. The company accepted the contract and the business. I have seen numerous instances where this has been done and the companies OK these contracts.

Part-time contracts have been placed in banks, manufacturing plants, department stores, general merchandise stores and the agents appointed therein have their fingers on local gossip so that they know every time anyone buys life insurance and they thereby cut full-time men out of business. This part of our business is wrong.

Number 8: We place a lot of emphasis on new business. I do not say that it's entirely over-emphasized but with the long first year commission set-ups, the companies and naturally the agents are interested in obtaining new business rather than the conservation of old business.

Number 9: No one knows the true answer to this question. I believe, however, that the saturation point has just about been reached on the type of men who are able to pass the strict requirements of the Life Insurance companies. In other words, in our town we have a population of approximately 100,000—40% of whom are negroes. Of the remaining 60%, there are approximately 30,000 women and children which leaves approximately 30,000 men and boys. Of these 25% are uninsurable one way or another. Then, if we take the foreign element from these figures, we get down to about 15,000 desirable prospects. Divide these among 250 agents, and you have approximately 60 prospects per agent. This means that an agent, on an average, does not have enough first class prospects to see, but yet, if you take the amount of insurance in force in our city and divide it among every inhabitant, you reach a very small policy per person and then we see that the saturation point is very far from being reached. But, if you take away the uninsurables, babies, foreigners, negroes, etc., it would reach a pretty high policy average per person.

The Life Insurance men's competitor today is not another Life Insurance man but automobiles, radios, night clubs, entertainment, etc. A man earning $150.00 pays $35.00 house rent, $35.00 for groceries, $30.00 for a car, $15.00 for its upkeep and $10.00 for clothes. These five items run $125.00. This leaves $25.00 for utilities and other necessities and there isn't a lot left for Life Insurance.

Secondly, I believe there is a lack of balance between the size of the market and the number of agents trying to sell therein.

I hope this letter has not been too long. The writer has been active in association affairs, twice president of the local chapter and twice president of the state organization and has visited in a number of other southwestern cities. I have attended seven National Conventions and I think I know that the situation is not at all rosy. I have in the thirteen years of my experience, recruited and trained scores of men and have followed through with them on their activities. I have visited their homes often and I know their problems pretty well.

I believe that the Home Offices are at last awakening to the fact that something has to be done to make it possible for a man to come into this business and earn a living. My own personal opinion is that a lot of Home Office men see agents and local Agencies with their best dresses on. When one of these men visits throughout the Company, a contest is given in his honor, the agents put on a fresh tie and shine their shoes and are more or less on dress parade. These Officials seldom visit in an agent's home or talk to him, privately, and they know little about his success in the community. Then, when the large Conventions are held and the Star Producers are invited, we find excitement and joy prevailing to the utmost but at that time, only a very few of the rank and file of the agents are there. I am convinced that all the Home Office Agency men are sympathetic with the men in the field and will do everything within their power to assist them.

EXHIBIT No. 2596

FEBRUARY 17, 1940.

DEAR MR. HENDERSON: Your interesting letter received today and will answer immediately so you may have my reply by the 19th as requested. However, I believe a little longer consideration on my part might produce something better.

To answer in the order of your suggested topics I am and have been a whole time agent in Minneapolis for 19 years. I have no other source of income.

2. I have been with the * * * since 1908. * * * Went through all the jobs in that office and was sent to Minneapolis in February 1914 as Cashier. Remained there in that capacity until July 1919 when I was transferred to Des Moines, Iowa as an Agency Organizer where I remained for ten months. Did not like the territory, the branch office conditions or any other conditions under which I had to work so * * * and went in the field as an agent where I have been ever since. Lead this branch my second year and have lead and been among the leaders several times since. Am a C. L. U. (degree awarded by the American College of Life Underwriters) * * *

3. This question does not mention whether you want gross or net income. The companies always like to talk about the agent's gross income but this is materially reduced by overhead of many kinds. He has to take care of all these expenses in our company. I know one of our agents who drives 75,000 miles annually to get his business which of course is extreme but the average agent will use his car at least 5000 miles even in a city. Then there is postage, stationery, stenographic help, printing, club, entertaining, lunches and plenty of other things, all of which cost money. My average net income has been about $5,000.00 recently. Earnings are less than in years prior to 1931 but a few good breaks or bad ones always determines whether you will have a good or bad year. The average agent's income in my company is about 40% of what it was in 1928 and 1929. I know of no single case among the salaried employees where the salary is lower than it was in 1929.

4. I believe everyone is more efficient if they have a definite income so they can apply themselves to the work to be done and not be harrassed by financial problems involving the very fundamental necessities of food and shelter. I appreciate that this cannot be done on any uniform basis as unfortunately we do not have uniform human beings which makes most of the difficulties, in my opinion, when you try to plan uniform economies of any sort. Because men are unequal in ability you must have some method of rewarding the people of greater ability with greater income or they will go some other place where they will be better rewarded for their services. I believe a definite salary with commission paid on excess volume of business over a certain amount would tend to produce better and happier agents. With agents on a salary basis the companies would be more careful in their selection to begin with and they could exercise some authority over their daily efforts, the lack of which is one of the weak points in the agency system. It would also serve still another purpose in that it would force the companies to get rid of the unfit while under the present system they often allow them to remain for years, either for sympathetic reasons or indifference, neither of which is good for the man himself.

5. Our particular company has the best agency contract of any life insurance company that I know about in that it provides a life income after 20 years based on production during those twenty years. It also provides for forfiture in the event of leaving the company which tends to reduce the turnover in our company especially if they remain in the business over two or three years. The turnover the first two or three years is high in all companies as unfortunately there is no way to tell a good life insurance salesman by looking at him or talking with him. I believe definitely that the great number of new and inexperienced agents turned loose on the public hinders the sale of life insurance by making the approach of the capable man more difficult. The public at large still thinks there ought to be a bounty on life insurance agents, because so many agents just waste people's time after they are given an audience.

I also believe the branch office system with the head of it on a salary basis is the better and less expensive than the general agency system provided the companies pay enough salaries and get capable men. General agents are usually selected because of their personal ability to produce. They know nothing about handling men or details which is very important in developing an organization and they usually dislike it to the end that they hire some low salaried individual to whom they turn over this work. Naturally the low salaried person is not very competent or he would not take the position.

6. I do not believe the selection and training in our office is very satisfactory or that it is in very many companies. In our particular office the organizing is done by two men both of whom are fine fellows personally but incompetent for the work they are trying to do. Neither one knows much about handling men which is most important and my particular company does not pay enough money to the men doing this kind of work. The right kind of men should know the business thoroughly and should also have successfully sold it themselves and you can't get these men for $200.00 a month. In many cases we pay less.

7. I believe the part time man should be eliminated except for perhaps a six months period for training and to give the man an opportunity to find out for himself whether he likes the business and can make a living in it before he breaks his other ties. Much misunderstanding and poor underwriting comes from this group who render no service, are unfit and usually are chiselers of some sort or another.

8. It is necessary to emphasize new business as that is the only profitable operation in an agency. There is nothing wrong with this if the agents are capable and selling insurance to fill the needs of people. I believe that sometimes the agents carry their contests too far by trying to write insurance to win a contest rather than by trying to take care of a need of the insured, but contests do tend to stimulate some agents which I suppose justifies them.

9. I believe the number of agents should be limited. It is the only business that I know of which anyone can get into with absolutely no experience or any preliminary training. A business as important to the lives of half the people of our country as life insurance is should call for nearly as much qualification as a lawyer or doctor. Many people never use a lawyer in their entire lifetime. The same is true of a doctor but practically every person ultimately owns some life insurance.

To add to your suggested topics might I say that life insurance can never be widely distributed except by agents. It takes capable and resourceful men to induce people to protect their dependents and to provide for their own old age even when they want this protection and have the money to pay for it. Procrastination seems to be a good part of human nature.

I believe one of the simplest methods you could use to promptly improve the agency system would be to make the companies responsible for the acts of their agents, pay the agents a minimum salary sufficient to take care of their primary needs with commissions for excess volume, have a rather rigid qualification examination before agents be granted a license and limit the number of agents to the number of people in the various states.

Much of the misrepresentation and other difficulties the public experiences with agents is because the agent is in desperate financial circumstances and I believe this situation would be removed if the above suggestions could be adopted.

Much thought is constantly given to the new agent but I believe one of the most tragic things of this business is the plight of the old agents who spend their lives in the business. There is something about the business which is not true of other businesses and that is that men usually reach their maximum production in six or seven years after which it remains level for a time and then gradually fades out. There are plenty of explanations for this course of events one of which is that the agent must devote more and more of his time to the service of his old clients for which he receives no income, that he has less vitality and energy for getting around, newer and younger agents in his own and other companies filter into his business from all sides and his zest for selling, which is never easy, dies out entirely. He has then reached an age where he is only valuable for what he knows and the insurance business only pays on what you produce. The business is seldom remunerative enough for even successful men to accumulate enough to retire by the time this usually happens. So called successful men have to live on a certain scale to obtain a fair volume which requires them to spend their excess earnings to produce the volume they do.

Something should be done about this as these are the men that make the whole institution possible, who lighten life's problems for literally millions of widows and children and also for men and women in their old age when they no longer are able to work. You could replace every man and woman in every other part of the insurance business from the officers to the office boys over-night but you could not replace the agents in years yet all the others are secure in their income and positions until 65 when they are retired on pensions on which they can live. They get paid for what they know even though they often have little to do while the great group that makes all this possible are usually in desperate circumstances as your own investigation has already disclosed.

All these things are known to the companies and general agents and managers as I have talked with many of them about it many times. They all agree that something should be done about it yet year after year after year goes by and just exactly nothing is done. Whether they don't know what to do or whether no one wants to take the initial step, I don't know.

This is a rather lengthy letter but I do not believe a short one would give you very much information. I hope you may get something out of it to justify the time taken to read it through.

If I can be of any further service I would appreciate your calling on me.

Exhibit No. 2597

February 21, 1940.

Dear Mr. Henderson: I regret that I have been unable to answer your letter of the 9th until today because I have been out of the city, but I am glad to give you any information that I can. For purposes of convenience, I will answer to the best of my ability, in numerical order, the questions which you have asked.

(1) I am now a general agent for the Penn Mutual Life Insurance Company, operating in * * * I have been a full-time agent, a supervisor and a general agent. My entire income comes from life insurance.

(2) I have been in the life insurance business since 1926, or approximately 14 years.

(3) My average annual earnings in recent years has been approximately $10,000 per year. This has fluctuated somewhat, primarily because in the last two years I have taken over an agency in a territory which was pretty well run down. Consequently, investment was required before the territory could be productive. Therefore, my income has been reduced as far as cash earned income in the last two or three years.

(4) I have many observations to make regarding agents' compensation. Since 1930 I have been experimenting with various changes in this compensation. During the last 10 years I have tried guaranteed minimum salaries for new agents, straight drawing accounts for new agents, combinations of salaries and commissions, and as yet have been unable to find a system that is completely hole-proof.

I am of the opinion that this type of experimenting has been going on with many of our leading companies over approximately the same number of years and there is a definite feeling that some head-way is being made in solving this problem for the new agent. I am not convinced, however, that a change is necessary. It might be helpful for new men to have some financial assistance, but it is not a solution to the problem of their being successful in the life insurance business. Fortunately, in my opinion, the agency business is an independent enterprise where a man is granted a franchise to sell a product and his earnings are not limited by anything except his willingness to work and ability to produce. Salaries, if they were granted, would put a definite limitation on his earning possibilities, as the cost involved would necessitate the successful man supporting some of the losses incurred by the unsuccessful man. It is possible that some change in renewal compensation might be helpful for the older agent.

(5) There is considerable turn-over in my office right at the moment, but that is due to the fact that a rebuilding job is being done. It has been my observation that it takes approximately 18 months to 2 years to develop a man so that he can be successful in the life insurance business. During those two years he is learning the business and serving as an apprentice, the same as a young doctor serves as an interne or a young lawyer serves in a law office. There are many cases where a man finds that he is not fitted for the life insurance busi-

ness, after he has tried it for a short time. I think that that is largely responsible for the so-called turn-over. There is not much turn-over of men who have passed two years of experience in the life insurance business. In fact, I have agents with me who have been in the business as long as 40 years and they are still successful in the life insurance business.

Constant induction of new men is necessary in my territory because the hazards of business in a community are the same in the life insurance business as in any other business. Many men start in all businesses when they are young and make changes to other businesses in which they are better adapted, and there are bound to be changes in the life insurance business for the same reasons.

In addition, all the other things that apply to business in any walk of life require a new crop of younger men starting in that particular field. I doubt that anyone would question the advisability of medical schools and law schools continuing to turn out young men each year even though the field may be overcrowded at times. In my opinion, that is what we are doing when we induct new men into the life insurance business.

(6) I do not believe that the methods of induction and selection and training in our office are perfect, but they are much better than they were formerly. Today we are using psychological tests and intelligence tests in addition to personal recommendations and investigation of habits and morals, etc., before we will allow a man to enter the life insurance business. We will not contract with a man who does not grade in the A or B classification required by these tests. In other words, we are using every known means available to secure a high-type, well qualified man to represent us. There is still room for improvement and research is constantly being done by us individually as well as collectively to make better selection. New York state has recently passed an examination requirement for license which I think will help materially in the selection of new organization.

(7) I am completely opposed to the idea of part-time agents in any territory where there is sufficient opportunity for a man to make a living. I have a few part-time agents in the small rural towns, and I am of the opinion that they do not do a good job of under-writing, even though they do make occasional sales. In the towns of 50,000 or over we have no part-time agents and have not had any in years.

(8) New business is most important in the life insurance field but I do not believe that it is over-emphasized either by me or by the company. We are trying to secure our share of quality business. By our share I mean a proper ratio for a company of our size in the territory.

(9) I do not believe that the market for life insurance has become saturated. Perhaps you are familiar with the recent survey made by the Curtis Publishing Co. A large number of the people on whom they called voluntarily said that they would like to increase their life insurance by two-thirds. I am of the opinion that if careful, well thought-out plans were presented to the average person, he would then be able to increase his insurance substantially. In various parts of the country there is no doubt but that there is a larger number of agents than there should be to do such a job. I do not think that applies to our local situation. We have in this agency a definite stated maximum number of men we believe should represent us in each territory, and as soon as we reach that maximum all new appointees will be replacements of unsuccessful men in the organization. I think that many other general agents with whom I am acquainted feel that a limited number of high quality agents is far better than a large number of poorly trained representatives. I am convinced that the trend in agency building is in that direction.

I sincerely hope that the answers to these questions will be of some help to you in your survey. If I can be of further assistance, I will be glad to contribute.

Yours very truly,

——— ———.

EXHIBIT NO. 2598

FEBRUARY 14, 1940.

DEAR SIR: In answer to yours of February 9, 1940, I have been employed with my company, * * *, since December 6, 1926. I am a full-time agent and receive no income from any other source.

My average annual income has been approximately $2,000. My income for the past few years has been above my own average and above the income of brother agents of my district.

I am with a detached staff of five agents and an assistant manager; one other agent and myself of our staff received letters from you. We two who received the letters are the highest paid agents of our staff.

I attribute my earning above the average of my district to the fact that I am inspired by the great need of money for medical care of my wife who is a victim of migraine. I have had her treated by twenty-seven doctors. The need for extra cash has driven me beyond a reasonable pace, and has all but cracked my health. I have set a pace that I cannot continue. I have sacrificed evenings and Sundays that justly belong to my family, church, etc. I work approximately sixty hours each week.

I have a weekly premium debit of $263.00; a monthly premium debit of $280.00; and 93 ordinary policies—a total of 600 accounts. I receive 12% of weekly premium collections; 4½% of monthly premium collections; and only 1% of ordinary collections. For collections on loan payments and interest I receive no commission. My commission on a first year increase weekly premium is 37%—13 week contract; commisson on ordinary—20 to 35%.

My district has averaged sixteen agents. There is now only one man who was in the district when I began. We have had approximately fifty turnovers since I have been connected with the company. It is generally understood by the agents that they cannot stand the push, drive, and pressure.

My company gives all new agents about two weeks' training.

We were given in June, 1938, a contract which is somewhat more liberal to the agent in that the service salary was increased and the commission decreased. My company also gives the new agent a guaranteed minimum salary.

The obtaining of new business is over emphasized in our district as we are compelled to give a written explanation for any week we fail to sell an ordinary contract ($1,000 or over). (See enclosed exhibit #1.) Each of the agents of our district must complete the answers to this questionnaire for each week he fails to sell an ordinary contract or each day he fails to sell an industrial contract. We are requested to make pledges from time to time as to the amount of new business we will produce in a given time, and are reminded of same in the manner shown on exhibit #2 enclosed.

The evil, or result, of working under the above-mentioned pressure is that through fear of debasement or criticism we sometimes bring too much pressure to bear in our sales presentation and over insure or sell a misfit contract.

I think that in view of the new Social Security set up and our modern present day group insurance coverage (most every employee of the different industries on my debit have a minimum of $1,200 Group Insurance) the market for life insurance is, to a great extent, saturated, and if our company doesn't make some concession we will find ourselves facing a crisis.

I am of the opinion that an increase in the agents' service salary would tend to reduce the lapse rate and give the agent more time from production to give the policy holder the service he deserves.

I think some of the great assets of our company should be given to the agents to better serve the many policy holders we now have rather than over emphasize the production of new policy holders to the point that we over insure or make misfit sales. An agent with my company is salesman—collector—accountant—and service man.

Debits should be reduced, service salaries increased and a small per cent for accounting should be considered; thus giving us more time for service and less pressure on selling, and also an increase in renewals.

Please accept this as an earnest attempt to give you the true data you desire. I shall appreciate your treating this as strictly confidential.

Please return the attached matter as I have a hobby of keeping all my correspondence.

Yours truly,

——— ———.

IMPORTANT

In re,—YOUR pledge of $33,000. PLACED ORD. & ONE PLACED ACCI. From Sept. 6, 1937 thru Dec. 1937.

MR. ——— ———:

Dear Sir: In view of the above and our Company's increased requirement for 1938 Sales Congress qualification,—How do YOU explain the fact that YOU'VE allowed another week to go by with You "Blank" in Ord. production &/or Writing, and "Blank" on Accident written???

How many Ord. convasses did You make during the writing week that ended last night? Give date of Each canv. You made? Full Name of the prospect? Amt.? & Plan You Canvassed him for?

How many Ord. Prospecting interviews did You make during the Writing week that ended last night? Give Date of each? Full Name of the Prospect? Amt.? & Plan? You canvassed him for?

Please have Your Exact & Definite reply on my desk Not later than next Wednesray A. M., Oct. 27th., 1937.

Thanks and regards,

Your for Success,

——— ———.

Exhibit #1.

10–22–39.

I am surprised that you only made one ordinary canvass (each) Thursday and Friday. That does not indicate to me that you care very much about fulfilling the company program of one ordinary sale each week. You realize that the responsibility of the record of this staff is on my *shoulders* and I therefore must insist that you make a sufficient number of ordinary canvasses each and every week to give you an ordinary sale each and every week, and I know of no better time for you to do that than on Thursday and Friday, but you cannot do it on two canvasses.

This old stuff of "leave it to me" and "I will arrive" is getting to be the bunk with me, for I'm looking for *results* and not excuses. You will please give me a written statement outlining just what I may expect of you each day and each week. It is necessary that I have this so I may know what course and action to follow in my responsibility and supervision of your activities.

Regards,

——— ———.

Exhibit #2.

Exhibit No. 2599

Securities and Exchange Commission,
Washington, D. C.

Gentlemen: In answering your recent questionnaire I am confining myself to personal experiences rather than generalities as it is quite possible that some companies are seeking to correct some of the present day evils. The writer's experiences are confined to socalled "Old Line Companies" and here he found home office executives reluctant to face facts, in fact, one can really say that they are so encrusted with tradition that it is difficult for this perpetuated clique of executives to see the bare truths of present day conditions.

I prepared myself for the profession at Wharton School of Accounts and Finance and upon completion of my studies in 1929, I immediately entered the fire and casualty branches of the insurance industry. From 1929 to 1936 inclusive, my income rose from $1500. to $4800. I went through all phases of production, as salaried salesman, special agent and district manager and in the latter two capacities it was my privilege to supervise some 100 agents.

In 1937, I abandoned the Fire and Casualty fields in favor of Life Insurance. Although prepared to suffer a drop in income, I must admit I had no idea that my first year income would amount to $396.58. In the second year I fared somewhat better, rising to $688.36. On the strength of my accomplishment, I was honored with the post of Supervisor of Agents in four (4) counties. Although prepared to leave the Life field, I accepted the position as I realized it would give me an opportunity to study the agency system of Life Insurance but after three months of futile attempts to correct some of agency practices, I gave up and established my own agency. In my first year on my own, as broker and agent, I ran up my annual income to $3700. This year I hope to hit the $6000 mark.

I found in this two year's excursion into the life field that the average income of agents for this particular company was less than $500 and the condition is about the same in other general agencies in this territory. Turnover of agents was pathetic.

Despite my seven years insurance experience, my failure in the life venture was assured due largely to inadequate and improper training plus pressure for production. In less than six months, I witnessed a complete turnover of personnel and as I look back over this period, I can't help but conclude that a system of recruiting which demanded immediate production from the novice, encouraged failures on a large scale. In fact it almost appears as if the companies deliberately operated on the theory of wholesale recruits to maintain production, figuring each recruit was good for at least $25,000. among his friends and relatives. Each new recruit is asked immediately for a list of his friends and relatives for the purpose of solicitation in the company of the agency's high pressure supervisor. You are expected to begin practice on your friends and briefly your sales argument is as follows: "Bill, I've become a special agent for ______________ life company. I need your application as a demonstration of confidence in me. Frankly I don't know much about life insurance as yet but I do know that you cannot go wrong in buying more life insurance." And poor friend who is put on the spot usually comes across with a $2500. 'testimonial' application and a year or two later when you leave the field, the policy is lapsed. An effort is made to revive this contract but this effort consists of a 'training' call by some new recruit, who has been sold on the idea that it may become the source of new business someday! Needless to say, the recruit receives no compensation for his efforts even though successful in reinstating the policy. By this time, from other sources, you have learned that an agent renders many a free service in connection with old policies.

Having refused to cooperate in the matter of exposing my friends to the high pressure supervisor, I naturally fell for a good lot of this "free servicing".

Apparently many other companies follow this practice for yesterday in checking a financial statement of a billion dollar company, I noted that this company, with pride, proclaimed that commissions paid to agents amounted to only 5.3 cents of a premium dollar. And I also noticed that salaries to home office employees amounted to 2.4 cents! Either pretty high priced 'chair warmers' or an underpaid sales force.

Briefly, the three major evils are:

1. Improper selection of agents;
2. Inadequate training of agents;
3. Inadequate remuneration.

Secondary evils are wholesale licensing of agents without regard to market—the part-timer in disguise (a full time agent who is appointed simply because of contacts and makes no effort to learn the business but preys on the work of career men, example, the retired minister, executive, black sheep of a prominent family, etc.)—then we have the varying commission scales between metropolitan centers and smaller cities and towns—then the restrictions as to number of companies an agent may represent—then we have the unethical practices resulting in discrimination against smaller and newer companies who offer improved contracts of insurance—and finally the danger of quota requirements, that is, stress on new business rather than keeping in force insurance already sold.

Inasmuch as you will, no doubt, have a wealth of information to cope with these secondary evils, I am confining my recommendations to the three major evils:

IMPROPER SELECTION OF AGENTS

Each General agency should have a Personnel Director to weed out applicants for sales positions rather than accept as agents every Tom, Dick and Harry who evinces a desire to "try" life insurance. We must appreciate the fact that the life agent is a combination of salesman, counselor and physician. Unlike the physician and counselor, he must go out to sell his services and like the counselor and physician, he must have the courage to lay the cards on the table. So it takes a man or woman of intestinal fortitude to do a good job. Admittedly, this will raise "cain" with present set-ups. The alternative is a system of "underwriter-counselor" with the privilege of hiring solicitors to bring in clients but without authority to consummate contracts.

In recruiting, we should be prepared to present both the good and bad side of our business—speak candidly about the tough, lean years ahead of the recruit—the necessity for capital to finance him during this critical period—and finally, a willingness on the part of the company to underwrite a sizeable portion of this capital expenditure. A proper presentation of the facts will discourage the "try anything" applicant. And investment on part of the company will act as a brake on wholesale recruiting.

INADEQUATE TRAINING OF AGENTS

Enforce a strict office training period of 3 months at home office or a field office set-up for that purpose. Supplement this with at least one month in the office of the general agent and for the balance of the first year maintain a strict control over activities—daily discussions of prospects, sales problems, etc. We would also like to recommend a tightening of State Examinations and furthermore *Federal licensing if activities go beyond state lines.*

INADEQUATE REMUNERATION

Retain the commission plan but modify it to provide *higher renewal commissions for the duration of the policy.* We recommend this in view of the high ratio of lapses which are due largely to the fact that the agent has no incentive to keep the business in force. Example: We write a small policy for Bill Smith who lives 15 or 20 miles from the base of our operations. The policy is 5 years old. We have a stake, renewals of 5% for the remaining 5 years under our contract. In all, the actual remuneration would amount to $5.00, so lapse results. Would you drive the distance or would you use the phone? Example #2: Supposing John Jones purchased a 20 year Endowment when unmarried and without family responsibilities. Six years later he assumes family responsibilities. He wants more protection. He presents his problem to you. You can do one of two things—revamp his endowment and give him 2½ times more protection on whole life plan without increasing his premium outlay or you can cancel his endowment policy and *write new insurance.* If you rewrite his insurance you gain nothing by the transaction as you continue to receive the renewal rate of commissions only for the balance of period covered under your commission contract. But if you write new insurance, you receive full first year commissions and renewals for 9 years. What would you do? (Most write new insurance.) Example #3: John Doe dies and you are handling the proceeds under the policy. The beneficiary wants to invest the money. She has heard about annuities. Can she leave the money with the Company and draw an income for life? "Of course you can. That's why I'm here." But does the agent tell the beneficiary that there are options which she may exercise under the policy or does he explain a new annuity contract. The first method does not yield a commission but the second method does. Which would you follow if you enjoyed a meagre income? "A new annuity contract ensues."

What is so sacred about life insurance that its sales agents must of necessity deprive themselves of comforts of life, etc. in order to maintain low cost? The stock and bond broker charges fees commensurate with services rendered. The merchant and doctor and lawyer does likewise. And incidentally, raising commissions doesn't necessarily means raising costs for a well paid man has a knack of turning out a larger volume, more efficiently and with less capital expenditure.

In conclusion life insurance companies should welcome this governmental inquiry "if their shirts didn't need airing." Life insurance companies owe their present strength to our Federal Government for during the World War Washington popularized insurance to such an extent among soldiers, their widows, etc. that it was a field day for the life agent up until 1930. And again the government stepped into the breach and gave it a boost with Social Security.

As the Honorable Charles Evans Hughes pointed out in 1905, life insurance was merely enriching those in the upper brackets who could continue to carry insurance through the lean years as well as the prosperous period. The persons for whom insurance was primarily designed, the average person who banded together from early Roman days—the Roman Collegia—to give life to the present mammoth size companies, is still in the position of losing his valuable protection every 7 to 10 years for his fortune fluctuates with the fortune of the Nation and he doesn't have enough reserve to see him through the critical period so he must cash in life insurance. And instead of permitting that man to re-instate his policy after surrender, the companies tell him he must purchase new insurance and again pay towards the overhead costs which he helped assume when he purchased his original contract at higher premium rates. This companies deny but do they permit the condition to exist if some profit does not inure to the surviving policyholders. Maybe I only know enough of the fundamentals not to know the real story.

Perhaps I am too dense to grasp the fact that 60,000,000 Americans own life Insurance. I cannot possibly see any equity in a group policy without cash values. I cannot possibly see equities in industrial insurance for most of the policies in force do not enjoy cash values until the 5th, 7th or 10th years. And as these two groups constitute the greater number of the 60,000,000 Americans, where does the "owning" come in. These are the 60,000,000 Americans to whom the life insurance companies appeal when the Government steps into the picture to regulate their practices. A mythical 60,000,000 group of owners! The same situation exists in life insurance as does in many a private corporation,—you have a voice in the management until you try to exercise that right.

My sincere wishes go to this brave committee for I am a buyer of insurance as well as a sellor, and I would like to know more about the institution of insurance.

Very truly yours,

——— ———.

P. S. As I fear no consequences this letter may be used, if it has any value, in any manner deemed fit by the committee.

Exhibit No. 2600

February 16, 1940.

Gentlemen: I am glad of the opportunity given me by your letter of February 9 in connection with your Commission's study of the Life Insurance business.

I answer to topic 1: I am a full-time agent, and do not earn income from any other source than Life Insurance.

Topic 2: Have been in the business 9 years.

Topic 3: I am not in a position to state exactly my average annual income except that my first year's earnings were between $1,300. and $1,400., and have increased some each year until the past year's earnings were $2,010. However, there has been an average annual transportation cost to be taken out of this of about $600. I am not in a position to know about the average annual income of agents in my territory. I do know, however, that my production has been among the upper 10 or 15% of the agents in the branch through which I work.

Topic 4: My observations on the question of agents' compensation—I am not convinced that a guaranteed minimum salary, even for new agents, is desirable, or that a change in the ratio of renewal commissions to first year commissions would improve the situation. I have spent the entire 9 years that I have been in the life insurance business with the * * *,[1] and have in that time been thoroughly disillusioned as to the value of the * * * agent's contract. For example: When a new agent is hired, he is told that according to the contract he is entitled to a life income after 20 consecutive years of service, during which time he must produce a certain volume of business, annually, but is not told, I believe, that this certain volume must be paid on a full annual basis during each and every * * * year. I have known of agents failing to qualify for * * * by a narrow margin of $2,000 or $3,000 worth of business. According to the letter of the contract, this disqualifies them and they must start over from there for a 20 year period before they are entitled to their * * * pension. It is altogether possible to write three times the required volume of business within the year and still not have the required volume paid for on the full annual basis. If an agent quits or leaves the services of the company for any reason, after any number of years less than 20, none of the money that has been set aside to build his * * * pension is payable to him. It would seem that if an agent is entitled to an income after 20 years of service, that he should be entitled to some compensation for 10 years, 15 years, or 18 years of faithful service, but the contract fails to make any such provision.

Topic 5: There is a large turn over of agents in the Branch Office through which I work, due, I think, to the fact that too many men are hired as life insurance agents who haven't the remotest possibilities of becoming successful agents. They may be hired because of the belief by the agency men that they have a circle of friends who they can write some business for, or they may be influenced to take a contract by the firm with which they have other connections, in order to write insurance for the other members of that firm. Wherever this is the case, it would seem to be an injustice to the agents who are making life insurance their full time life-work because the chances are very great that after this circle of friends or business associates have secured what life insur-

---

[1] Stars indicate Committee delections.

ance they desire that this agent will quit the business, and the service and conservation work in connection with the policies will fall on the aforesaid class of agents. I believe that the continual entrance of new agents in the business hinders the sale of life insurance more than it helps it unless a very careful selection is made as to the type of new agents entered, and their purpose in entering. During the recent period of unemployment, hundreds of men have entered the life insurance work with the thought of staying only until they could secure other employment. Many of them have had no success at all. Many others have written insurance for a small circle of friends and acquaintances, and due to their lack of knowledge of the business have made unwarranted statements and promises in connection with the policies they have sold. This has had a very detrimental effect on life insurance as a business. I firmly believe that life insurance selling should be a profession, and that a man should be required to pass an examination that would prove beyond any question of a doubt that he had sufficient knowledge of the business to be capable of giving the public the kind of service, advice, and information that they have a right to expect from an institution as great as the institution of life insurance has grown to be. In other words, a license to sell life insurance, in most states, means nothing more or less than that someone has paid the license fee to obtain a license for the holder.

Topic 6: Topic 6 has been partially answered in the above but, one of the present methods used for the training of agents, in the office with which I am connected, is to send them out with old agents to call on the new agents prospects, and if any business is written it is shared by both agents on a 50–50 basis, which on the face of the thing, and in the beginning, seems fair enough, but through experience I have learned that the chances are very great that the new agent will not continue in the services of the company, and, that after he leaves, the old agent has those policies to service and conserve just as much as if he had written them alone, yet he gets only half of the renewals and * * * on the policies. The renewals and * * * that would have gone to the new agent, had he stayed with the company, apparently, revert to the company. It would seem to me that the servicing agent should receive some compensation for his services on policies in his territory, even though they were put on the books by another agent who is no longer with the company, or with the help of another agent who is no longer with the company.

Topic 7: On the subject of part-time agents, it is my belief that in a great many cases, the part-time agent may reap the benefit of the full-time agents efforts. For example: The full-time agent convinces a man that he has a need for life insurance and he goes over to talk it over with his banker, who in some cases, is a part-time agent. In which case, the banker may agree that the thing suggested is a fine thing, but that he (the banker) can take care of it for him. The same thing applies to part-time agents in a great many other lines—schoolteachers, athletic coaches, preachers, attorneys, etc., but the service and conservation work always falls back on the full-time agent.

Topic 8: The obtaining of new business is emphasized in our office to a suitable extent, I believe. However, I believe the obtaining of new business through new agents or new organization, as it is referred to, is over-emphasized. I mean by this that probably most of the business obtained by the new agents—too many of whom stay only a short time—would eventually be put on the books by the old agents and full-time agents if they were given the same leads and help by the company that is given to the new agents, and at less expense, I think, to the company.

Topic 9: I do not believe that the market for life insurance has become saturated, but I do believe that there is a lack of balance between the size of the market and the number of men holding agency contracts and attempting to sell, therein. I believe if the public knew that when a man appeared with a license to sell life insurance that it was proof, or at least some evidence that he was capable of helping solve his life insurance problems, that the interviews would be granted very much more freely, with the ultimate result that much more life insurance would be purchased.

Although this has no direct bearing on any topic suggested, I cannot help but feel, as I read history, that if the advice of John A. McCall had been heeded some 40 odd years ago, many mistakes could have been avoided—also, many failures, among companies and agents, including banks and trust companies. Had this advice been heeded, I believe we would have had less than one-fourth as many life insurance companies as we now have with as much life insurance in force in the United States, furnishing employment to as many people, with virtually no history of failures and consolidations, instead of the situation as it exists, today, wherein we have some 350 so-called legal reserve life insurance companies, too many of which are trying to take refuge under the sheltering wing of the "institution of life insurance." These facts are forcefully brought out, I consider, by the testimony of some of the officials who have testified before your committee, including Arthur Hall. The fundamental purpose of sound life insurance is protection to homes, and savings for later years. The year 1940 is no exception.

Please treat my name confidentially as indicated in the last paragraph of your letter.

Hoping this is a satisfactory answer to your letter, I am

Yours truly,

——— ———.

EXHIBIT No. 2601

FEBRUARY 14, 1940.

DEAR SIR: Receipt is acknowledged of your letter of February 9, 1940, with attached questionnaire enclosed. My answers and comments follow.

Question I. Periodically, I am or have been a full-time agent, particularly prior to a development of the oil industry in * * * during 1938-1939. During the two years last mentioned I have earned some income from oil speculation to the neglect of my life underwriting.

Question II. I have been in the life insurance business five years.

Question III. When pursued consistently and with diligence, my annual income, based on first-year commissions, has been about twenty-four hundred dollars. My earnings far exceed the average of other agents in this territory.

Question IV. I believe that a guaranteed minimum salary for new agents is desirable. This would eliminate companies signing on "policy peddlers" doomed from the beginning to failure, and would serve to develop competent Life Underwriters. I would not reduce the first-year commissions to increase renewal commissions.

Question V. There is a large turnover of agents in our Agency and I believe the same true of every other agency of every insurance company in the United States. The continual entrance of new, untrained agents in the profession definitely hinders the sale of life insurance and embarrasses the service of the competent underwriter. New, untrained agents do not understand the contracts they are peddling and cannot avoid serious misrepresentation regarding them. This creates an odium on the profession.

Question VI. The method of training agents in our office is satisfactory, but the talent of the majority of those given contracts is sometimes seriously deficient. The guaranteed minimum salary, as suggested above, would largely eliminate this promiscuous giving of contracts to all applicants.

Question VII. I am definitely against a part-time agent. He is the cancer of the profession. Without intelligence or information he sells his family, a few friends, folds up and is "Gone with the Wind," and leaves in his wake ill-fitting and messed-up life programs.

Question VIII. The obtaining of new business is emphasized, but not overdone, I believe.

Question IX. I do not believe that the market for life insurance is saturated. I do believe that the number of agents attempting to sell it is excessive. I believe this situation would be corrected if the qualification requirements, by State or Federal process, were seriously stiffened. This would serve immediately to eliminate the incompetents who are almost wholly responsible for over-selling. A small percentage of their sales remains on the books for the duration of the first year.

COMMENT

I believe that some correctional action should be taken in regard to the practices involved in the sale of Industrial Life Policies. The article sold is of standard nature but by reason of the premium collection practice, it usually costs the purchaser thirty to forty per cent above standard rates. Generally, industrial policies are sold to the less fortunate of our citizens.

Here in * * * the State examination for a Life Underwriter, or any insurance agent or broker is a joke. The State Department of Insurance has published a pamphlet listing twenty questions with answers thereto. This is available to anyone upon request. The applicant knows in advance that he is going to be asked ten of these twenty questions, and nothing more. It goes without saying that any high school boy, with the pamphlet in hand and after one hour's study, could pass with a one hundred per cent rating, the examination for the Life Underwriters required in * * *.

For obvious reasons I would prefer that you treat this letter as strictly confidential.

Yours very truly,

——— ———.

P. S.—The part-time agent more often than not indulges in rebate of commissions. Here in my town some years ago, one of the wealthiest men here, engaged solely in the lumber business, accepted a contract from the Mutual Life of New York for the purpose of writing his own and several of his brothers' and families' life insurance. Within the immediate family he placed about $200,000 worth of business and to my certain knowledge he never sold a policy elsewhere. This practice is not unusual and its purpose obvious.

——— ———.

EXHIBIT No. 2602

FEBRUARY 17, 1940.

DEAR SIR: I am pleased to give you the following information and ideas, as my attempt to answer your questionnaire, regarding life insurance agents.

TOPICS

#1. Full time Agent. Small income from undivided one-half of one hundred acres of land, crops burnt up last six years, and the income from the land has hereby been sufficient to pay taxes.

#2. 17 years in the life insurance business.

#3. (a) About $1,000. Work most of time among farmers. Lapses very heavy in recent years, account crop failures, cutting first year and renewal commissions to a very low figure. Overhead expense very heavy on country work. Worked at a loss for the past five or six years.

(b) Aside from the earnings of a half dozen men in my Agency, who possibly earn from $3,000 to $6,000 per annum, the figures quoted in the second paragraph of your letter would apply to the rest of the Agency force, in my opinion.

(c) Income has remained about the same in recent years, due to long hours of harder work, due to short crops.

#4. (a) No observations as to the new man.

(b) As to agents who have been in the business a number of years, and who have established policyholders of which they no longer receive renewals, but which they must continue to service, I am in full accord with the viewpoint of one of the successful men, in this Agency, who has been with the company many years, and has been a Supervisor for the company, and is now a regular National Club member.

His plan, as I understand it, is the best of anything I've heard of. He believes that the sale of life insurance should be put on a Commercial selling basis, that agents are necessary, to search out and educate the public as to their needs, that agents should be under a constant system of Compulsory Home Office Training, and under a system of Compulsory Time Control, and compensated to the extent that their minimum home expenses will be assured them.

His plan for new men, as I understand it, calls for careful selection, to begin with, that such new men be carefully trained before they be allowed to solicit the public, and a minimum guaranteed salary paid them for the first year they are in the business, at the end of which time, if they met the required tests, they be allowed to continue to represent the company under the plan of finance and system of time control and training, used for the older men in the business. For men who have been in the business, I understand, one year or longer he advocates a drawing account of $100.00, minimum, and $250.00, maximum, per month. Such drawing account would be against first year commissions. This drawing account, as I understand his idea, would be adjusted, up or down every three to six months, as necessary, depending on the salesman's record for the period of time.

He advocates the installation of a clerk in each Agency, to handle reports, and to see that the system of time control of the salesmen is rigidly adhered to. He advocates Sales Training Schools, to be conducted from the Home

Office, in each Agency, twice yearly, with charts, lectures and motion pictures. He advocates agents' pensions to be paid for jointly by the agent and the company under some plan of extension of renewals on old business, such extended renewals to be applied to the purchase of an annuity for the agent. Under his plan there would be less proselyting of agents, between companies, and less talk among agents about General Agencies. He believes, as I do, that if a man has a guaranteed level income, the chance to make more money, if he is qualified, and the assurance that he will have a retirement pension when retirement age comes, he will be ready to adopt life insurance salesmanship, as a life career, and he will be ready and willing to do the things necessary to make all this possible.

His plan appears to be a plan for the men and women who are planning insurance estates and annuities for the American public. The life insurance salesman's freedom is his worst enemy, unless he can control his time. Very few men are executives but most men can follow a plan laid down for them.

I have attempted, in the foregoing, to express the idea of a man who has been a leader, in this territory and the company as a whole, for many years.

#5. (a) Turnover larger, in my opinion, than necessary.

(b) Factors responsible for this turnover:

1. Lack of proper finance,
2. Lack of self-supervision,
3. Lack of proper training.

(c) On the theory that 20% of agents do 80% of the business, new agents, in my opinion, do little more than help the experienced or trained agent to finish the job of actually writing the business. New agents are necessary, but should be carefully supervised.

#6. My answers to questions #4 and #5 pretty well answer topic number 6.

#7. Life insurance more and more is becoming a business which calls for a high degree of technical training on the part of its salesmen, and for this reason I do not believe there is any place in the business for the part time man.

#8. Emphasized, but not to the extreme.

#9. (a) No. The market for life insurance, in my opinion, is far from being saturated. The amount of life insurance owned by the great majority of men is wholly inadequate to their family needs.

(b) I still feel that as long as about 20% of the agents sell about 80% of the business, life insurance sales work, as a career offers a fine opportunity to trained men and women.

I desire that my name be treated confidentially.

Very respectfully yours,

——— ———.

Exhibit No. 2603

Dear Mr. Gesell: I have followed the reports of your various meetings in the trade journals with much interest. My personal opinion is that the life insurance companies have increased their assets more due to lack of confidence in other means of investment rather than because they happen to be who they are. I know in my own experience that a large amount of my business has been high-premium and single-premium business which came to the insurance companies because the policyholder had lost faith in other forms of investment or felt unqualified to select good investments. In other words, the tremendous growth of the insurance assets is simply an effect rather than a cause.

I am confident that these examinations that are being made will bring about some wholesome changes, but I do feel that concentration of wealth in a few companies' control is not the only evil that should be remedied.

Just so happens that I was born and raised in * * * and am proud of it, but I am certainly not proud of our insurance laws. In the state of Massachusetts forty-eight life insurance companies have been licensed to do business, New York about fifty-five, and out here where we have a much smaller population and I imagine a smaller per capita income, we have one hundred and fifty-four life insurance companies licensed to do business. Unfortunately, many of these companies do not have the stability that they should. Their standards are comparatively low and apparently the good local state companies—and thank goodness we have a few—are unwilling to cooperate in a movement of housecleaning because they feel that their business in force as well as new business would suffer during that period. The only way of overcoming such a situation is by some means of federal supervision. Either forcing it onto the state or scaring them into it.

As a General Agent as well as Personal Producer, I have seen the effects of high-pressured salesmanship in our business. Personally, I am in favor of contracts that have lower cash values thus removing the temptation to surrender these contracts for their cash and losing the insurance protection. The law does not permit what I believe a popular contract and one that would fit the needs for the public would be one that the reserve of which would not be available for cash surrender value. This contract, if the policy-holder was unable to carry out his obligation to pay premiums, should go into an automatically paid-up contract. In this way this insures the policyholder against not having any insurance at the time of his death. When people are under pressure they have the temptation to get their cash value with the idea of taking out another policy when times get better, and many times that don't happen and their families and the public suffer on that account.

Another criticism I have is that many companies use dividend illustrations in order to show net cost and take a twenty-year period of time, yet I think it is agreed that the average policy only stays in force about seven years, so to this extent, at least, the companies fail to use the law of averages as they do in many of their other calculations.

Furthermore, in soliciting prospective agents they again do not use the law of averages but show the prospect how much money can be made in this business under various agency contracts. They do not again show this prospective agent the terrific turnover in the agency force.

I think, in conclusion, an interesting study, if you folks have the time would be to show the number of companies doing business in the various states and the per cent of business in force in the large major companies in that state or done by a few of the larger; and also show the large number of local companies that are organized and exist for a few years and then are reassured or in some cases become insolvent. * * * I tried to get a W. P. A. project along this line, but got very little or no cooperation out of the State Insurance Commissioner for fear that the facts that would be uncovered would be very revealing and embarrassing. If it were at all possible, I would be glad to cooperate with your committee along such a study here in our own state.

Trusting I have given you a couple of worth-while ideas, I remain

Yours very truly,

EXHIBIT No. 2604

DEAR MR. HENDERSON: I am in receipt of your letter of February 9th and I am very glad to answer the questionnaire you enclosed. Following are my answers to the various questions arranged in the order in which they appear on the blank.

1. I am engaged in the life insurance business on a full-time basis and I have no other source of earned income.
2. I have been in the life insurance business for ten years.
3. My average annual income in recent years has varied from $3,800 to $4,600. The average annual income of other agents in this territory will vary from $750 per year to better than $10,000 per year. Aptitude for the life insurance business and the length of time in which a man has been engaged in this business are usually the governing factors. In other words, the man who is not qualified for life insurance selling can never hope to earn more than a very meagre living, whereas the agent who is qualified can earn a comfortable living and one that should increase with his length of experience in the business. During the last two years my earnings have been larger than they were for the years immediately preceding.
4. The only advantage I can see to a guaranteed minimum salary for new agents is that it would tend to force some companies and some agencies to do a more careful job in selecting new men than they are doing at the present time. This would tend to put a stop to mass induction methods which are based on the theory of the "survival of the fittest." On the other hand, where new men are selected with care and then given proper training and supervision they have

no need of a guaranteed minimum salary, for their commission earnings during the first year should be reasonable, even though they will not be as large as in later years.

A small reduction in first year commission with increasing emphasis on renewal commission might have a desirable effect in improving the quality of the business written and the service rendered by the agents thereafter. However, any substantial reduction in first year commission would have a very detrimental effect, as it would force many agents to substantially increase their production if they hoped to survive, and this would undoubtedly result in an increase in undesirable high-pressure selling tactics.

5. The turnover of agents in our office is so small that it is almost negligible. Aside from death and retirement, the only agents in our organization who have failed and left the business were forced to do so because they were lazy and unwilling to put in a reasonable day's work, or were not willing to adjust their methods to modern selling conditions.

The entrance of new agents helps the sale of life insurance and only hinders where the new man is obviously unqualified for the business and hence muddies the water for the competent agent who may come along later. Occasionally, an old-time agent who is "coasting on his oars" may be envious of the success of a new man, but if he is honest with himself he will have to admit that this is because the newer man is working harder and doing a better job than he is.

6. New agents in our office are very carefully selected and then given a thorough course of training. In this connection I have no criticism to offer, other than that we would like to see this process more widespread with all companies and all agencies. I feel that no man should be permitted to enter the business unless he can measure up to certain minimum standards as determined by the Steward Test or other competent selective devices.

7. I believe that the part-time agents should be eliminated from the business, except in very small towns and rural communities. For the most part, such men are poorly trained and not competent to render a worthwhile insurance service to the public. We have no part-time men in our local organization.

8. The obtaining of new business is given reasonable emphasis in our office because a certain amount of new business is necessary if an agent is to earn a satisfactory living. The emphasis, however, is on quality of business rather than volume, and I feel that is where the emphasis should properly lie.

9. I believe the market for life insurance has a long way to go before it will reach the saturation point. Most people are grossly under-insured and they will not buy life insurance of their own volition. They need the services of a competent agent who can educate them as to the uses and value of life insurance and then assist them in setting up a reasonable program which will be within their capacity to pay for. As far as number of agents is concerned, there are not too many at the present time. However, a gradual improvement in the type of agent employed, as well as an improvement in the training and supervision given to him, will benefit both the business and the public alike.

I trust that these answers will be of some value to your committee in this investigation.

Yours very truly,

——— ———

The following statement on life insurance is added to the hearings on that subject by order of Senator Joseph O'Mahoney, Chairman of the Committee. It is offered as supplemental data furnished after hearings had been completed.

STATEMENT ON LIFE INSURANCE

Prepared for Filing With the Temporary National Economic Committee

(Copy)

AUGUST 13, 1940.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Temporary National Economic Committee,
Washington, D. C.

DEAR SENATOR O'MAHONEY: In behalf of the signatory companies, the attached Statement on Life Insurance is submitted, with offer of proof, for inclusion in the record of the proceedings of your Committee. The 151 companies which are submitting the Statement represent 60.9% of the total assets of all life insurance companies in the United States and 63.7% of the total life insurance in force in such companies.

According to the press, the Securities and Exchange Commission plans to submit to the Committee several monographs on life insurance. We respectfully request leave to reserve the right to submit further information to your Committee in case the contents of these monographs are of such a character as to make this action advisable.

Sincerely yours,

LEROY A. LINCOLN,
Chairman.
LEROY A. LINCOLN,
President, Metropolitan Life Insurance Company.
LAURENCE F. LEE,
President, Peninsular Life Insurance Company and Occidental Life Insurance Company of North Carolina.
M. ALBERT LINTON,
President, Provident Mutual Life Insurance Company.
T. A. PHILLIPS,
President, Minnesota Mutual Life Insurance Company.
E. E. RHODES,
Vice-President, Mutual Benefit Life Insurance Company.

TO THE TEMPORARY NATIONAL ECONOMIC COMMITTEE:

The undersigned life insurance companies respectfully submit the annexed statement and ask that it be included in the official record of the proceedings before your Committee.

This statement is presented for the purpose of supplementing and, in some instances, correcting the record already made by the Securities and Exchange Commission in presenting to your Committee its witnesses and exhibits relating to life insurance.

It would be impossible in any statement of reasonable brevity to answer all the inferences suggested in the present record, or to deal with all of the matters upon which more adequate evidence might be presented. While the annexed statement does not purport to be either exhaustiv or comprehensive, it presents facts and views of the undersigned in relation to some of those aspects of the life insurance hearings which appear to be most in need of elucidation or correction.

We are prepared to confirm the factual material, here submitted, by the testimony of competent witnesses before the Temporary National Economic Committee, if your Committee deems this course desirable.

Aetna Life Insurance Company
Hartford, Connecticut
Morgan B. Brainard, President

All States Life Insurance Company
Montgomery, Alabama
W. C. Jennings, President

Alliance Life Insurance Company
Peoria, Illinois
A. J. Schmidt, Executive Vice-President

American Home Life Insurance Company
Topeka, Kansas
W. M. Hobbs, President

American National Insurance Company
Galveston, Texas
B. Werkenthin, Vice-President

American Union Life Insurance Company
St. Joseph, Missouri
R. L. Douglas, President

American United Life Insurance Company
Indianapolis, Indiana
George A. Bangs, President

Amicable Life Insurance Company
Waco, Texas
A. R. Wilson, President

Atlantic Life Insurance Company
Richmond, Virginia
J. W. Sinton, Jr., Vice-President

Atlas Life Insurance Company
Tulsa, Oklahoma
Johnson D. Hill, President

Bankers Health and Life Insurance Company
Macon, Georgia
P. L. Hay, President

Bankers Life Company
Des Moines, Iowa
Gerard S. Nollen, President

Bankers Life Insurance Company of Nebraska
Lincoln, Nebraska
Howard S. Wilson, President
Bankers National Life Insurance Company
Montclair, New Jersey
Ralph H. Lounsbury, President
Beneficial Life Insurance Company
Salt Lake City, Utah
George J. Cannon, Executive Vice-President
Berkshire Life Insurance Company
Pittsfield, Massachusetts
Fred H. Rhodes, President
Boston Mutual Life Insurance Company
Boston, Massachusetts
Jay R. Benton, President
Business Men's Assurance Company
Kansas City, Missouri
W. T. Grant, President
California Western States Life Insurance Company
Sacramento, California
O. J. Lacy, President
Capitol Life Insurance Company
Denver, Colorado
Clarence J. Daly, President
Carolina Life Insurance Company
Columbia, South Carolina
A. B. Langley, President
Central Life Assurance Society
Des Moines, Iowa
Fred P. Carr, Chairman of Board
Central Life Insurance Company
Fort Scott, Kansas
T. F. Skinner, Secretary
Central Life Insurance Company of Illinois
Chicago, Illinois
Alfred MacArthur, President
Colonial Life Insurance Company of America
Jersey City, New Jersey
Charles F. Nettleship, Vice-President
Colorado Life Company
Denver, Colorado
W. L. Baldwin, President
Columbian National Life Insurance Company
Boston, Massachusetts
Francis P. Sears, President
Columbus Mutual Life Insurance Company
Columbus, Ohio
D. E. Ball, President
Commonwealth Life Insurance Company
Louisville, Kentucky
Homer W. Batson, President
Connecticut General Life Insurance Company
Hartford, Connecticut
F. B. Wilde, President
Connecticut Mutual Life Insurance Company
Hartford, Connecticut
James Lee Loomis, President
Conservative Life Insurance Company
Wheeling, West Virginia
Clem E. Peters, President
Continental American Life Insurance Company
Wilmington, Delaware
Adolph A. Rydgren, President
Continental Assurance Company
Chicago, Illinois
Rollin M. Clark, Vice-President
Continental Life Insurance Company
Washington, D. C.
H. A. Bartholomew, President
Cosmopolitan Life Insurance Company
Memphis, Tennessee
H. W. Durham, President
Durham Life Insurance Company
Raleigh, North Carolina
S. B. Coley, President
Empire Life & Accident Insurance Company
Indianapolis, Indiana
James M. Drake, President
Equitable Life Assurance Society of United States
New York, New York
Thomas I. Parkinson, President
Equitable Life Insurance Company
Washington, D. C.
Gilbert A. Clark, Vice-President
Equitable Life Insurance Company of Iowa
Des Moines, Iowa
F. W. Hubbell, President
Farmers & Bankers Life Insurance Company
Wichita, Kans.
H. K. Lindsley, President
Federal Life Insurance Company
Chicago, Illinois
Hon. Isaac Miller Hamilton, Chairman
Fidelity Mutual Life Insurance Company
Philadelphia, Pennsylvania
Walter LeMar Talbot, President
Fidelity Union Life Insurance Company
Dallas, Texas
Earle B. Smyth, President
First National Life Insurance Company
New Orleans, Louisiana
C. E. McFarland, Secretary
Franklin Life Insurance Company
Springfield, Illinois
Charles E. Becker, President
Gate City Life Insurance Company
Greensboro, North Carolina
O. F. Stafford, President

Girard Life Insurance Company
Philadelphia, Pennsylvania
Albert Short, President
Great American Life Insurance Company
Hutchinson, Kansas
Will S. Thompson, President
Great National Life Insurance Company
Dallas, Texas
S. J. Hay, President
Great Northern Life Insurance Company
Chicago, Illinois
H. G. Royer, President
Great Southern Life Insurance Company
Dallas, Texas
E. P. Greenwood, President
Guarantee Mutual Life Company
Omaha, Nebraska
J. W. Hughes, President
Guaranty Life Insurance Company of Florida
Jacksonville, Florida
George J. Guimond, Vice-President
Guardian Life Insurance Company of America
New York, New York
James A. McLain, President
Gulf Life Insurance Company
Jacksonville, Florida
Sumter L. Lowry, Jr., Chairman
Home Beneficial Association
Richmond, Virginia
M. D. Nunnally, President
Home Friendly Insurance Company
Baltimore, Maryland
Charles H. Taylor, President
Home Life Insurance Company of America
Philadelphia, Pennsylvania
Basil S. Walsh, President
Home State Life Insurance Company
Oklahoma City, Oklahoma
Joe D. Morse, President
Imperial Life Insurance Company
Asheville, North Carolina
Gay Green, President
Independent Life & Accident Insurance Company
Jacksonville, Florida
J. H. Gooding, President
Indianapolis Life Insurance Company
Indianapolis, Indiana
Edward B. Raub, President
Industrial Life & Health Insurance Company
Atlanta, Georgia
H. T. Dobbs, Executive Vice-President
Interstate Life & Accident Company
Chattanooga, Tennessee
J. R. Leal, Secretary
Jefferson Standard Life Insurance Company
Greensboro, North Carolina
Julian Price, President
John Hancock Mutual Life Insurance Company
Boston, Massachusetts
Guy W. Cox, President
Kansas City Life Insurance Company
Kansas City, Missouri
W. E. Bixby, President
Kentucky Central Life & Accident Insurance Company
Anchorage, Kentucky
E. H. Speckman, President
Kentucky Home Mutual Life Insurance Company
Louisville, Kentucky
Ellsworth Regenstein, President
Knights Life Insurance Company of America
Pittsburgh, Pennsylvania
Joseph H. Reiman, President
Lamar Life Insurance Company
Jackson, Mississippi
P. K. Lutken, President
Liberty Life Insurance Company
Topeka, Kansas
Charles A. Moore, President
Liberty National Life Insurance Company
Birmingham, Alabama
Frank P. Samford, President
Life & Casualty Insurance Company
Nashville, Tennessee
A. M. Burton, President
Life Insurance Company of Virginia
Richmond, Virginia
Bradford H. Walker, President
Lincoln Income Life Insurance Company
Louisville, Kentucky
A. L. Noe, President
Lincoln Liberty Life Insurance Company
Lincoln, Nebraska
Joseph Albin, Secretary
Manhattan Life Insurance Company
New York, New York
J. P. Fordyce, President
Manhattan Mutual Life Insurance Company
Manhattan, Kansas
S. A. Bardwell, President
Massachusetts Mutual Life Insurance Company
Springfield, Massachusetts
P. J. Perry, President
Metropolitan Life Insurance Company
New York, New York
Leroy A. Lincoln, President
Michigan Life Insurance Company
Detroit, Michigan
L. J. Treanor, Vice President
Mid-Continent Life Insurance Company
Oklahoma City, Oklahoma
R. T. Stuart, President
Midland Life Insurance Company
Kansas City, Missouri
Daniel Boone, President

Midland Mutual Life Insurance Company
Columbus, Ohio
George W. Steinman, President
Midland National Life Insurance Company
Watertown, South Dakota
F. L. Bramble, Secretary
Midwest Life Insurance Company
Lincoln, Nebraska
W. W. Putney, President
Minnesota Mutual Life Insurance Company
St. Paul, Minnesota
T. A. Phillips, President
Missouri Insurance Company
St. Louis, Missouri
H. G. Zelle, Executive Vice-President
Monarch Life Insurance Company
Springfield, Massachusetts
Clyde W. Young, President
Monumental Life Insurance Company
Baltimore, Maryland
Leo P. Rock, President
Mutual Benefit Life Insurance Company
Newark, New Jersey
E. E. Rhodes, Vice-President
Mutual Trust Life Insurance Company
Chicago, Illinois
E. A. Olson, President
National Fidelity Life Insurance Company
Kansas City, Missouri
W. Ralph Jones, President
National Guardian Life Insurance Company
Madison, Wisconsin
George A. Boissard, President
National Life & Accident Insurance Company
Nashville, Tennessee
C. A. Craig, Chairman of the Board
National Reserve Life Insurance Company
Topeka, Kansas
Holmes Meade, President
New England Mutual Life Insurance Company
Boston, Massachusetts
George Willard Smith, President
New World Life Insurance Company
Seattle, Washington
John J. Cadigan, President
North American Life Insurance Company of Chicago
Chicago, Illinois
E. S. Ashbrook, President
North American Reassurance Company
New York, New York
Lawrence M. Cathles, President
Northern Life Insurance Company
Seattle, Washington
D. B. Morgan, President
Northwestern National Life Insurance Company
Minneapolis, Minnesota
O. J. Arnold, President
Occidental Life Insurance Company (of California)
Los Angeles, California
Dwight L. Clarke, Executive Vice-President
Occidental Life Insurance Company (of North Carolina)
Raleigh, North Carolina
Laurence Lee, President
Ohio State Life Insurance Company
Columbus, Ohio
Claris Adams, President
Old Line Life Insurance Company of America
Milwaukee, Wisconsin
J. H. Daggett, Vice-President
Oregon Mutual Life Insurance Company
Portland, Oregon
W. C. Schuppel, Executive Vice-President
Pacific Mutual Life Insurance Company
Los Angeles, California
A. N. Kemp, President
Pacific National Life Assurance Company
Salt Lake City, Utah
Carl R. Marcusen, President
Palmetto State Life Insurance Company
Columbia, South Carolina
Ashley C. Tobias, Jr., General Counsel
Pan-American Life Insurance Company
New Orleans, Louisiana
E. G. Simmons, Executive Vice-President
Paul Revere Life Insurance Company
Worcester, Massachusetts
Charles A. Harrington, President
Peninsular Life Insurance Company
Jacksonville, Florida
Laurence Lee, President
Penn Mutual Life Insurance Company
Philadelphia, Pennsylvania
John A. Stevenson, President
Peoples Life Insurance Company
Washington, D. C.
W. W. Chiswell, President
People's Life Insurance Company
Frankfort, Indiana
E. O. Burget, President
Philadelphia Life Insurance Company
Philadelphia, Pennsylvania
Clifton Maloney, President
Phoenix Mutual Life Insurance Company
Hartford, Connecticut
Arthur M. Collens, President
Progressive Life Insurance Company
Atlanta, Georgia
R. A. Craighead, President
Provident Life Insurance Company
Bismarck, North Dakota
F. L. Conklin, Vice-President
Provident Mutual Life Insurance Company
Philadelphia, Pennsylvania
M. A. Linton, President

Puritan Life Insurance Company
Providence, Rhode Island
Henry D. Sharpe, President
Reliance Life Insurance Company
Pittsburgh, Pennsylvania
W. M. Guthrie, Assistant Auditor
Scranton Life Insurance Company
Scranton, Pennsylvania
Walter P. Stevens, President
Seaboard Life Insurance Company
Houston, Texas
Burke Baker, President
Security Life and Trust Company
Winston-Salem, North Carolina
E. L. Davis, President
Security Mutual Life Insurance Company
Lincoln, Nebraska
T. A. Sick, Vice-President
Security Mutual Life Insurance Company
Binghamton, New York
F. D. Russell, President
Southeastern Life Insurance Company
Greenville, South Carolina
W. Frank Hipp, President
Southern Life & Health Insurance Company
Birmingham, Alabama
J. H. McCary, President
Southland Life Insurance Company
Dallas, Texas
A. Morgan Duke, President
Southwestern Life Insurance Company
Dallas, Texas
C. F. O'Donnell, President
Standard Life Insurance Company of America
Pittsburgh, Pennsylvania
J. D. Van Scoten, Vice President
State Capital Life Insurance Company
Raleigh, North Carolina
Irving F. Hall, President
State Life Insurance Company
Indianapolis, Indiana
Robert E. Sweeney, President
State Mutual Insurance Company
Rome, Georgia
Geston Garner, President
State Mutual Life Assurance Company
Worcester, Massachusetts
Chandler Bullock, President
Texas Life Insurance Company
Waco, Texas
William D. Mayfield, Vice-President
Tharp-Sontheimer Industrial Life & Burial Insurance Company
New Orleans, Louisiana
V. S. Oulliber, Vice-President
Travelers Insurance Company
Hartford, Connecticut
L. E. Zacher, President
Union Life Insurance Company
Richmond, Virginia
Mrs. Florence H. Lawler, President
Union Mutual Life Insurance Company
Portland, Maine
R. E. Irish, Vice President
United Benefit Life Insurance Company
Omaha, Nebraska
Miles Scheaffer, Secretary
United Fidelity Life Insurance Company
Dallas, Texas
D. Easley Waggoner, Vice-President
United Life & Accident Insurance Company
Concord, New Hampshire
John V. Hanna, President
United Life Insurance Company
Jacksonville, Flórida
L. C. McCabe, President
United Life Insurance Company
Salina, Kansas
Jay W. Smith, Vice President
United States Life Insurance Company
New York, New York
George M. Selser, Vice-President
Unity Life Insurance Company
Columbia, South Carolina
J. R. Hoile, President
Universal Life & Accident Insurance Company
Dallas, Texas
W. Brodnax, President
Universal Life Insurance Company
Richmond, Virginia
R. F. Holman, President
Victory Life Insurance Company
Topeka, Kansas
W. J. Bryden, General Manager
Volunteer State Life Insurance Company
Chattanooga, Tennessee
Robert F. Evans, Vice-President
Washington National Life Insurance Company
Evanston, Illinois
H. R. Kendall, Chairman of the Board
West Coast Life Insurance Company
San Francisco, California
F. V. Keesling, President
Western Life Insurance Company
Helena, Montana
R. B. Richardson, President
Western Reserve Life Insurance Company
Austin, Texas
A. F. Ashford, President
Wisconsin Life Insurance Company
Madison, Wisconsin
N. J. Frey, President
Wisconsin National Life Insurance Company
Oshkosh, Wisconsin
C. R. Boardman, President

The signatory companies include the following whose authorization was received after this Statement had gone to press:

Lafayette Life Insurance Company
Lafayette, Indiana
Edward B. Raub, Jr., General Counsel

Eureka-Maryland Assurance Corporation
Baltimore, Maryland
Joshua N. Warfield, President

National Life Company
Des Moines, Iowa
William Koch, President

Home Security Life Insurance Company
Durham, North Carolina
Bascom Baynes, President

Home Life Insurance Company
New York, New York
James A. Fulton, President

American Reserve Life Insurance Company
Omaha, Nebraska
Raymond F. Low, President

Reliable Life Insurance Company
Saint Louis, Missouri
B. L. Tatman, President

Suwannee Life Insurance Company
Jacksonville, Florida
White L. Moss, President

Republic National Life Insurance Company
Dallas, Texas
Theo. P. Beasley, President

Texas Prudential Insurance Company
Galveston, Texas
S. E. Kempner, President

American Savings Life Insurance Company
Kansas City, Missouri
F. P. Sizer, Jr., President

Ohio National Life Insurance Company
Cincinnati, Ohio
S. J. Blashill, Secretary

Pilot Life Insurance Company
Greensboro, North Carolina
E. C. Green, President

Great American Life Insurance Company
San Antonio, Texas
Charles E. Becker, President

American Mutual Life Insurance Company
Des Moines, Iowa
A. H. Hoffman, President

Standard Life Insurance Company of the South
Jackson, Mississippi
L. K. Arrington, Executive Vice President

[1] THE TEST OF LIFE INSURANCE—SAFETY

The safety record of life insurance during the past 10 years is without parallel, notwithstanding the worst depression in modern history. Policyholders want safety, and experience demonstrates that the Institution of Life Insurance has not failed them, either in good times or bad.

The total assets of life insurance companies which suspended operations during the decade 1929–1938 amounted to only about 2% of the assets of all life insurance companies. The word "suspended" is used because in the vast majority of these cases the mechanism of reinsurance, developed by the Institution of Life Insurance, has minimized losses to policyholders. As only a part of the assets of the suspended companies was impaired, the potential loss to policyholders was not 2%, but less than 1% of the policy reserves. The impaired reserves are being rebuilt by the reinsuring companies so that the maximum aggregate loss has already been reduced to 6–10 of 1%.

As a rule, the principal disadvantage to policyholders in suspended companies is the temporary loss of the right to surrender policies for cash or to borrow on cash surrender values for varying periods of time. Potential losses on impaired reserves are being reduced by the reinsuring companies and when such reserves reach proper standards, this right again becomes available.

The safety record of life insurance, from the standpoint of the respective States, is interesting. During the 10-year period, 1929–1938, 30 out of 45 States, in which home offices of life insurance companies were [2] located, had a perfect record because not a single company domiciled therein suspended operations. The companies domiciled therein in these 30 States had over 85% of the total assets of all legal reserve life insurance companies.

SAFETY—THE RESULT OF SOUND SUPERVISION

This record of safety is not a fortuitous circumstance. It is the result of the practical application of principles and methods of operation which have been tested by a number of depressions and continually improved by private initiative and competition among life insurance companies. Due credit also must be given to the several States for the way in which they have protected the public interest and encouraged sound life insurance management.

BY THE STATE LEGISLATURES. The record of life insurance for safety is the cornerstone upon which the confidence of the American people in this institution is based. From the time of the adoption of the Constitution, insurance has been a matter exclusively within the province of the respective States. As a life insurance contract is a local contract, our State insurance laws have been designed to protect the public interest in the light of local conditions.

Legislatures are alert for improvements and, year in and year out, are continually adjusting life insurance legislation to the economic and social needs of their respective localities. The various State Legislatures and Insurance Commissioners act as checks and balances upon each other, particularly in connection with ill-advised insurance legislation or rulings. Furthermore, the States generally are in position to observe experiments in a particular State before acting, and this tends towards fewer but sounder insurance laws.

The Securities and Exchange Commission has put into the record a few exceptional and isolated incidents [3] wherein the conduct of certain insurance officials was open to question. Its investigators had to go back some years to locate these incidents, which apparently were put into the record to show defects in the State system of supervision of insurance. State laws have been continuously strengthened, but there naturally is a limit to the matters upon which legislation can be brought to bear successfully.

In no case is it possible, of course, to instill into men by law a high standard of ethics or good business judgment, nor can any type of supervision be relied on to prevent all dishonesty or stupidity. For example, the vice-president of a certain national bank, working in collusion with a national bank examiner, was alleged to have actually stolen and embezzled various sums of money. Of course both were indicted, as they should have been. But certainly no fair-minded man would view this unfortunate case as evidence of the weakness either of Federal laws or of Federal supervision of national banks. The most that can be said about such rare incidents as were placed in the insurance record is that they are a commentary on individual concepts of ethics and not upon State laws or State insurance supervision.

By the Insurance Commissioners.[1] Every State has some insurance regulatory body whose function is to administer insurance laws in the public interest. These administrators, usually called Insurance Commissioners, have very real power through their authority to license or refuse to renew licenses to insurance companies, through their inquisitorial and investigatorial powers, their authority to publicize the results of the periodic examinations of the internal affairs of life insurance companies by public auditors or examiners, and to request receiverships for local companies.

The Commissioners act together through the National [4] Association of Insurance Commissioners on matters of common interest. This organization serves as a clearing house for information, studies broad problems, and fosters uniform insurance legislation. The Commissioners realize only too well that absolute uniformity is a vise which can restrict development, whereas uniformity in principle is flexible and permits of adjustment to local conditions in the respective States. To illustrate, the banks closed in 1933 and it was necessary to protect policyholders against runs upon the companies. The Commissioners met and adopted principles dealing with moratoria. As a result, many of the States, upon the recommendations of their Commissioners, adopted legislation which in principle conformed to the recommendations of the National Association of Insurance Commissioners. Other Commissioners took no action, however, when local conditions in their States were of such a character that undue drains upon life insurance reserves were not anticipated as a result of the bank holiday.

In viewing the work of the Commissioners, it should always be borne in mind that the regulation of any one company is seldom exercised solely by one Commissioner, regardless of how efficient his Department may be, but nearly always by a substantial number of Commissioners. As a result, most companies must operate under the supervision of a number of Commissioners, each of whom has in mind the local situations in his particular State. This form of supervision has been one of the primary reasons for the success of the State supervisory system.

By Private Enterprise. Probably one of the most salutary factors, ever-present in helping to protect the public interest, is the competition which exists among life insurance companies. In a desire for public favor, agents are continually portraying to the public the advantages of their respective companies. When in competition, they are not slow to point out the strengh of their companies. [5] Day in and day out there is the continual education of the public by the agents on the importance of safety in life insurance, and efforts by home office officials to find ways and means to improve further the safety structure of their respective companies.

The legal reserve system of life insurance springs from the imperative need of safety. No life insurance company on a legal reserve basis has ever failed because of this system. When difficulties have developed, they invariably have been traceable to human frailty or lack of management experience, usually in the field of investments.

The impelling force of competition is an effective stimulus to sound management. The essence of life insurance competition is the continual effort to assure the highest standards of safety, liberality, and service for policyholders at low cost. Competition among more than 300 legal reserve companies—between participating and non-participating forms of insurance—between large and small companies—between Canadian and American companies—all this leads to the constant introduction of new and progressive policy benefits. One progressive idea after another is initiated, first by one company and then by others. When

[1] For further information about some of the activities of the Insurance Commissioners see statement filed May 27, 1940, by 137 [illegible] companies, for inclusion in the record of the Temporary National Economic [illegible] hearings.

such ideas have passed the experimental stage and their value to the public has been demonstrated, competition usually forces their general adoption. The companies act not only as a check upon each other but also as a stimulus, because it must be remembered that the position of a life insurance company is never static. Once the management of a company fails to keep its competitive position, other companies promptly forge ahead of it in public favor. Competition among companies is healthy and has played an important part in the development of the proven record of safety, liberality, and service of the Institution of Life Insurance.

[6] THE SERVICES OF DIRECTORS

Certain phases of the services of life insurance company directors were considered in the course of the hearings. To measure these properly, one should look at the results secured, because, under the law, directors are responsible for the conduct of the affairs of the companies. There is little in the record about the contributions of directors to the stability and success of the Institution of Life Insurance.

While the hearings before the Tempory National Economic Committee were still in progress, the Securities and Exchange Commission, in its Fifth Annual Report (1939), stated that the testimony demonstrated that directors of mutual life insurance companies are practically self-perpetuating groups, and that it is virtually impossible for the policyholders to elect a director who has not been selected by the existing management. The report also stated that in some cases the directors have used their influence to bring the patronage of the insurance companies, of which they were directors, to law firms, banks, and other business enterprises with which they were connected.

These generalizations are based upon the most meager amount of trifling testimony, and upon an infinitesimally small number of instances referred to in the hearings. On the other hand, information about the checks and balances which State laws, Insurance Commissioners, and policyholders exercise to insure capable performance by companies was barely touched upon in the record.

The State Legislatures and State Insurance Departments provide various checks on the performance of the [7] companies. Directors must conduct the affairs of their respective companies in accordance with State insurance laws and the rulings of the Insurance Commissioners. Furthermore, although life insurance is generally regarded as one of the most thoroughly supervised of all business activities, there is little testimony in the record dealing with this important subject. For example, the searching inquiries, incident to a joint periodical examination conducted by the Insurance Department of several different States, constitute an exhaustive audit of the financial transactions, the bookkeeping and accounting methods, the investment policies, the management policies, and the conduct of officials and directors. In addition, each year every company is required to file reports of its activities, and these reports are constantly under analysis by members of the State Insurance Departments.

Other important checks, exercised by the public upon directors, result from the quasi-public character of the business, the wide publicity given to the operations of the various companies, and the opportunity constantly afforded for the public to satisfy itself as to the efficiency and trustworthiness of the companies' management. The right to publicize the results of Insurance Departmental examinations is a most potent factor in the State system of supervising insurance. Adverse reports on a company tend to impair its standing and undermine the confidence of agents and policyholders. Furthermore, if anything detrimental to policyholders of a mutual company develops, the Commissioners' reports will stimulate appropriate action by policyholders through their legal right to change the management. Legislators have surrounded this power with various safeguards in the interests of policyholders, including the encouragement of continuity of sound management.

[8] "SELF-PERPETUATING DIRECTORS"

CONTINUITY OF SOUND MANAGEMENT ESSENTIAL. All records show that in the well-established life insurance companies there has been for many years a continuity of management which includes not only officers but also directors. This results from the intrinsic character of the business, which involves the consideration of calculations and expectations, both as to contracts and as to investments on a long-range basis. The continuity of the contracts themselves, many of which run for more than a generation, emphasizes the advantage of consistency and continuity in management. The long record of life insurance companies shows that continuity of management has not resulted in irresponsibility, neglect, or wrongdoing, but has been so efficient and progressive as to bring about a steadily increasing and widespread public confidence.

The good depression record of life insurance could not have been made except by men of broad business experience, long contact with insurance problems, and imbued with a high sense of integrity and responsibility. The history and result of this policy of continuity in itself demonstrates the danger of making changes too quickly in the personnel of such a unique and intricate business. In times of stress, it is particularly valuable for these companies to have men of broad experience—lawyers, bankers, industrialists, economists, and statesmen—available as directors.

Directors are chosen for their experience, their knowledge, their reputation for integrity, and their critical qualities of disinterested judgment. Attendance at board meetings is not the only test of a director's usefulness. Many directors serve their companies actively on various committees. Some directors may reside at a distance and serve to give their company a local point of view in consultation on matters of policy.

[9] It is erroneous to deprecate this policy of continuity in management by terming it "self-perpetuatioon." In most of the mutual savings banks, the governing boards are by law entrusted with the responsibility and power to choose and elect their successors. Conspicuous examples of the same policy are found in the boards of many great universities in relation to both their property rights and the determination of educational policies.

The record contains tentative suggestions that so-called public directors of life insurance companies be designated, presumably by some public authority. The Superintendent of Insurance of the State of New York has strongly criticized this suggestion because of the inherent danger of political abuse. The question was also raised as to whether "paid" directors should be appointed to devote their full time to the company. This suggestion also was criticized by the New York Superintendent on the ground that it would be equivalent to increasing the number of officers instead of encouraging outside participation in management. There is no evidence in the record supporting the view that more highly paid directors would improve the character of management. If directors were more highly paid, they might lose their status as disinterested critics and advisers of the management.

Safeguarding Elections. The hearings directed specific attention to the method of electing directors of mutual life insurance companies in the State of New York. When a sufficient number of policyholders desire to change a company management, the Insurance Commissioner is required by law in New York to supervise the election. Policyholders are informed of their legal rights in this respect: for example, domestic mutual companies are required to print upon their premium receipts and receipt books an appropriate statement indicating that the policyholder has the right to vote in person or by proxy, stating the time and place of the [10] next annual meeting and advising that groups of policyholders have the right to nominate one or more independent tickets.

As policyholders in mutual companies, incorporated in New York, have the right to file nominations and elect directors, the Superintendent of Insurance is authorized, in his discretion, to require the company to furnish a list of policyholders on application to him by 25 policyholders. Independent nominations may be made by any group embracing one-tenth of 1% of all policyholders with policies of $1,000 or more. But the performance of the life insurance companies has apparently been so satisfactory to policyholders during the past 35 years that only one other State, Wisconsin, has deemed it necessary to provide in detail by statute for the nomination and election of directors. Since 1905, in New York State, there have been only three contested elections.

Neither a State law nor intensive company efforts necessarily result in large scale voting by policyholders. The questions asked in the hearings before the Temporary National Economic Committee, criticizing by inference the present laws and regulations of New York relating to company elections, are answered by the fact that when management conducts the companies solely in the interests of policyholders, the latter do not want a change and cannot be forced to interest themselves in changes. The practical difficulties of increasing policyholder participation in elections is fully dealt with in the report of the New York Superintendent of Insurance for 1939. He called attention to the substantial expense involved, which would decrease dividends to the policyholders in mutual companies, and to the clean record made by the companies, as an answer to suggestions that wider participation by policyholders is necessary.

In his latest annual report, the New York Superintendent of Insurance also emphasized that, in considering any changes in the law, care must be taken not [11] to encourage attacks by those seeking control for their own selfish purposes.

Competent government control, both in legislation and supervisory machinery, has been developed for the specific purpose of protecting the interests of policyholders and relieving them of responsibilities for which they ordinarily are not equipped. These policyholders have a right to rely, and do rely, upon State officials, and particularly Insurance Departments, to watch the performance of their companies and give publicity to their affairs. Hon. Charles E. Hughes, the counsel for the Armstrong Committee of the New York Legislature which investigated life insurance in 1905–06, said, 20 years later:

> "It is well that policyholders should have the opportunity to correct improper management, and their power though latent must be real; they must have the final control. But if they undertook to manage affairs directly, they would make a mess of it. How to obtain the safeguard of ultimate control by those whose interests are at stake, and the continuity and efficiency of expert management, without the intrusions and insincerities of politics or the fantasies of dreamers, that is the great problem. It has been solved to a gratifying degree in your case."

Further answer to the questions raised in the hearings is that it is difficult to see how greater policyholder participation could improve the soundness of the managerial methods or increase public confidence. The special character of this business was never sufficiently emphasized in the hearings. Hon. Louis H. Pink, New York Superintendent of Insurance, in his report of 1939, answered many of these criticisms in detail and in particular said:

> "Directors of life insurance companies are trustees for policyholders and the public. It can only be harmful to the interests of policyholders if the [12] managements of our great life insurance companies are too easily subject to change."

Referring to the criticism that the present laws do not make participation in elections sufficiently easy for the policyholders, the Superintendent also said:

> "No matter what is done in the way of additional notice, it is questionable whether any great increase in voting by policyholders will result."

"INTERLOCKING" DIRECTORS

Confusion was created in the record by the use of the phrase "interlocking" directors and at no place was the phrase defined. The term was used to suggest that members of the boards of directors of life insurance companies were also members of boards of other companies from which were purchased supplies, services, or investments. Insinuations were made that the presence of one director on two different boards inevitably results in conflicts of interest or in some kind of sinister unity of business managements.

The record of the hearings contains no proof and no suggestions that any laws have been violated by any life insurance director or that any tendency toward monopoly has resulted when a director has served on more than one board. The record analyzing the 26 largest companies suggests no instance in which a director of a life insurance company controlled or selfishly influenced the decisions of his fellow directors, either in that company or in any other corporation.

Certainly there can be no complaint of "interlocking of directorships among life insurance compaines. Out of 533 directorships of 31 of the larger life insurance companies, only eight are filled by men who are on the boards of more than one of these companies.

The criticism, that in some cases directors used their influence to obtain business for firms or institutions with [13] which they were connected, is best answered by the intensive efforts the Securities and Exchange Commission devoted to this phase of its investigation and the extremely meager evidence offered on this subject. The scantiness of the testimony in contrast with the size of the Institution of Life Insurance, in itself demonstrates how rare were these instances, which in the main were of trivial character. In none of the few transactions specified does the record make any suggestion that the policyholders suffered loss or disadvantage. Whatever may be the theoretical view of the result of a man's acting simultaneously as a director of two or more companies, in the analysis of the 26 largest companies there was no proof of any material conflict of interest on the part of any director, much less a conflict of interest which did harm to the interest of the policyholders.

The State statutes strictly regulate the conduct of directors and officials in various ways, for example with respect to commissions and brokerage charges upon loans made by the companies, and these laws have been complied with. A further answer to criticism in the record is found in the fact that the constant supervision by State officials provides a sufficient safeguard against the possibility that a director or officer may profit improperly by reason of his directorship.

The Committee's Examiner put in evidence a table showing the investments of the 26 largest life insurance companies in the securities of other companies, one or more directors of which were directors of the insurance companies. Although the witness testifying to these investments disclaimed any intention to criticize these purchases because of their character or because anything improper took place, it was asserted that they showed "a degree of concentration of mutuality and inter-dependence." [1]

Life insurance investments are strictly limited by laws [14] aiming to secure the safest possible types. The broad scope and diversification of life insurance investments emphasize the desirability of selecting as directors men of character and varied experience in different kinds of business. If men of this caliber are chosen as directors, the other companies in which they are interested would ordinarily be well-managed companies and might well have outstanding the highest type of security in the fields to which the investments of the life insurance companies are limited. There is no evidence in the record that in any of the 26 largest companies whose investment policies were particularly scrutinized by the Securities and Exchange Commission, any director suggested, recommended, or participated in by vote, the purchase by his life insurance company of securities which resulted in personal profit to him. The only testimony on this point is directly to the contrary and does not support the statement that there exists "a degree of concentration of mutuality and inter-dependence."

The skill and integrity of management in the all-important field of investments amply justify the comment of Commissioner Henderson that the showing made by the 26 largest companies "in the 10-year period of the worst experience that investments ever suffered" was "an extraordinary record as far as the integrity of insurance assets are concerned."[2]

RESULTS INDICATE CONFIDENCE OF POLICYHOLDERS

In short, the answer to the criticisms and inferences suggested in the hearings, with reference to directors, is found in the admirable record of performance by the life insurance companies and in the further fact that the directorates of life insurance companies contain the names of so many men widely respected for their sense of responsibility and integrity. All of these important [15] facts also reflect the efficacy of the present form of State supervision of life insurance.

The extent of public patronage in itself demonstrates that policyholders are satisfied with the existing management and have entire confidence in the safety of their contracts. Today about half of the total population is protected by life insurance and, except for a brief period during the worst of the depression, the number of policyholders has been constantly increasing. The percentage of total population now owning life insurance is about four times larger than it was 40 years ago. On the average, each policyholder owns about twice as much life insurance as in 1900. Equally significant is the substantial volume of new business received by most companies from old policyholders.

---

[1] Supra p. 14805; see Exhibit No. 2265, appendix, p. 15495.
[2] Supra p. 15403.

Certain statistics and testimony were presented which showed the scope of the life insurance business with particular reference to the amount and concentration of insurance assets as well as the present size of the larger life insurance companies. This evidence implied that insurance companies are exercising control over the national economy in such a manner as to require restrictive limitations.

These inferences are in part the result of a failure to put in evidence pertinent facts as to life insurance, such as those relating to its historical development, the growth of national wealth and savings, information about the important part life insurance investments have played in the national social and economic development, and various trends which show that over a period of years the larger companies have a declining percentage of the total assets of all companies and that the growth of life insurance companies *outside* the Northeastern States has been increasing. In short, the testimony and suggestive questions may be answered by an analysis of the actual use of life insurance assets and the effect, if any, which the size of the companies and their assets have had upon the national economy.

COMPARATIVE GROWTH OF LIFE INSURANCE

In the years between 1900 and 1939, total life insurance in force in United States companies grew from $8,600,000,000 to $113,800,000,000. In 1900, there were 76,000,000 people in the United States, of whom only [17] 10,000,000 owned life insurance. By the end of 1939, the population was 131,000,000, of whom 64,000,000, or approximately one-half, owned life insurance. In 1900, the corresponding average per capita coverage of those who owned any life insurance was approximately $850. Today it is slightly more than double that figure, or about $1,775.

Thus it is seen that the growth of life insurance is accounted for by two facts: first, the average person owning life insurance today has slightly more than double the amount owned in 1900; and second, one-half the population owns life insurance today, whereas only between one-seventh and one-eighth of the population had any life insurance in 1900.

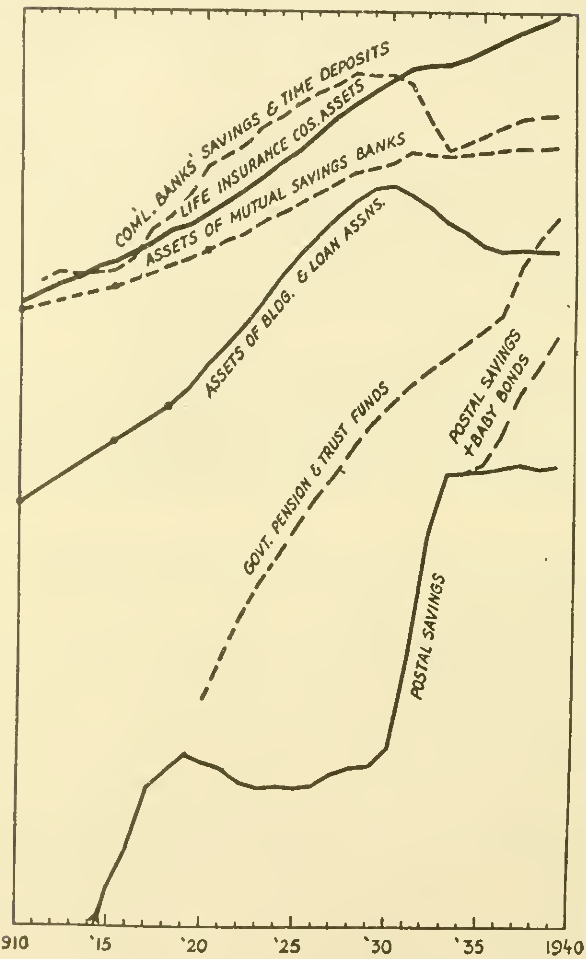
It was suggested in the hearings that so much life insurance has been sold that the market is now saturated. This is not the case. A recent survey by the Curtis Publishing Company shows that 50% of the present ordinary policyholders interrogated, and over 60% of the industrial policyholders, believed that they were not adequately insured.

Until the depression, the assets of all United States legal reserve life insurance companies grew at approximately the same rate as savings and time deposits in banks, and at a slower rate than the assets of all building and loan associations. The respective rates of growth are shown on the chart on page 18.

The customer growth of several other types of business has far exceeded that of life insurance during the years of America's greatest economic growth. The chart on page 19 compares the rate of growth of the customers in life insurance with the growth in passenger-car registrations, domestic electric customers, telephones, homes with radios, and gas customers. This shows that life insurance owners have increased at about the same rate as telephone subscribers, slightly faster than gas customers, but not as fast as owners of passenger autos, domestic electric customers, or homes with radios.

[20] The growth of life insurance assets is interrelated with the level premium method of life insurance operation. Since this method is discussed in some detail in a later section, it is sufficient to point out here that the level premium basis requires the accumulation of reserve funds in order that contractual obligations of the companies may be discharged upon their maturity. As these reserve liabilities grow, the assets of the life insurance companies must grow correspondingly.

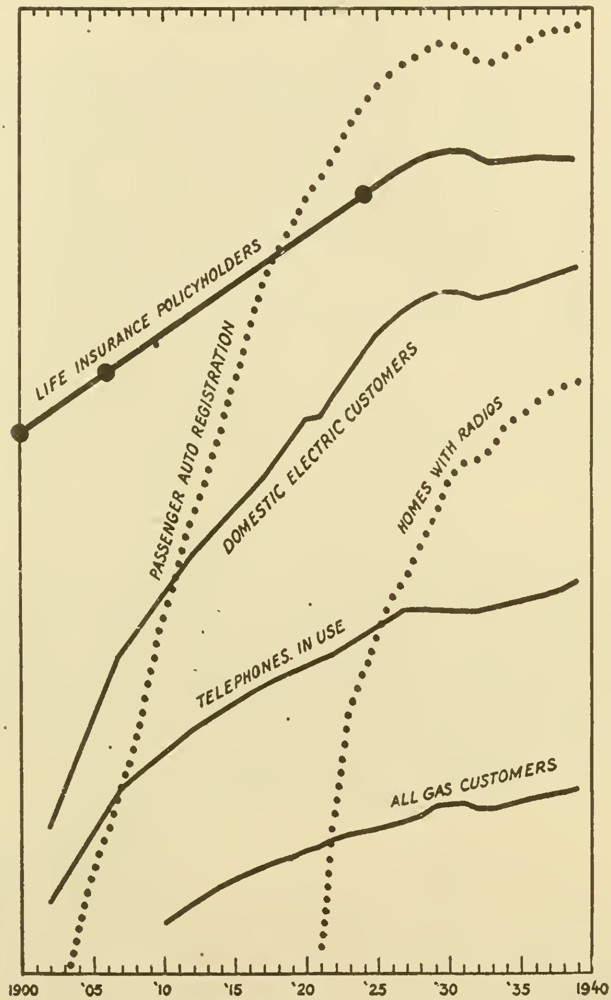
[18] *Assets of formal savings institutions in U. S.*



Sources: Spectator Co., American Bankers Association, U. S. Treasury, etc.

This chart shows how the rate of growth of life company assets compares with the rate of growth of other financial institutions back to 1910. (All Curves Plotted on Logarithmic or "Ratio," Scale to Facilitate Comparisons as to Relative Rate of Change.)

[19] *The rate of customer-growth of various types of business compared with that of life insurance*



Sources: Association of Life Insurance Presidents, Automobile Manufacturers Association, U. S. Censuses, etc.

This chart shows how, over the years, a greater and greater number of people have recognized the value of life insurance by becoming policyholders. (All Curves Plotted on Logarithmic, or "Ratio," Scale to Facilitate Comparisons as to Relative Rate of Change.)

All of the money which a life insurance company takes in will be ultimately paid out. The money received for life insurance, together with all increments (with the exception of a total for the entire industry of 3/10 of 1 cent of every dollar of income during the last ten years), is either paid to policyholders or beneficiaries, paid back as dividends to policyholders, added to the reserve to assure the payment of claims at maturity, or used in the various expenses of the business. The 3/10 of 1 percent is paid as dividends on the capital supplied to those companies which have stockholders.

LEGAL LIMITATIONS OF NEW BUSINESS

The size and growth of life insurance companies was the subject of legislation about 35 years ago. The first statute on this subject limited the amount of new ordinary insurance, which the companies in the largest classification could write, to $150,000,000 annually. As the weaknesses in this artificial ceiling became apparent, it was decided that as a matter of public policy the limitation on new business should be related to legally prescribed maximum standards of expense. Accordingly, in 1910, the law was amended so that the limitation on new business was related to the amount of renewal insurance expenses on ordinary business. Later such limitation was changed so that the volume of new business is definitely related to first year expenses.

[21] The Insurance Commissioner is authorized to suspend the legal limitations under certain conditions. If, after an examination or investigation of the agency operation of a company, it is found that the business is being properly and economically conducted and that the statute dealing with the expense limitations is being complied with, the limitations may be suspended in accordance with the law. It is interesting to note that companies with about 83% of the total life insurance in force are subject to such statutory provision, which relates the maximum increase in new business in any year to their economy of management. Several States impose limitations on expenses which have the effect of limiting the amount of new business a company may write. Companies which are not subject to legal limitations on new business watch their acquisition costs so that they may not be at a disadvantage with their competitors.

LIFE INSURANCE ASSETS AT WORK

Emphasis was placed in the hearings upon the fact that more than 74% of life insurance assets were held by companies domiciled in the Northeastern States, and the inference was drawn that the "control" of such assets in these localities was contrary to the national interest. The witnesses presented by the Securities and Exchange Commission laid emphasis upon the locale of the home offices, but failed to give consideration to the actual wide geographical dissemination of investments. The table on page 22 shows how important it is when considering the assets of companies domiciled in the various States, to take into account the distribution of the total life insurance investments in different parts of the country.

[22] *Classification of assets (December 31, 1937)*

Regions	Percentage of total assets of all U. S. companies held by companies *domiciled* in the indicated regions	Percentage of total assets of U. S. companies *invested* in the indicated regions
1. New England	17.8%	5.4%
2. Middle Atlantic	63.5	30.0
3. East North Central	9.4	21.3
4. West North Central	3.9	12.2
5. South Atlantic	1.9	9.6
6. East South Central	.7	5.4
7. West South Central	1.1	6.4
8. Mountain	.2	2.7
9. Pacific	1.5	7.0
Total	100 %	100 %

Although the assets of the companies domiciled in New England represent 17.8% of the assets of all United States legal-reserve life insurance companies, nevertheless there is invested within that area only 5.4% of such total assets. The Middle Atlantic region (New York State, New Jersey, and Pennsylvania) shows that companies domiciled there have 63.5% of the total assets of all companies, but only 30% of all the companies' assets are invested there. Altogether, the New England and Middle Atlantic States contain the domicile of companies owning more than 81% of all life companies' assets; still those regions enjoy, in assets at work, about 35%, or considerably less than half of their total assets. The needs of the New England States for capital from life insurance are relatively small.

On the other hand, the three groups of States which the census classifies as Southern have less than 4% of all the life companies' assets on the domicile basis; but [23] that region enjoys the investment, within its borders, of more than 21% of all companies' assets. Similarly, the two groups of North Central States total 13% on the domicile basis, but 33% on the basis of actual life insurance funds at work. The figures shown in the last column of the table on page 22 relate to the assets of all companies, and not merely to the assets of the companies domiciled in a particular geographical section.

Furthermore, comparison of this column with extensive economic data, similarly organized, would reveal conclusively that life insurance investments are disseminated among these nine regions in a way which conforms in general with the capital needs of the respective sections of the country.

About one-half of the total reserves of companies domiciled in the New England and Middle Atlantic States arise from premiums paid by policyholders residing in those areas. Over 69% of the reserves of these companies are invested in other areas.

Accordingly, it is clear that life insurance funds are *not* concentrated in the localities of the larger companies' home offices. On the contrary, they have consistently been flowing into those sections where the country has been developing capital needs.

Life insurance companies in their investment operations are restricted both by managerial choice and by law to the best-grade investments. Their position as quasi-trustees would permit no other course of action. As such, they seek primarily safety of principal, together with as adequate and stable investment income as possible. Competition for seasoned investments is keen among life insurance companies and between them and other investing agencies.

The existing methods of investment give free play to the flow of funds according to the law of supply and demand. Life insurance funds, within the principles of safety enunciated above, have always flowed to that part [24] of our economy in which they are needed most. This is true both as to types of investments in which the funds have been placed, and as to the geographic areas where needed.

In fact, the character of life insurance company investments has always varied in response to changing economic trends. For example, when the railroad industry had become seasoned, substantial amounts of life insurance funds flowed into the underlying types of railroad bonds. Later, as the public utility industry developed, and still later as industrial enterprises of one type or another grew to investment caliber, life insurance company investment funds have also become important factors in their progress.

CONCENTRATION OF LARGER COMPANIES IN THE NORTHEASTERN STATES

As indicated previously, emphasis was placed, during the hearings, on the fact that the great bulk of insurance assets are held by a relatively small number of companies located in the Northeastern States. No study was presented of the economic factors responsible for the relative growth of the various companies in the business throughout the country.

The economic life of America began in the Northeastern States, as a Securities and Exchange Commission witness pointed out in the savings and investment hearings.[1] Business organizations of most types are older in these sections of the country than elsewhere. There is likewise a substantial geographical concentration of life insurance companies in the Northeastern area—not with respect to the number of companies, but with respect to their size. This is due primarily to the age of the companies in these locations; the median age of the

[1] See testimony Dr. Davenport, Hearings, Part 9, p. 3770 et seq.

16 largest New York area and New England companies, [25] which the witness stressed, is about 90 years.

It is significant that as the rest of the country has developed, there has been a rapid establishment of life insurance companies in the newer areas. Practically all life insurance companies started during the past 35 years have located in areas *outside* the Northeastern States.

The number of companies has increased from 76 in 1900 to more than 300 today. During the formative and growing years of the newly established companies, much material bearing on mortality experience, underwriting practices, administrative and management problems has been made available to them by the older companies. This material has aided in their development and has helped bring about a wider distribution of companies over the United States.

The companies of the Northeast are growing at a slower rate than the smaller companies. In 1881, assets held by companies domiciled in New England, New York and New Jersey, constituted 90% of the total assets of life insurance companies. By 1900, companies there domiciled held only 83% of assets, and by 1936 the ratio had dropped to 76%. In 1881 life insurance companies were domiciled in only 16 States. Between 1901 and 1911 there were 23 additional States that had life insurance companies domiciled within their borders. One hundred and thirty-one life insurance companies now in existence were founded during the past 20 years, and 90% of these companies are located *outside* New England and the Middle Atlantic States.

Another answer to the charge of undue concentration is that, in their growth, the individual companies throughout the United States have been highly competitive. There has been a tremendous shift in the relative position of individual companies, as will be seen by referring to the chart on page 26, which deals with life insurance in force. The company which was largest in 1900 has now dropped to third place. In 1900, it had 14% of the [27] life insurance in force among all companies, but today has only 6%. The company which was second in 1900 is now in the ninth position, and the company which was third in 1900 is now in fourth position. The company which is first today was fourth in 1900, the second company fifth, and the third company first, while the fourth company was third and the fifth company was 16th. Likewise, the company ranking 38th in size in 1900 has moved up to 14th position.

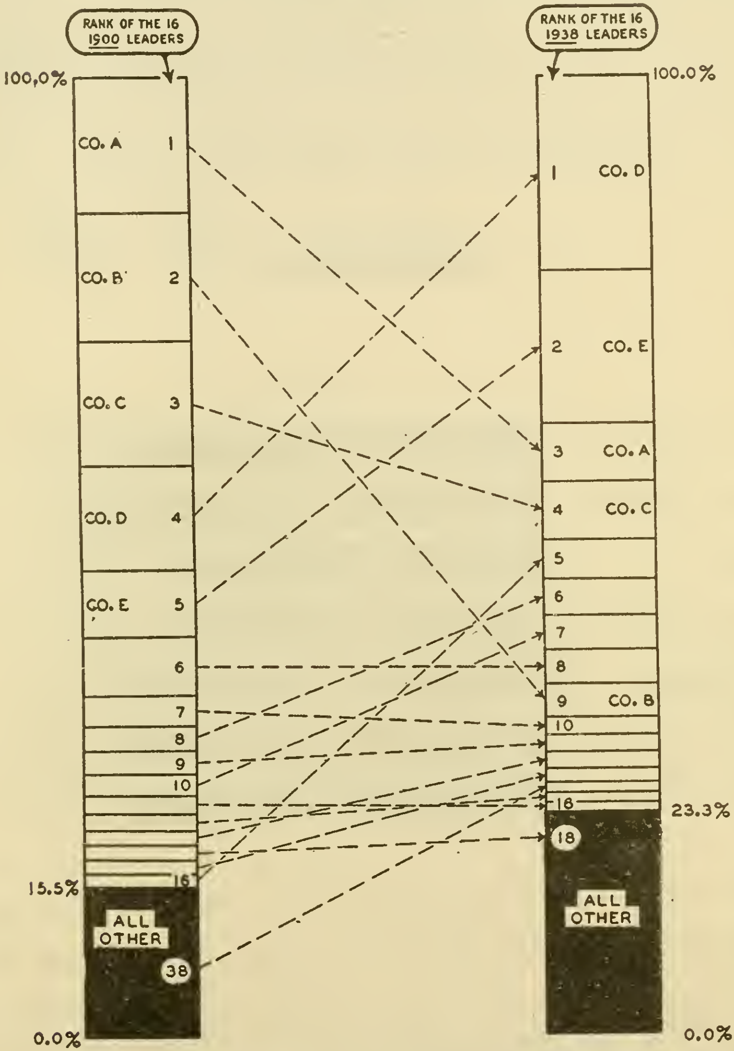
It is to be noted that the older companies are growing at a slower rate. In 1900, the younger companies had 15% of the total insurance in force; they now have nearly 25% of the total. The five leading companies of 1900 held 63% of all life insurance company assets; today the proportionate share of those identical companies is down to 29% of the total.

LIFE INSURANCE ASSETS AND ECONOMIC CONTROL

Life insurance companies in their capacity as investors are primarily creditors. Except temporarily in certain special situations, such as default, life companies as creditors take no part in the management of business in which they have investments. Furthermore, their investments include an insignificant percentage of common stocks—less than ½ of 1% for the country as a whole. In many States, the laws prohibit such investments. Life insurance companies rarely have voting powers in corporations to which they lend money, and so do not and cannot "control" the economic life of the country.

It was implied that the size of the investment operations of life insurance companies in bonds is such as to give them an undue power over the national economy. No such power exists, as may be seen from the chart on page 28. In not one of the investment classes shown does the largest life insurance company investor hold more than about 5% of the total investment of all investors [29] combined. And in no one class does the entire life insurance business, embracing over 300 campanies, hold as much as 25%. In most investment classes the proportion held by the largest single life insurance company, and by all life insurance companies combined is less than those just mentioned—being 2% to 3% for the largest single holder and 10% to 15% for the companies combined. The picture may be more readily visualized by noting that investors *other than* life insurance companies account for 76% to 91% of every one of the major investment classes charted.

[26] *How companies have shifted since 1900 in comparative rank and percentage share of total life insurance in force*



Source: Official annual statements of the companies.

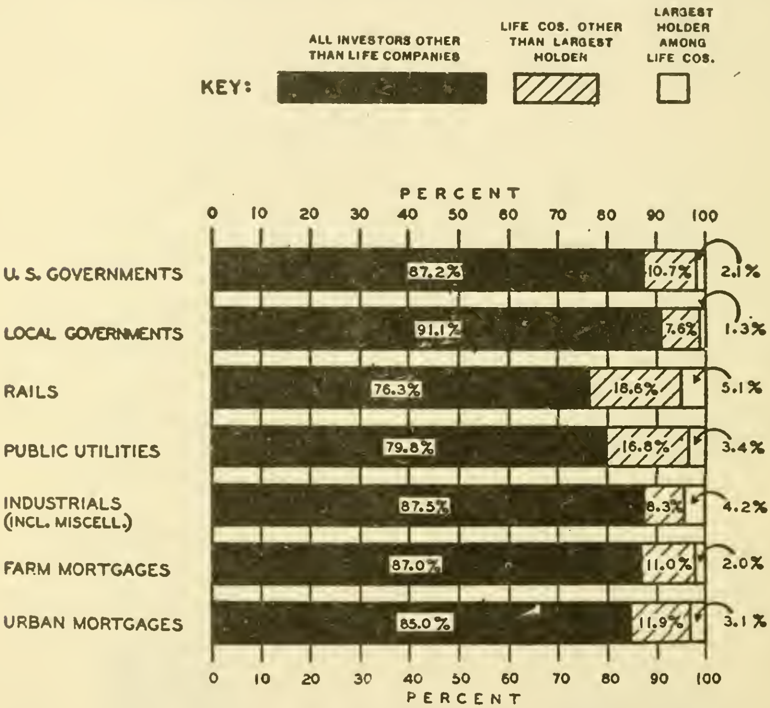
This chart provides evidence of the keen competition characteristic of the life insurance business. It also shows how the smaller companies (black area) have been able to increase substantially their percentage share of total life insurance in force.

ERRONEOUS DATA REGARDING CONCENTRATION

A number of statistics offered in evidence by the Securities and Exchange Commission were taken from secondary sources not wholly reliable for comparative purposes, for instance, the statistics in Exhibit No. 221 [1] showing relative importance of savings institutions. Furthermore, the chart based on these statistics contains an error of one billion dollars.

Other presentations of statistics contain substantial errors, such as Exhibit No. 227 [2] comparing total new issues of bonds and notes with new issues acquired by the 10 largest life insurance companies annually, 1930–1938. The statistics of total new issues were taken by the Securities and Exchange Commission from the *Commercial and Financial Chronicle.* Acquisitions by the companies were

[28] *Comparative percentages of bonds and mortgages held by life insurance companies and all other investors, December 31, 1937*



Source: T. N. E. C. Proceedings, and official annual statements of the life insurance companies.

This chart shows that investors *other* than life insurance companies have the overwhelming share of holdings in each of the major investment classes shown above.

taken from their records, which plainly show that they included a number of classifications not reported in the *Chronicle,* such as registered bonds acquired in exchange for coupon bonds, securities acquired in exchange on a reorganization, and many miscellaneous types of issues, etc.

The data which the Securities and Exchange Commission treats as comparable in Exhibit No. 227 are not comparable in at least six ways; and *all six overstate* the [30] percentage of the 10 life companies' new purchases of the total bond flotations. Applying the six corrections, the figure for 1934, for instance—instead of 52.5%—is found to be not much over one-third as great as was claimed for the 10 companies. Even the Securities and Exchange Commission's own

[1] Hearings, Part 4, pp. 1189, 1513.
[2] Ibid., pp. 1222, 1520.

figures, as presented a year later,[1] show that the ratio for 1934 was only 23.7% of all new issues—and that percentage was for 25 companies, not merely 10. Yet the Securities and Exchange Commission's witness, in his testimony presenting his revised results, did not, at any point, seek to alleviate the grossly unfair exaggeration which had been impressed upon the minds of the Committee a year before,[2] when Exhibit No. 227 had been introduced. Other objections could also be raised—for instance, to the economic abnormality of a period like 1930–38; in several of those years, the total for corporate bonds and notes floated was phenomenally small, thus inevitably accentuating the life companies' apparent percentage dominance in the bond market.

The facts set forth under the heading of Size and Its Economic Aspects demonstrate that the trend is not toward, but away from, concentration of life insurance assets, measured either geographically or by size of individual units. Furthermore, there is no control over the national economy by life insurance companies. Instead they are serving as an ever-present but silent ally in efforts to improve continually the social and economic structure of our country.

---

[1] Hearings, Part 10–A, p. 125.
[2] Hearings, Part 4, pp. 1222, 1520.

Ordinary, industrial, and group insurance are the three types of life insurance. Their definitions are commonly understood to mean:

1. ORDINARY—Life insurance for the individual who can afford to pay premiums for $1,000 or more of life insurance on an annual, semi-annual, quarterly, or monthly basis. This insurance is designed to protect the family in the event of the death of the policyholder, to assure the education of children, to provide funds to pay off a mortgage or for retirement in old age, to pay estate taxes, and for many other purposes. The average amount of the ordinary policy is about $2,150.

2. INDUSTRIAL—Life insurance for those who cannot afford ordinary insurance, but can pay small weekly premiums or slightly higher sums on a monthly basis. The purpose of industrial insurance is, in general, the same as ordinary, except that the amount of insurance involved is smaller; for example, the face value of the average industrial weekly premium policy is about $250.

3. GROUP—Life insurance arranged by an employer to insure his employees under a master contract.

Great stress was placed by the Examiner for the Securities and Exchange Commission in trying to characterize industrial insurance as "burial" insurance. Nothing could be more erroenous, because industrial policyholders have the same hopes and ambitions as ordinary policyholders, the only difference being the former are usually in more modest circumstances. Accordingly, we [32] find the proceeds of industrial insurance policies being used for substantially the same purposes as ordinary.

Misleading statistics also were presented by the Commission. Throughout the hearings, statistics were repeatedly put in evidence and testimony was offered on the basis of the 10-year period 1929–1939. As this period included the worst depression of modern times with all of its accompanying demoralization of earnings, living conditions, investment values, etc., it embraced an abnormal period of operation in the business of life insurance.

This method of presenting testimony has minimized and obscured the progressive achievements and the trends of improvement in the business of life insurance during the last half dozen years. In and of themselves, these provide an answer to many of the criticisms made during the hearings.

The record built by the Securities and Exchange Commission on the subject of lapses clearly implies that life insurance companies are responsible for them. This of course is not in accordance with the facts. There is little in the record about the intensive efforts of the companies to keep terminations of policies at a minimum consisting with the welfare of policyholders; in fact, the reduction of lapsation is one of the major objectives of every life insurance company.

The record is based on a number of incorrect assumptions about the nature of lapses, for example, that a surrender represents a "frustration" of the purpose of the policyholder in arranging for life insurance; that rapidly growing companies show the highest lapse ratio; that every one but the company loses on a lapsed policy, and that lapses are caused by the desire for growth of companies and by agency pressure.

The testimony was further confused by the frequent use interchangeably of two entirely different kinds of "lapse"—(a) termination of a policy not having cash or other nonforfeiture value (which is a "lapse"), and (b) termination with nonforfeiture value prior to maturity (which is known as a "surrender"). A nonforfeiture value is generally allowed at the end of the second or third year.

BASIC CAUSES OF LAPSES AND SURRENDERS

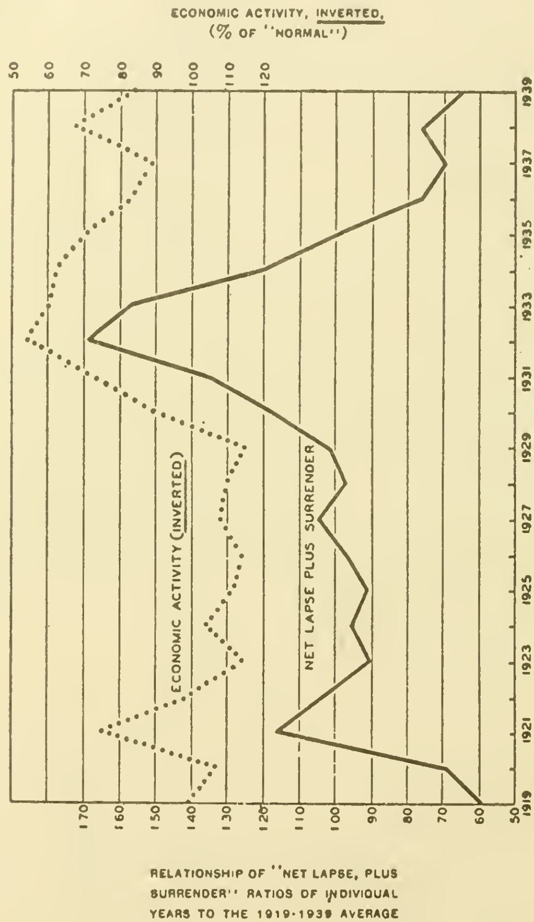
The experience of the life insurance companies indicates that the most important causes of lapsation and [34] surrender are unfavorable economic factors. It is common knowledge among life insurance companies that as the curve of general business conditions goes down, lapses and surrenders go up. As business improves, such terminations decline.

The fact is little known that even the United States Government's own lapse and surrender experience with its "converted" life insurance is subject to the effects of economic conditions. The veterans who chose to convert from the war risk term policies to the standard forms are a relatively small and self-selected group; yet their net voluntary termination rate trebled between the prosperous year 1929 and the depression year 1933. The theory that the dominant cause of voluntary terminations is "over-selling" does not square with the facts, for the Government's converted insurance—where there is no real "selling"—can hardly be said to suffer from "over-selling." In the light of the Government's own experience, it is not unnatural that the life insurance companies' experience likewise varies in response to general economic conditions.

The situation is illustrated by the history of ordinary insurance, as shown by the chart on page 35. This covers the depression of 1921 and the longer and more severe depression of the early 1930's, in addition to certain minor recessions. To make the situation still clearer, the dotted index of general business is here inverted, so that high points indicate not booms but depressions, corresponding to high points in the termination-rate index. This index, between the moderately good year 1919 and the depression year 1921, went up from under 60 to 115% of its 1919–1939 base as 100. Later the index fell to 90 in response to improved conditions, but after 1929 rose rapidly to a peak of nearly 170 in 1932. Later it fell steadiy to under 70 in 1937, and, after a moedrate increase in 1938 resulting from temporarily worse economic conditions, dropped in 1939 to the lowest figure in two decades. The curve for [36] industrial termination rates follows a similar course.

It is easy to understand why, with the advent of hard times, lay-offs, unemployment, and general uncertainty about the future, people should reduce their financial obligations—either voluntarily or by force of circumstance. Naturally, a small financial obligation—as for example, a new life insurance policy—is more likely to be terminated than obligations where much more seems at stake. For instance, many people are apt to lapse a recently purchased policy rather than to give up an automobile or household furniture being bought on installment, or to fail to meet taxes or mortgage payments on a home. In the vast majority of

[35] *Life insurance "voluntary" termination rates compared with economic activity, 1919–1939—Ratio of net lapses, plus surrenders, to insurance in force. Ordinary (excluding group) insurance of all U. S. legal reserve life insurance companies combined*



Sources of basic data: Spectator Co., and Standard Statistics Co.

This chart shows how closely life insurance lapses, plus surrenders, reflect the course of economic conditions in industry.

cases, policyholders who terminate life insurance give such reasons as that they couldn't keep it up, couldn't afford it, didn't have the money, were out of a job.

Another important cause of lapsation is the instability of human intentions. Many policyholders buy life insurance with the firm resolution to protect their families. Later some current desire on the part of the policyholder or beneficiary proves to be stronger than the apparent need for life insurance; hence, a lapse.

Obviously, life insurance companies cannot control either the vacillations of human nature or the economic fluctuations which experience demonstrates are the major causes of the terminations of life insurance policies by lapse and surrender. Furthermore, it will be found that policyholders, with very few exceptions, attach no blame to the agent or the life insurance company because changed financial circumstances force them to give up a policy or because they merely change their mind about the value of the life insurance and decide to use the money for something else—perhaps, for example, a radio or a new car—that appear to give more immediate and tangible satisfaction.

[37] LIFE INSURANCE AND OTHER TYPES OF TERMINATIONS

Life insurance policies are subject to the same influences or conditions, which tend to cause terminations, as affect many other types of financial commitments that people make. In comparison with these other types, life insurance makes a very favorable showing as regards termination rates.

Building and Loan Associations. These have characteristics in common with life insurance. Shareholders make regular deposits in a manner similar to premium payments of policyholders. In both there are repeated opportunities for termination. A chief difference between the two financial institutions is that life insurance is sold by salesmen, while building and loan shares are bought chiefly through initiative of the purchaser. The experience of building and loan shares drew the following comment by Dr. Donald H. Davenport in "The Cooperative Banks of Massachusetts," (April 1938):

"Maturity marks the success achieved by the holder in the undertaking to which he originally subscribed. Numerous events may occur to interrupt and defeat such a savings program. Therefore it is not surprising that only a fraction of the subscribers to serial shares succeed in holding their shares until the shares mature."

Of course, some of these same factors affect persons who are paying for life insurance. The Life Insurance Sales Research Bureau selected a group of 12 building and loan associations for comparison with life insurance, with the primary requirement that they be sound, going institutions which had weathered the depression successfully. None had any substantial percentage of frozen assets and all were chosen on the basis of capable management. Located in Pennsylvania and New Jersey, some are in larger centers and some in smaller communities. They ranged in assets from $70,000 to nearly $4,000,000, the average being $1,000,000.

[38] This survey compares the termination rates of these 12 associations during the first two contract years with the termination rates of certain life insurance companies. The results indicate that the termination rate for building and loan shares was 17% in the period of 1935–38, as compared with 16% in 20 of the older life insurance companies. After the first two years, the termination rates for the building and loan associations were considerably higher than for life insurance. On the basis of the experience of the years 1935–38 inclusive, the termination ratios indicate that only 36% of the building and loan shares originally taken would remain in force 10 years. On the basis of rates that may be considered normal life insurance termination rates, the amount of life insurance in force 10 years would be very substantially higher.

Installment Sales of Automobiles. These sales offer another example. In 1938, over 15% of the automobiles sold on installment were taken away from the owners because of default in installment payments. In such cases, there is likely to be considerable loss, generally the down payment (often one-third) of the purchase price plus whatever installments have been paid. Resale prices seldom are high enough to return any of the purchaser's equity. This termination rate, considered in relation to the heavy potential forfeiture, and the fact that most people will give up a car only as a last resort, is of interest in comparison with the early termination rate of life insurance. Payments for life insurance extend over a long period and the material benefit may be less immediately apparent than in the case of tangible property, so that more self-denial is required to maintain insurance in force.

CHRISTMAS CLUB PROGRAMS. The experience of banks is also enlightening. Only persons who, of their own accord, are determined to save will join a bank's Christmas Club. The effort to complete the program need be [39] continued only for 50 weeks, as against an indeterminate number of years in the case of life insurance. Yet it is the experience of more than 40 leading savings banks that a large percentage of these Christmas Club accounts are never completed. Different banks reported that the proportion of starters who failed to finish ranged from 25% to 70%.* For one half of the banks the termination experience was 54% or more. It was also found that the delinquencies ran definitely higher in the smaller weekly payment classes than in the middle-sized and larger commitments. Furthermore, delinquencies tended to run high in the early months of the life of the club.

UNITED STATES "BABY BONDS." Even obligations of the United States Government, purchased voluntarily without the services of a salesman, are subject to the same inherent tendency on the part of individuals to discontinue an established program. United States "Baby Bonds" mature in a relatively short period of 10 years, and are purchased by a single payment without the necessity of making subsequent periodic payments. Nevertheless, over 25% of such bonds purchased in 1935 had been surrendered for redemption before the end of 1939. Moreover, the proportion of such surrenders is highest for the purchasers of the smallest bonds and is progressively less for each larger denomination. On the average the proportion is about twice as heavy for the smallest as for the largest denomination.

"PRESSURE" SELLING

The assumption by witnesses of the Securities and Exchange Commission that lapses are due to the overloading of policyholders as a result of agency "pressure" methods is not in accord with the facts, as is indicated by [40] a number of studies that have been conducted in recent years by company managements in their effort to improve the persistency of new issued insurance.

For example, a survey was recently made among 5,000 Boston families paying $2 a week or more for premiums on industrial policies. This survey showed that the lapse rate of recently issued industrial policies in these families was much smaller than the average for industrial families as a whole. Other studies lead to the conclusion that the lapse rate is lower than the average, not only in families spending the larger absolute amounts for life insurance premiums but also in those families spending a higher than average proportion of their income for weekly premiums. An investigation to determine the relative persistency of weekly premium insurance according to the percentages of family income paid for this insurance, showed that among the groups spending the higher portions of income for weekly premium insurance the persistency of the business was better. For instance, the early lapse rate in families using less than 1% of their income for weekly premiums was almost twice as high as for families spending between 1% and 4%, and over 2½ times as high as for families spending 4% or more of their income for weekly premiums. This study also indicated that for families with approximately the same income, the early lapse rate of weekly premium policies was more than twice as high where the policy was the only weekly premium policy in force in the family as on policies written in families that already had some weekly premium insurance in force.

The fact that there may be a number of industrial policies in a family, even several policies on some members of the family, does not indicate that the family has been overloaded with insurance. Many families, especially those in the lower income groups, cannot adjust their budget so as to purchase at one time an adequate insurance program. Such families generally purchase a [41] small policy and at later dates, after they have been able to absorb in their budget the outlay for their first policy, add other policies to their program and in this manner develop step by step more nearly adequate insurance protection. This progressive development of an insurance program in the family frequently results, of course, in there being several policies on the life of some,

---

*This experience is reported in the December 1937 issue of "Bankers Magazine," pp. 493–496, in an article by Professor W. H. Steiner, Chairman of the Department of Economics of Brooklyn College, and E. Shapiro.

especially the older, members of the family. Rather than indicating any over-sale of insurance this fact illustrates the desire of the agent to sell at one time only as much insurance as he believes the family can maintain.

Experience has demonstrated that the most difficult period to keep insurance in force is after a family, without insurance, has bought its first policy. On the other hand, families already paying the more substantial amounts for insurance are the ones who most thoroughly appreciate its benefits. They buy it because they want it, and having bought it, they *keep* it. Conversely, those who are less thrifty or can see little value in life insurance are less inclined to buy it in the first place and are more likely to lapse such small amounts of insurance as they may buy.

TERMINATION RATES AND GROWTH OF COMPANIES

Both the evidence produced by a Securities and Exchange Commission witness and comments by its Examiner express the view that "lapse" is closely related to the speed at which companies are growing, or more specifically to the rate at which new business is being placed on the books. The Commission's witness conceded that any such alleged relationship was not necessarily a fixed one. In fact, it is a highly variable one, as is borne out by studies of the Life Insurance Sales Research Bureau. For example, in a group of 18 important companies, classified according to the ratio of new ordinary business to ordinary in force, it was found that the two companies having the highest and the lowest lapse rates, respectively, [42] fell within the top five as to ratio of new business to business in force. And a study of 45 companies disclosed similar startling anomalies. Such facts cast grave doubts on the validity of any generalization as to the influence of new-business ratios on lapse rates.

"FRUSTRATION" OF POLICYHOLDERS

The Examiner accepted the statement of a witness of the Securities and Exchange Commission that terminations of life insurance, excepting terminations resulting from death, maturity, and expiry, are a "frustration" of the original purpose of the policyholder in taking out the insurance. The fact is that every policy, even when lapsed, represents the fulfillment of some purpose of the buyer. He has at least accomplished a limited period of protection against death. For the most part, even the individual who lapses accomplishes far more than such temporary protection. Who can say that in the very large volume of insurance surrendered during the past 10 years—and particularly in the depth of the depression—life insurance did not render as helpful and beneficial aid through payments in cash to living policyholders in times of individual need, as it would have if the policies had matured by death of the insured?

Many persons take out whole life insurance with the intent of maintaining this insurance protection until retirement age, then surrendering part of it and using the cash value thereof to augment retirement income. Frequently a man who carries a substantial amount of ordinary life insurance will surrender part of it or discontinue paying premiums and take a smaller fully paid-up policy upon the death of his wife or other depedent for whose protection the insurance was carried.

Many policyholders who desire life insurance protection throughout their lives prefer to limit the period of premium payment to a specific number of years, such as [43] 20 years. The normal method would be to take a 20-payment life policy, but many policyholders prefer additional protection during the premium-paying period. This is accomplished by taking out a whole life insurance policy for the full amount of protection that they desire immediately and then after 20 years discontinuing premium payments and taking a fully paid-up policy for a reduced amount. Although the difference between the original amount and the reduced amount of paid-up insurance would constitute a termination by decrease, the original purpose for which the insurance was taken out had been fulfilled.

Many industrial endowment policies written on the lives of children are taken out, not only to provide insurance on their lives, but also to build up a small fund for the child when it starts out in life. The most common form of these policies is the 20-year endowment. A policy written, say, at age 5 would thus mature at age 25. Many of the children get married before the maturity date of such policies and take the cash value of their policies at that time. It is an extreme assumption to state that the purpose of such policies has been frustrated.

Similarly, a witness of the Commission considered a 10-year endowment policy, upon which all premiums had been paid and then matured, as having completely served its purpose, which, of course, it had. However, he considers as "frustration" a case where the policyholder originally took out a 20-year endowment policy for $250 on a 10-year-old child. It was surrendered for the cash value of about $97 after 10 years, when in effect the policyholder converted his insurance into 10-year endowment insurance for $97, plus additional protection of $153 for the 10 years.

There are numerous other cases where insurance surrendered or decreased is by no means a frustration of the fundamental purpose of the insurance; for example, business insurance policies are often cancelled because of [44] unforeseen contingencies occurring after the issuance of such policies, and temporary insurance purchased to cover a mortgage might properly be discontinued by the policyholder if he were able to pay his obligation prior to the expiry date of his policy.

TERMINATIONS, NEW INSURANCE, AND GAIN IN FORCE

Much of the statistical data in the record was designed to support the thesis that life insurance does not adequately fulfill its purpose because of the high ratio of issue to increase of insurance in force. These statistics, in some instances, were incorrect, and in others they obscured the actual facts. For example, a Securities and Exchange Commission witness testified that "to achieve this increase in the insurance in force, insurance companies had to sell seven times this amount of new business. This seven to one relationship between the new business written and the gain in the amount of insurance in force is a reflection of the large proportion of terminations of insurance each year."

This conclusion is incorrect and the statistics are misleading for the following reasons:

1. Statistics Based on Abnormal Experience. The 10-year period selected includes the definitely abnormal experience of the depression years, particularly 1931 to 1934. During these four years the companies wrote a somewhat reduced amount of new business and experienced a decrease in the insurance in force because of the heavy demand for cash values from policyholders who, in many cases, had been thrown out of employment and whose chief resource in time of need was their insurance policies. During this period, the companies paid out over 4½ billions of dollars in cash surrender values, and because the incomes of many people were materially reduced, they were compelled to reduce [45] their insurance. Thus any termination ratio derived from this 10-year period is misleading as to the normal course of the life insurance business.

2. Statistical Errors. The amounts of new business shown in Exhibit No. 680,[1] which totaled $160,000,000,000 for the 10-year period, are overstated to the amount of more than $19,000,000,000. This overstatement arises through the erroneous inclusion in the figures of the following classes of items which are not "new business written":

Revivals—*i. e.*, business which has been reinstated to its original terms by the insured's resuming his premium payments at some time after the policy had been canceled because of temporary failure in premium payments.

Increases—one major source of "increase" is the reinstatement to its original basis of a policy which because of temporary default in premium payment had been temporarily "decreased," that is, continued for a reduced amount of insurance.

Reinsurance of business in bulk—*i. e.*, old business which has been reinsured in bulk by a new company.

The table on page 46 shows the ratio of new business to gain in force on the basis of the testimony of a Securities and Exchange Commission witness which has been corrected for statistical errors for the periods 1928–1937, 1920–37, and also for the latter period excluding the depression years 1931–34.

From these and similar figures for individual years it can be seen that, under normal conditions, about $2 of new business is written for each $1

[1] Hearings, Part 10, p. 4733.

of gain in force. This is very different from the 7 to 1 ratio claimed by the witness for the Commission.

[46]

Period	New Business *		Gain In Force *	Ratio of New Business to Gain in Force	
	On Basis Testified to by SEC Witness	*Corrected Figures*		*On Basis Testified to by SEC Witness*	*Corrected Ratios*
1928–37	160,038	140,705	22,550	7.10	6.24
1920–37	263,040	235,304	73,692	3.57	3.19
1920–30 and 1935–37	203,233	184,329	83,097	2.45	2.22

* In millions of dollars

3. Ratio of New Business to Gain in Life Insurance in Force Does Not Correctly Reflect Terminations. There is no true significance in the ratio between the issue for a particular year or other period and the gain in insurance in force. The gain in force is affected by the terminations of the entire business, including that issued many years before. As the general insuring public becomes more nearly fully protected, the increase in the amount of insurance is bound to slow down, and this will make the ratio increase. For example, if every person were fully covered for the amount he really should have and no insurance were canceled except by death or maturity, then the only increase in insurance would come from increased needs or an increase in the population. In other words, as the general insuring public becomes more nearly fully protected, the ratio of new insurance to old is bound to become smaller, and the ratio of total terminations to new insurance is therefore bound to increase. Consequently it is clear that any ratio of issue to gain has no meaning in relation to lapses.

[47] MATURITY, DEATHS, SURRENDERS, AND LAPSES

The data presented regarding the distribution of terminations were also misleading. The witness stressed the fact that out of the terminations in recent years, the ordinary policies becoming payable by death of the insured or maturity of an endowment comprised from 7.65% to 11.57% of the total terminations, depending on business conditions. He concluded from this that the great majority of ordinary insurance policies are allowed to lapse or are surrendered and that only a small portion are carried to termination by death or by maturity as endowments, as originally planned.

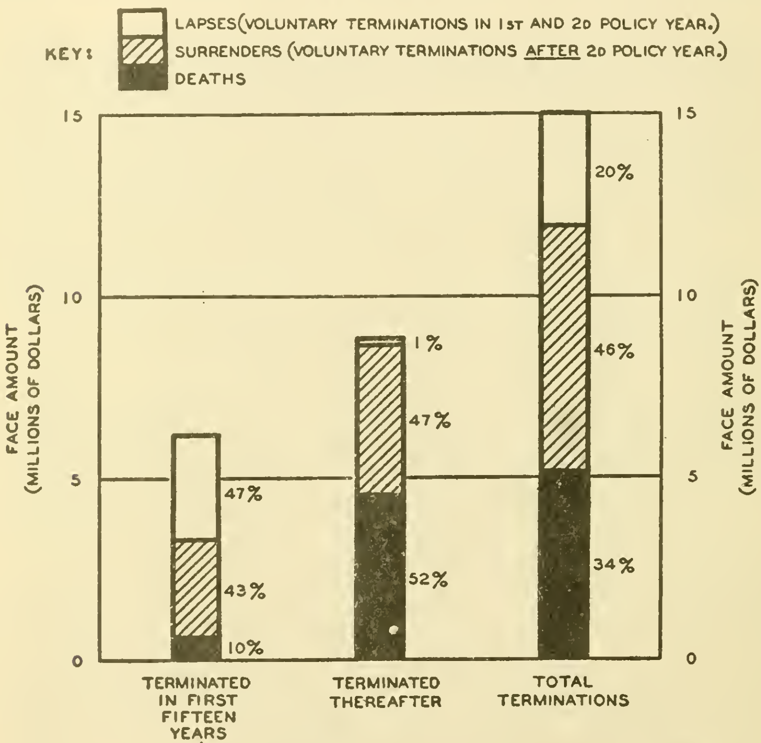
The bulk of the insurance which forms the basis for this testimony represents policies of comparatively short durations, in which the voluntary terminations predominate and in which death claims are at their lowest point. This method of analysis by the witness is incorrect because it focuses only on those policies which had been terminated, and fails to take into consideration the huge number of seasoned policies which are still outstanding and which have long since passed the crucial early period in their history when lapses or surrenders are most likely to occur. Furthermore, under these seasoned policies, the policyholders are older and therefore approaching the time when the effect of the mortality rates becomes more and more pronounced.

It is difficult to imagine testimony that could be more misleading. The erroneous character of this method of presentation is illustrated by an example:

Suppose a company had been issuing new ordinary whole life insurance of $1,000,000 per year in each of the last 15 years and that the termination rates on this insurance were those which may be considered normal for the life insurance companies which transact the bulk of ordinary insurance in this country. These rates may be considered a fair approximation of the experience of the [48] companies on life business in normal times. Under these rates about 13% of each year's new issues would be discontinued voluntarily, that is by causes other than death or maturity, within one year after issue; about 8% of the business entering the second year after issue would be discontinued voluntarily within that year; and thereafter the termination rate would decline gradually, year by year, until a level rate of about 2.5% of each year's business in force would be experienced at the 15th and later years. Assume that the policies voluntarily terminated during the first two years terminated without cash value and are to be classified as lapses; that those terminated voluntarily during subsequent years are surrendered for cash. Also assume that the death rate shown by the American Men Select mortality table will prevail.

Based on these termination rates, what proportion of those new issues of $1,000,000 per year for 15 years will still be in force at the end of that period, and how much will have been terminated for various reasons? Making the necessary calculations, it appears that about $8,700,000 or almost 60% of the $15,000,000 issued is still in force. The remaining $6,300,000 of insurance was terminated as shown by the first bar on the chart on page 49.

[49] *Termination experience of ordinary life insurance, issue of $1,000,000 per year for 15 years*



This chart shows that of the terminations in the first 15 years—lapses represented 47%, policies surrendered for cash 43%, and deaths only 10%. The recent experience of 14 companies shows an identical picture. This concentration on the terminations in the early years, which is only one part of the true picture, demonstrates what the Securities and Exchange Commission's witness did in his presentation, because he ignored the policies outstanding at the end of the period.

A very important part of the picture, which makes it complete, is what happens to the business remaining in force after completing the first 15 years of operation. This is shown by the second bar on the chart. Most of this business has passed through the period of rela[50]tively heavy lapse and surrender Making the calculations, we find that in future years, of the 60% of the insurance issued which remains in force at the end of 15 years, about 52% will be terminated by death and 47% by surrender for one reason or another, while only 1% will be by lapse. This part of the picture was ignored in the hearings.

The last bar in the diagram gives the complete picture for the whole period. Lapses represent only 20% of the total terminations. Cash surrenders for all purposes, including those cases where the insurance had fulfilled its usefulness, total 46%; and the insurance terminated by death is 34%. Since a very large proportion of the policies surrendered for cash had been kept in force for many years and had fulfilled completely or to a very considerable extent the purposes for which they were originally taken out, it is clear that by far the larger part of life insurance purchased has carried to completion the intended objectives of policyholders.

TERMINATIONS IN RELATION TO PREMIUMS PAID

The chart on page 49, analyzing insurance terminations by mode, still does not measure the true financial significance of the various modes of termination, because the statistics deal with face amounts of insurance instead of with premiums paid by policyholders. The figures, used by a witness of the Commission, attribute equal importance to a lapse after one month's premium has been paid, to a surrender for cash after payment of premiums for say 25 years, and to a death claim. The really important and significant question is: How much of the total premium money paid by policyholders is paid on policies that lapse, how much on policies that surrender, and how much on policies maturing by death?

In order to portray the more significant distribution of terminations according to the total premium money [52] paid by policyholders, a calculation was made for a company whose distribution of terminations by amounts of insurance was the same over the whole period as that shown by the third bar of the chart on page 49. The resulting comparison, based on $1,000,000 of life insurance issued during each of 15 years, is shown in the table below and in the chart on page 51.

How Insurance Policies Terminate	Distribution Based On	
	Amounts of Insurance	*Premiums Paid*
Death	34%	57%
Surrender	46	41½
Lapse	20	1½
Total	100%	100%

Assuming that there is a loss to the policyholder in the case of lapses (third group), the actual loss is not 20% of all insurance issued, as testified by a witness of the Commission, but must be less than 1.5% of all premiums paid, as part of these premiums is required for the cost of protection while the policies were in force.

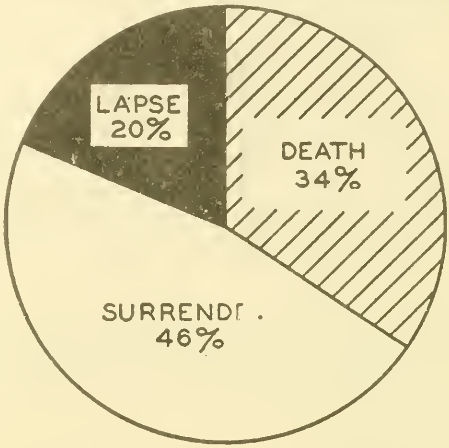
The terminations of industrial business during the year 1937 for one large company have been analyzed in order to ascertain the financial significance to the policyholder of the various modes of terminations. These data, being based only on terminations, do not project into the future the probable experience on policies which have remained in force, and so are subject to the error previously mentioned in that they overemphasize the terminations by lapse and surrender. However, even with this overemphasis, it is found that of the premiums paid since issue on the industrial policies terminating in 1937, 2.7% had been paid on the policies that lapsed. For 1938 and 1939, this percentage would be even less. On the other hand, 28% had been paid on policies which terminated by death or maturity.

[53] Further evidence of the misleading nature of the testimony of the witness in reference to the small percentage of terminations through death claims is found in a recent study of a group of ordinary policies whose histories are complete. The policies, issued during the years 1845 to 1865 inclusive by one of the larger companies, have all gone off the books, the last policy having been terminated by death in 1937. We thus have a complete record, covering 92 years, of the policies issued during a period of 21 years. Total number of policies issued during the period mentioned was 35,765, of which a small pro-

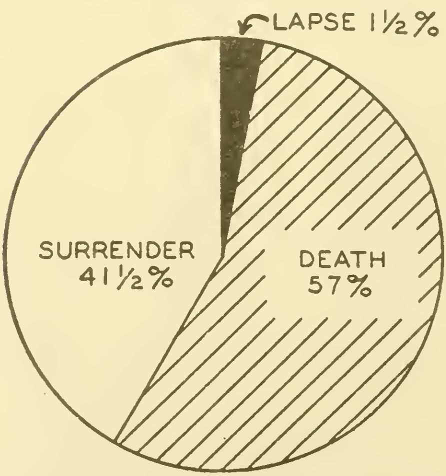
portion was on the endowment plan. Fourteen thousand and eighty-eight policies became payable by the death of the insured, and 147 endowment policies became payable at the end of the endowment period. It will thus be seen that 39.8% of the total number of policies were paid either as death claims or endowments at maturity.

If there were excluded from the number of policies issued the number upon which no premium was paid and which therefore were never placed in force,

[51] *Terminations of ordinary whole life insurance*



BASED ON AMOUNT OF INSURANCE



BASED ON AMOUNT OF PREMIUMS PAID

The lower picture is more significant than that based on amount of insurance.

and if there were added to the number of policies which terminated either by death or by maturity the number of term policies which fulfilled their purpose by being carried to the expiration of their terms, the showing with respect to the percentage of policies which were terminated by lapse or surrender would be still more favorable.

It is clear that the testimony regarding lapses and surrenders was grossly misleading.

When life insurance can be sold cheaper, it will be done, because it is good business to sell at the lowest possible cost consistent with safety, liberality of benefits, and proper field service. Furthermore, competition among the companies is so keen that there is an everpresent urge on the part of management to find ways and means of providing better protection at lower cost.

The elements entering into the cost of life insurance have been attacked by testimony in the record; for example, there was even some doubt expressed as to whether reserves are necessary. However, there is scarcely a word in the testimony about the reasons which led State Legislatures to make reserves legally mandatory. As a substantial proportion of every premium on a policy of life insurance, other than term, is needed to create these reserves, let us examine them more closely.

WHY LIFE INSURANCE RESERVES?

In the early days of life insurance, policies were issued chiefly on a step-up premium basis. As the policyholder's age increased, the premium became larger each year, and because of the increased rate of mortality there came a time for many policyholders when they could not afford to maintain their insurance in force. The need for some method which would assure a reasonable level premium, the payment of claims, and stability for the life insurance [55] companies was met by the legal reserve basis for life insurance. The demonstrated soundness of this method over the years led to its widespread adoption by life insurance organizations.

Under the legal reserve basis for life insurance, a level premium is charged. This is based on the principle that the policyholder shall pay more in the early years in order to pay less in the later years, as illustrated by the chart on page 56. In issuing a level premium policy, the company guarantees that regardless of future fluctuations in mortality, interest rates, or expense, the annual cost to the policyholder shall not exceed the agreed premium. The reserve is the amount of money which, together with future premiums and interest, will insure the ability of the company to carry out policy obligations on its entire business. This is the primary reason why reserves are required by law.

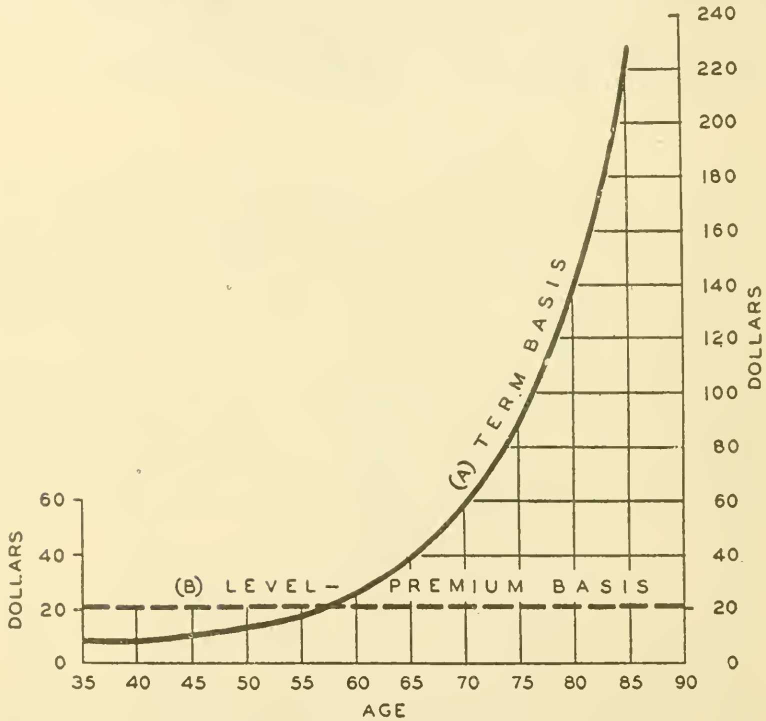
The total policy reserve held by a company is a composite of the reserves held on the policies issued in each of the previous years of the company's existence. Although the total policy reserve may increase from year to year as the company becomes older, the reserve on a group of policies issued in a given year does not increase indefinitely.

Considering a group of whole life policies issued in a given year, the premiums, plus interest earned on the reserves, will be more than sufficient for perhaps the first 25 years to pay current claims, etc., so that the aggregate reserve on these policies is increasing. However, as the duration increases and the policyholders become older, the claim rate will increase. Premiums and interest will no longer be sufficient to meet policy claims, and it will be necessary to draw upon the reserves to meet this deficiency. The aggregate reserve held on these policies will then decrease. In other words, the tide comes in for a time and then begins to go out. When the last policy in this group goes off the books of the [57] company, the reserve will have been entirely paid out.

A simpler example is that of the 10-year endowment. On these policies a company's income from premiums and interest for the first nine years is much greater than its outgo for claims, etc.; but at the end of 10 years the entire reserve is needed in order to pay all remaining policyholders the face amount then due.

RESERVES ARE NOT PROFITS. Misleading material placed in the record by a witness for the Securities and Exchange Commission gave rise to newspaper stories which told of the large profits made by the life insurance companies. These so-called profits were referred to as "velvet," a word which to the layman denotes unearned funds. The alleged profits were supposed to represent the difference over a period of years between the total income and expenditures of the companies. The fact of the matter is this difference represents, almost entirely, reserves which State laws require the companies to maintain and, to a very small degree, contingency funds or surplus to guard against unforeseen developments. As these funds are held for the benefit of policyholders or their beneficiaries, it is obvious that in no sense of the word do they represent profits.

[56] *Net annual premium on (A) term basis versus (B) level premium basis*



This chart shows the net annual premium for $1,000 of term insurance at ages 35 to 85, contrasted with the net annual level premium for the same amount of whole life insurance beginning at age 35. Based on American Experience table, at 3%.

If the insurance in force in a company is increasing, the assets generally increase rapidly, not as "profit" but solely to offset the increasing liabilities. Even if the insurance in force is gradually decreasing, the reserves necessary to maintain solvency may increase for a time and then decrease.

NEW MORTALITY TABLES AND LIFE INSURANCE COSTS

The record overemphasizes the importance of a new mortality table in relation to the cost of life insurance. It has been assumed that the adoption of a new table would result in a lower cost.

[58] Mortality tables are specified by State law as minimum valuation standards primarily to ascertain that the companies maintain adequate reserves on the insurance in force. While the companies must maintain reserves on

such legally prescribed basis, they may use any mortality table deemed suitable in determining premiums.

This subject has had most careful consideration by a Committee of the National Association of Insurance Commissioners. After months of study, one of the conclusions reached by the Committee, and announced within the past year, was that:

> "The net cost of insurance to policyholders in the aggregate would probably not be reduced by the use of more modern tables for valuation purposes, since reserves would tend to be increased and nonforfeiture benefits would probably not be decreased to any appreciable extent. But there would be some rearrangement in the incidence of premiums, surrender values and dividends according to plan, age and duration of insurance leading, possibly, to greater equity in the distribution of the cost of insurance among policyholders."

Savings in mortality are forecast by the actuaries of stock companies in determining fixed premiums so that their policyholders may benefit, while any savings from mortality in mutual companies are reflected in dividends to policyholders.

COST OF INDUSTRIAL LIFE INSURANCE IS NOT EXCESSIVE

Great emphasis has been placed upon the alleged excessive cost of industrial insurance by witnesses of the Securities and Exchange Commission. The character and operating costs incident to this form of insurance, the efforts of the companies to reduce these costs, and public [59] investigations in connection therewith are scarcely dealth with in the record.

In measuring the price of any form of life insurance, a clear distinction must be made between the different types. The price of any form depends upon the class of risk covered, the services rendered, and the size of each unit sold. However, repeated comparisons have been made of industrial insurance with ordinary, without regard to the important differences between these forms of insurance.

Expenses for Industrial Insurance. A number of factors enter into the necessary difference in expense between weekly premium industrial and ordinary insurance. The portion of the premium needed, for the expense of issuing and handling the average weekly premium industrial policy of $250, must obviously be greater than that needed for the average ordinary policy of $2,150. The weekly collection of premiums at the home of the insured also must obviously be more expensive than the monthly (or less frequent) crediting of premiums.

Mortality on Industrial Risks. Industrial life insurance, being intended for small buyers and sold with premiums payable weekly or monthly, is purchased principally by wage earners. Since the mortality rate on these workers is substantially greater than on the buyers of standard ordinary life insurance, the cost of industrial insurance must exceed considerably that of ordinary insurance, but for the same reason the value of the protection granted is greater. In a comprehensive study, by one of the State Insurance Departments, of the comparative mortality of industrial and ordinary policyholders of one large company, it was found that the death rate of persons insured under industrial policies was 40% greater than for those insured under standard ordinary policies. The higher mortality rates of the lower income groups is [60] illustrated in the death rate per 1,000 lives according to social economic classes.* These vary as follows:

Professional men	7.00
Proprietors, managers, and officials	7.38
Clerks and kindred workers	7.40
Agricultural workers	6.21
Skilled workers and foremen	8.12
Semi-skilled workers	9.86
Unskilled workers	13.10
All gainfully occupied males	8.70

*"*Death Rates by Occupation*" Edited by Jessamine S. Whitney, Statistician of the National Tuberculosis Association.

Insurance Companies Strive to Reduce Costs. Effort is being made to reduce the industrial death rate for the group as a whole. Toward this end, some of the companies furnish industrial policyholders with visiting nursing service and information regarding first-aid and health preservation. In addition the companies participate in public health programs and encourage efforts which tend toward greater longevity. The health activities of the companies undoubtedly have been a potent factor in helping to improve the expectancy of life throughout the Nation.

A very large proportion of industrial families prefer weekly premiums and probably would be unable to purchase and maintain insurance on any other basis. And this is not hard to understand, because the great majority of wage earners are paid at weekly intervals. This is borne out by data recently prepared by the U. S. Bureau of Labor Statistics and published in its August 1939 *Monthly Labor Review.*[1] This survey covered over 137,000 establishments employing 7,000,000 workers. It showed that 98% of these were paid at semimonthly or shorter interals, and two-thirds weekly. Of manufacturing wage earners, some 99% were paid semi-annually or more frequently, and 69% weekly.

[61] The higher expense rate necessary to conduct weekly premium business, as compared with ordinary, arises to a substantial degree from the higher expense incident to collecting small premiums, at frequent intervals, at the homes of the insured. This is the most convenient or most economical method for the majority of industrial policyholders. There is today, and probably will continue to be for many years, a large proportion of the families in the lower-income groups who would fail to set aside a part of their income for life insurance were it not for the regular systematic visit of the insurance agent to collect the small, weekly premiums.

To reduce the cost for industrial policyholders who do not need this service, a number of the industrial companies allow a refund of 10% of the weekly premiums that are paid continuously for one year directly to a branch office. This opportunity to reduce costs was introduced some years ago by one company which now has about 30% of weekly premiums paid directly to its offices. The law of one State was recently amended to require a stated refund credit for direct payment to a company office.

To reduce the cost for policyholders able to pay premiums on a monthly (rather than weekly) basis for somewhat larger amounts, some industrial companies have introduced monthly premium policies for amounts of insurance less than $1,000 which now constitute an important part of their business. The companies also are issuing ordinary insurance for amounts of $1,000 or more with premiums payable at monthly intervals. Obviously, the expense of monthly premium industrial insurance is less than weekly, and therefore policyholders who can afford to pay premiums on a monthly basis can get more insurance per dollar of premium.

Insurance Department Investigation of Costs. A special study of industrial insurance in one large com[62]pany recently made by a State Insurance Department was not put in evidence. A comparison was made in that study between the net outlay for industrial insurance and for ordinary insurance, based upon a grouping of policies statistically weighted to represent an average of plans and ages for the respective departments, taking into account premiums, dividends, and cash values.

As presented in the report of this study, the average excess of the weekly premium industrial net cost over that of ordinary insurance of a comparable mortality was, expressed as a percentage of the industrial gross premium, as follows:

Over a 5-year period	14%
Over a 10-year period	15%
Over a 15-year period	15%
Over a 20-year period	14%

As the examiners for the Insurance Department pointed out in their report, this extra cost of about 15% of the premiums can be reduced to about 5% by taking full advantage of the 10% refund credit for direct payment of premiums by policyholders who do not need the collection service at their homes. When the differences between ordinary and industrial insurance are taken into consideration, it is found—as expressed by the Examiners of the State Insurance Department in the conclusion of their report based on 18 months of study—that "these costs are not excessive in view of the services rendered."

[1] Vol. 49, pp. 311–324.

COMPETITION KEEPS COSTS LOW

the American system of life insurance, there are two general types of ordinary, industrial, and group insurance offered to the buying public: (1) policies on the guaranteed cost basis, sometimes referred to as nonparticipating and usually issued by stock companies; and (2) policies on the mutual or participating basis, the latter [63] type charging a larger gross premium and later reducing the cost by premium refunds or yearly dividends to policyholders based on current experience. In each case, the premium charged represents a computation of the future cost. The non-participating premium is a conservatively low estimate which, if later experience proves it to be insufficient, must be made good by the guarantee of the stockholders, for which their stock is pledged. The participating premium is higher to provide a safety margin which will take the place of the guarantee of the capital stock in non-participating insurance.

The constant competition between the "guaranteed cost" and mutual companies is of distinct benefit to the insuring public. The two forms act on each other in the nature of checks and balances. The non-participating companies, with their lower initial premiums, provide a check against larger initial costs or premiums by mutual companies than are consistent with sound principles of the business. On the other hand, the participating companies, which return to policyholders all margins not required by considerations of safety, provide a check against the charging by non-participating companies of higher guaranteed costs than necessary.

"GAIN" ON LAPSE OR SURRENDER

The testimony of a Securities and Exchange Commission witness, as to companies' "gain" from lapsation and surrenders, was predicated on an apparent misunderstanding of the principles of level premium insurance, and erroneous assumptions that the reserve constitutes the policyholders' "savings" and that a so-called bookkeeping "gain" on lapses or surrenders represents profits to the companies.

The Insurance Commissioners of the several States require the companies to submit, in connection with their annual statements, a "gain and loss" exhibit. The pri[64]mary purpose of this exhibit is to analyze the change in the surplus account as it stood at the end of the previous year and at the end of the current year. Prior to 1939, the companies were called upon to tabulate the reserves on policies surrendered during the year for their cash value or on account of which paid-up and extended insurance was granted as well as the amount paid in cash or applied on indebtedness of such policies, together with the initial reserves on extended insurances and paid-up insurances. The difference was set forth as the "gain" from policies surrendered for cash or on account of which extended or paid-up insurance was granted. They also were called upon to tabulate the "gain" during the year from reserves released on lapsed policies on which no cash or other value was allowed and also the "gain" from changes and restorations made during the year.

When a policy is issued, a company must meet the costs of acquisition, including the agent's commission, the medical examiners' fees, inspection fees, and home office expense. It must also set up the required legal reserve. The sum of these items in the aggregate will exceed the first-year premiums received. There is accordingly a charge against the surplus account, but this is merely a bookkeeping item. When a policy is terminated by lapse, there is likewise a transfer from the reserve account to the surplus account, but this is merely a reversal of the other entry, and there is no more a "gain" arising from this transaction than there was a "loss" when the transfer was made from the surplus account to the reserve account.

Accordingly, it is clear that the reserves on lapsed and surrendered policies, less the amounts allowed as surrender values, do affect a company's surplus account, but the word "gain," as used in this connection, is not synonymous with the word "profit."

The form of "gain and loss" exhibit, to which reference has been made, was thoroughly understood by those familiar with life insurance. However, as it gave rise to [65] misunderstanding by others, the Insurance Commissioners adopted a new form of "gain and loss" exhibit in connection with the annual statements for the year ending December 31, 1939. This revised form of exhibit continues to provide the Insurance Commissioners with such information as they need to analyze the companies' accounts.

Surrender Values. The suggestion has been made that provisions in respect to surrender values are not fair to policyholders. In studying these questions, the pertinent facts as to relative equities between the withdrawing policyholder and the remaining policyholders, were not placed in evidence by the Securities and Exchange Commission. The fact was also overlooked that no motive exists to give advantage to one class of policyholders at the expense of another class. Policy provisions are designed to adjust equitably between classes of policyholders the many relevant factors.

The surrender charge is a deduction made from the policy reserve in determining the cash surrender value. The statutes of many States specify the maximum surrender charge that may be deducted under this method of balancing equities between the withdrawing policyholder and those who continue. These deductions are made in order to apportion equitably the cost of acquisition and other expenses not repaid by the withdrawing policyholder. The longer the policy is in force, the smaller is the balance due from each policy to surplus. The surrender charge is reduced from time to time until finally there is none.

Few classes of business men have contributed as much to the social and economic welfare of the United States as life insurance agents. Day in and day out, they have preached the gospel of thrift, security, and protection. Their services have grown progressively with changing public needs. As a result, the American public has the largest per capita amount of life insurance in the world; in fact, it has about 65% of all life insurance in existence. This is a tribute to the American agency system, which has played such a vital part in helping to make life insurance thoroughly appreciated and in expanding the institution's opportunities for public service.

The Securities and Exchange Commission, in building its record before the Temporary National Economic Committee, practically ignored the social and economic value of the work of the agent and failed to call representative agents to testify about their service to policyholders; nor did the Commission arrange for policyholders to appear before the Committee to portray the stability which agent's efforts have brought to American life. Instead, the Commission made light of laudatory letters from policyholders and its witnesses criticized the agency system as an unnecessary expense and an important contributing factor towards lapses for which policyholders pay. In addition, the Examiner of the Securities and Exchange Commission charged life insurance management with not having encouraged the sale of life insurance by non-agency methods.

Companies were accused, in effect, of being interested only in a continual volume of new business produced by [67] high-pressure methods, which were alleged to be conducive to a high degree of lapsation. The service of the agent, after the policy is sold, was belittled and renewal compensation for this service question. In short, it appears that the Securities and Exchange Commission sought to build a record which would strongly tend to condemn the American agency system.

The contribution of the Institution of Life Insurance to the public welfare depends upon the extent to which it is used, and experience has taught valuable lessons on how to bring this service to the largest number of people. One of the most important of these lessons is that life insurance must be sold. It is not, except in insignificant amounts, voluntarily bought. It is, moreover, sold only by individual solicitation by agents, not by mail or over the counter.

No evidence, other than that on savings bank life insurance in two States, was introduced by the Commission to show that experiments have been conducted more or less constantly to bring about the distribution of life insurance without an agency force. The results, accumulated during the past 100 years, indicate clearly that the principle of *selling* the service, rather than waiting for people to come and buy, is one important reason for the broad distribution of life insurance.

THE EXPERIENCE IN ENGLAND. Life insurance is sold on an over-the-counter basis by the oldest life insurance company in existence, the Equitable Life Assurance Society of London. This organization was formed 178 years ago. Yet in 1938 it issued only 1,939 policies and 4,867 annuities. According to *The Eastern Underwriter*[1] the reason for this limited scope of usefulness is that "the company has no agents, and pays commission to no one for the introduction of business . . . It either comes direct or through the introduction of members and other connections . . . At the close of last year, the total funds of [68] the Equitable amounted to £12,034,776."

In contrast with this, the Prudential Assurance Company of England was organized in 1848. In 1854, it appointed its first agent, and since that time its agents have actively solicited new business. At the end of 1938, it had assets of £346,139,159, and its business in force totaled £878,639,082.

The Sun Life Assurance Company of Canada built its field organization along the lines of the American agency system and has operated in England for 45 years. In 1938 its new business in that country totaled £39,556,055.

[1] October 6, 1939, Part 2, page 92.

The futility of selling life insurance through postoffices has also been demonstrated. The British post-office savings bank insurance plan was introduced about 1865. Under the plan, the right to issue life insurance contracts was granted by the British House of Commons to the British post-office savings banks. After many years of effort, there were only about 12,000 of these post-office savings banks contracts in force, while the British life insurance companies issuing weekly premium contracts alone had more than 72,000,000 contracts in force. The British post-office savings banks discontinued the writing of insurance at the end of 1928.

INSURANCE BY MAIL. In America the experience of the best-known life insurance company which distributes life insurance by mail is a clear indication of the inadequacy of this system. Five years after starting business, that company had $62,700,000 of life insurance in force at the end of 1910, and this includes the reinsurance in that year, of $58,500,000 of another company. By the end of 1938, its total insurance in force had dropped to $46,500,000, $16,200,000 less than in 1910. It wrote only $3,600,000 of new business in 1938.

[Follows page 68]

[Copy]

AUGUST 12TH, 1940.

Hon. JOSEPH C. O'MAHONEY,
United States Senate,
Washington, D. C.

MY DEAR SENATOR O'MAHONEY: On the eve of the delivering to you the statement on Life Insurance prepared for filing with the Temporary National Economic Committee and bearing the signatures of some 150 life insurance companies, attention has been called at the very last minute to an error in the figures used in the second paragraph on page 68. Referring to the new business of the Sun Life Assurance Company of Canada, in England, the last sentence of the paragraph reads: "In 1938 its new business in that country totalled £39,556,055." It transpires that the figure mentioned embraces all the new business of that company throughout the world and that no figures are available for England as such, but that the new business written by the Sun Life of Canada in 1938 in the United Kingdom totalled £4,419,311 (Bourne's Insurance Year Book for 1940).

It is regrettable that such an error should occur and should have to be corrected in this fashion but I see no other practical way to make the correction and I respectfully request, and I am sure I do so on behalf of all signatory companies, that this letter be included in the records of your Committee along with the statement which we have requested to have so included.

Very truly yours,

(Signed) LEROY A. LINCOLN,
Chairman.

STATE INSURANCE. State insurance also has been tried. In Wisconsin a State insurance fund was organized in 1911. The Commissioner of Insurance, in 1919, reported to Governor Philipp, "The Insurance Department [69] has kept up a continuous campaign for business through circularizing available lists." In urging the discontinuance of the State Insurance Fund, Governor Philipp stated, "This fund is based upon the theory that desirable life insurance risks voluntarily seek insurance. That theory is unsound—they do not do so. If this enterprise is to prosper and grow, as it must to have a normal experience, it must have an organization for soliciting business."

MAIL-ORDER CUSTOMERS. A further experience was that of a large mail-order house, conspicuous for customer allegience, financial stability, and a reputation for giving value to the buyer. Its life insurance company started business in February, 1934, and retired in May, 1938. In 1937, the final year of their experience, this organization, after having offered life insurance through mail-order catalogs to nearly 10,000,000 regular customers and 40,000 employees, wrote only $6,500,000 of new insurance. Its vice-president said that this "excursion into life underwriting looms large as Exhibit A in support of present-day life insurance management for life insurance companies and the necessity for the American agency system, if the American public is to insure and remain insured for the benefit of its dependents." [1]

[1] *The National Underwriters*, Nov. 17, 1939, page 2

SAVINGS BANK LIFE INSURANCE. New experiments in savings bank life insurance are now being made. The Massachusetts savings bank plan was started more than 30 years ago. The sale of Massachusetts savings bank insurance has been promoted not only by publicity campaigns and advertising, and by the employment of several field instructors who spend their entire time promoting savings bank insurance, but also by the use of a system under which employers and their representatives serve in a sales capacity without compensation, thus performing a limited number of the functions of the life insurance agent. Despite this active search for new [70] business, this plan has now in force less than 3½% of the total insurance in force in that State.

EFFORTS TO IMPROVE THE AGENCY SYSTEM

Just as the needs of individuals change, so do those of the public at large, Accordingly, the services of agents must keep pace with its varying needs, if they are to fulfill their responsibilities to policyholders. As agents who are best equipped to adjust life insurance to the varying needs of policyholders are most successful, competition is an ever-present force which continually demands further improvements. As a result, agency practices are in a normal state of evolution, affected by current conditions and continuously improved efficiency. Several of the more important activities which tend toward better and better service may be of interest.

SELECTION OF AGENTS. Considerable attention is being given to attracting the right type of men to agency work. More and more is being demanded of agents by policyholders, so that their work is becoming increasingly specialized. Because of this, the companies have placed greater emphasis upon selection of agents and upon making this form of employment even more attractive. Misfits lose their own time and cost the companies money, so that we find methods, such as aptitude tests, being used in an endeavor to predetermine potential sales and service ability. The point is, companies realize more than ever the importance of selection, and feel that they are making progress with the far from exact science of appraising the human qualifications necessary for a good agent.

TRAINING AGENTS. There is excellent "team play" among the agents, their underwriters associations, and the companies to equip most effectively all who render field service to policyholders. Some of the best ideas and organized efforts have sprung from the practical experi[71]ence of alert agents. Effective training covers not only sales but service methods.

One of the important trends in sales education is the further development and sponsorship by a large number of companies of methods which show agents how to present comprehensive life insurance programs to prospects and policyholders. These require initial analysis of the prospect's present insurance, his family needs, and his complete financial picture, including current income, before recommending a new purchase of life insurance.

A number of companies now have approximately one-half of their new business written under optional modes of settlement, through which insurance will be paid out in income rather than in a lump sum. By this means, the insurance program is adapted to the individual requirements of the prospect and his desires at the time he purchases the insurance. Through the agent's contact with these policyholders, these settlements are altered as changes occur in the policyholder's individual situation, giving the public a form of service which is not available through life insurance sold over the counter or through the mail.

After sales are made, agents serve policyholders in numerous matters of importance to them and their beneficiaries. This day-by-day service of agents is not always appreciated until after a claim has been paid or other policy benefits availed of.

Among the many new facilities which have been provided for the education of agents, are:

1. Courses of study developed by insurance companies, not only for new agents, but also for old agents and their general agents or managers. Many companies maintain special training departments and systematically issue educational magazines and booklets.

2. The American College of Life Underwriters. This was organized 13 years ago and requires high scho[72]lastic standards for admission. Practical field experience, as well as examinations, are required to achieve the designation of Chartered Life Underwriter. Three or four years may be necessary to com-

plete the required courses. The college also offers a wide range of correspondence courses of study. Many companies support the college and assist promising agents to defray their expenses in taking the course. A large number of agents are enrolled in one or more courses in the college.

3. Well-organized insurance courses in colleges and schools of commerce throughout the country.

Many States have taken an interest in the qualifications of agents as a prerequisite to licensing them. Today, life insurance agents are subjected to supervision in every State and in many States they are required to pass a written examination in order to obtain a license. As against this, is the anomaly that employees of such outside distributors of life insurance as savings banks are not trained, as agents are, to help policyholders get the most out of their contracts. Accordingly, they are in a position to give only a perfunctory service. The law does not even require licenses for those who sell savings bank life insurance, nor does it require training, examinations, or special consideration for such persons, as do the laws of many States with reference to the agents of legal reserve companies.

Turnover of Agents. Much stress was placed upon the alleged high turnover of agents as a source of lapses, unnecessary expense, and poor service to policyholders. But complete figures were not put in the record by the Securities and Exchange Commission to show the definite and steady improvement in this respect for the business as a whole. Furthermore, no evidence was produced to bring out the excellent methods being used by various companies either to reduce or keep turnover down to very low percentages.

[73] No company wants an unjustifiable turnover of agents. Accordingly, companies are analyzing the underlying causes continually—and with real results. A review of companies having more than 80% of industrial insurance in force showed that from 1935 to 1938, the agents' termination rates declined approximately 50%. There has been also a 12½% improvement during this period in the termination rates of full-time agents of 45 ordinary companies.

Selection of Business and Underwriting Rules. Competent agents exercise a responsibility in helping the company to select risks which conform with the home office underwriting rules. These are adopted usually to protect the interest of existing policyholders in the company.

The first underwriting step is taken by the agent when he properly adjusts the type and amount of insurance to the needs of the policyholder, endeavors to see that the total insurance in the family is distributed in accordance with some soundly conceived program, and is satisfied that the policyholder is not overinsured and can afford the proposed insurance. It is clear, therefore, that the agent lays the foundation for the subsequent relationship between the policyholder and the company. Material progress has been made in bringing about a more effective appreciation of the importance of sound underwriting to policyholders as well as to agents.

The application of underwriting rules by agents is tested and checked regularly by many home offices. The effectiveness of these rules in preventing a disproportionate amount of family income from being spent for insurance, at the time policies are purchased, is indicated by the results of studies of families insured under industrial policies. It was found that the total amount paid for weekly premium insurance in the families studied was less than 3% of the family income. This was true not only for the entire group studied, but also for those families in lower income groups where the income was [74] less than $30 per week. Another study, made of families insured under industrial policies, to determine the nature of the distribution of all types of life insurance among various members of the family, indicated that the total amount of all kinds of life insurance per insured breadwinner was $1,440, as compared with $564 for his wife and $380 for each child, and that in less than 5% of the cases was there no insurance on the head of the family.

Conservation Activities. As the economic and family status of numerous policyholders is continually changing, many companies have established departments for advising agents and policyholders as to the best means of adapting insurance to meet changing needs and conditions. These departments suggest changes in mode of premium payment, changes in plan, reduction in the amount of insurance, and ways and means of reinstating policies in order that life insurance protection may be continued or restored. Of course this service is without charge. Substantial amounts of time are devoted by agents to services of this type, as well as to efforts to prevent terminations.

CONTESTS AND POOR BUSINESS

Much has been said about contests producing new business of poor quality and high lapsation. This is not in accord with the facts because it has been the experience of many companies that contests, properly conducted, serve many valuable purposes *without abnormal* lapsation. Sales contests are recognized as a desirable method of sales management in practically every successful type of business. Among the benefits arising from contests are these:

1. Group competition is a stimulus to make each agent step up to his own higher level of personal capacity and ability, with the result that his earnings are increased.

[75] 2. Contests provide an urge for getting things done today and an aid in overcoming procrastination.

3. Contests are an incentive for getting the agent to apply his training and improve his individual technique. They aid in directing his attention to possible sources of business, developing new insurance plans, and adapting life insurance to the individual need of each prospect.

4. Contests result in more than usual distribution of life insurance, thus benefiting the public.

Many company executives can testify, based upon the lapse rate during the first two years, that insurance sold during contests is as well sold as new business secured during non-contest periods and is subject to no greater danger of termination. Further evidence can be adduced to show that modern life insurance sales contests bring out the best qualities of agents.

COMPENSATION OF AGENTS

One would infer from the record that the present method of compensating agents is designed to stimulate a volume of "high pressure" business, with bad lapse experience and high turnover of agents. As to the effect of compensation upon lapses and turnover, the fact is that both the lapse and turnover records of the business as a whole have been improving. Obviously, the inferences in the record are unfair to both the companies and the agents.

The Commission failed to introduce into the record much basic information, such as a comprehensive statement as to how the average earnings of established full-time agents compare with the incomes of those engaged in sales activities in other fields. Furthermore, much of the information on agents' earnings was inadequate; for example, the method of collecting data made it impossible to determine accurately the total earnings of [76] agents, as many have sources of income from other activities.

The work of an agent is threefold: to write new business, to service existing policyholders, and to keep lapses at a minimum. The latter two functions may be regarded as conservation activities.

The compensation paid by most companies for the writing of ordinary business is slightly more than half of that which may ultimately be earned. The agent has the opportunity, if the business persists to maturity, to make almost as much over the renewal commission period—say nine years—as he received for writing the new business, thus encouraging him to keep that business in force.

The methods of compensating agents vary among companies and types of insurance; for example, one ordinary company weights persistency factors even more heavily in determining its agents' compensation than the more usual method outlined above, whereas industrial agents generally earn a much larger part of their income from commissions for service activities than would be possible in ordinary insurance. The methods of determining the compensation for ordinary agents have been under investigation for some time by companies, as well as by a committee of the National Association of Life Underwriters and the Life Insurance Sales Research Bureau.

As the major part of the insurance in force is subject to State laws which limit acquisition costs, it is clear that the maximum which can be paid by the companies is fixed. Regardless of this limitation, responsible agents and the companies agree that the only way the companies can pay more money to the less successful agent is to increase the cost to policyholders or to level down the earnings of the other agents. Obviously, neither of these methods is equitable either to policyholders or to agents. It seems apparent, therefore, that any increase in com[77]pensation for the less successful agent is dependent upon improving the value of his work. Previously in this Statement, reference has been made to some of the activities which help agents improve the quality of service to the public.

Life insurance accounting has not only been strengthened by the test of time but has kept pace with those modern developments which prove to be applicable to the business. Today, accounting methods are a constant aid to management, not only from a bookkeeping standpoint but in helping to keep operating costs low and in analyzing investment results. However, the Securities and Exchange Commission presented a witness to criticize the form of reports made to the public authorities and the accounting methods employed by the life insurance companies. This witness was not an expert accountant and was without practical experience in the field of insurance accounting.

The testimony alleged, in part, that the annual statements uniformly used in reporting to the State regulatory authorities were unintelligible, that the accounting systems of the companies were archaic and not in accord with customary practice in commercial accounting. Furthermore, some companies had no independent audits made, the witness testified, and the methods used in setting up and in carrying contingency reserves were confusing and misleading.

The clearest answer to much of this testimony may be secured by studying the annual statements made to the State supervisory officials and the type of accounting records used by life insurance companies generally. None of these were adequately described, and this failure leaves false impressions in the record.

ANNUAL STATEMENTS. The form of annual statement or report, customarily used and commonly termed the "convention blank," is recommended by the National [79] Association of Insurance Commissioners and is the result of many years of experience. A standing committee of this Association meets regularly for the purpose of considering and recommending changes in the convention blank. The laws of the various States require the filing of a statement in a form to be prescribed by their respective supervising insurance officials.

In its present form, this statement represents the ideas of the various Insurance Departments and the insurance business, backed by more than 50 years of practical experience and continual adjustments to the changing needs of a growing business.

The witness stressed the thought that the "man in the street" could not understand the annual statement. This convention form was not designed to present information in popular form to the general public but to give information to State Insurance Departments for study by their experts. Many companies however, publish annual reports of the preceding year's operations for their policyholders' information.

All data demanded annually by the State supervisory officials in the prescribed uniform annual statements supplement the work of the periodical examinations made by them in the offices of the companies.

The form of this statement was designed by the supervisory officials of the various States for the purpose of furnishing them with factual information which, in their opinion, is pertinent in making an exhaustive audit and investigation of every essential phase of the life insurance business. The form of annual statement calls for information classified under more than 300 items, and in addition requires detailed schedules which break down individual classifications in such a manner that they shall accurately reflect the actual business operations and furnish the supervisory officials with details necessary for making a comprehensive analysis and audit.

These details, contained in each life insurance com-[80]pany's annual statement, embrace the important features of the company's business operations. The statement gives very detailed information regarding income, disbursements, assets and liabilities. It shows yearly changes in the number of contracts and amounts for various kinds of life insurance and annuities. Typical examples of the schedules are those showing real estate owned, purchased, and sold—the actual cost, book and market value, as well as adjustments in book value—and amount of rentals and expenses; mortgages owned, and mortgage loans made, increased, discharged, and reduced—including amount, and where applicable, description of property, yield, and interest overdue; bonds and stocks owned, purchased, or sold—including rate of interest, maturity, book and par value, cost, amortized value, and the Insurance Commissioners value; bank balances; claims resisted and reasons therefor. The schedules also contain information on all salaries, compensation, and emoluments paid officers and directors, as well as all sums—except bona fide commissions to agents—paid to any employee, person, firm, or corporation in excess of $5,000; commissions and collection fees of $5,000 or more paid in connection with loans or properties; expenditures for legal services and legislative matters; rates of annual dividends and method of calculation thereof, etc.

Assembling the detailed data and preparing the annual statement often requires several months of intensive work, as it contains thousands of separate figures and items of information. These forms are bulky, but an inspection by anyone familiar with the business will show that they are in no sense unintelligible or confusing, and that they have been performing the functions for which they were designed.

The witness wrongly assumed that the form of these annual statements was affected by the kind of accounting methods employed by the various companies. The form of the convention blank prescribed by the State super[81]visory authorities and the individual methods of accounting employed by the various companies are entirely separate matters. The companies, as a matter of necessity, keep their accounts in the manner which will enable them to comply with the requirements of the State Insurance Departments. However, it is impractical for the companies to have uniform internal accounting methods because of their different problems. For example, a small company writing ordinary insurance needs only a simple system, while a large company writing ordinary, industrial, and group must have a more complex one. The real test is not to be found in particular methods or formulas of accounting, but in the satisfactory results which have been achieved consistently through long periods of years.

Accounting Practicies. The witness stated that life insurance companies do not follow certain practices of ordinary commercial accounting. Many of his statements about practices in commercial accounting are erroneous. His illustration that "funds expended for . . . the purchase of a million dollars in bonds are not accounted for in this statement in any way" leads to the false impression that life insurance companies do not show information which is available in the published annual statements of an ordinary commercial enterprise. The life insurance annual statement does contain a complete record of bond transactions, while the income statements of many commercial businesses do not disclose, on their face, details of changes in items of asset and liability. However, there is no necessary relation between commercial accounting and insurance accounting, as each should be adjusted to its own type of business.

There is also testimony to the effect that the amount expended annually for investments by life insurance companies is nowhere shown as a specific schedule. This is contradicted by an examination of Schedules A, B, C, and D of the so-called convention report filed by each [82] company in every State in which it operates, which set forth in detail investments in real estate, mortgage loans, collateral loans, bonds and stocks. These are subdivided into various classifications with full details of transactions including costs, sales, and adjustments in book value. More complete information is made available in these schedules than is presented in public reports of any comparable financial institutions of which we have knowledge.

Premium Income. The witness gave "a few example of a very simple sort . . . to illustrate the unwieldy and inconsistent character of the information in the convention statement." One example referred to the figures given for premium income, which is subdivided into first-year and renewal premium income for ordinary business, while industrial insurance premium income is given in total and is not subdivided into first-year and renewal.

There is a fundamental difference in the accounting methods followed for industrial and for ordinary business, which logically leads to a different reporting procedure. All records of ordinary premium payments are kept in the home office for individual policies, while records of industrial premium payments are kept in the field and are accounted for in the home office only in bulk. Under the debit system, the agent makes one report weekly or monthly of the total industrial premium payments on all the policies for which he is responsible, without segregation between premiums for the first and subsequent years. Consequently, a separation of premium income into first-year and renewal cannot be directly obtained at the home office for industrial business, but can be readily obtained for ordinary business from the individual policy records. If such a subdivision is desired for industrial premium income, reliable approximations can easily be made from other records that are available. Supervising authorities are aware of this fundamental difference in practice, and the details of information [83] required by the convention statement have been designed accordingly. It is clear that to keep the industrial records in the manner suggested in the testimony, would not only be unnecessary but would add to the cost of industrial insurance.

Group Life Insurance. The policy exhibit on group life in the annual statement was criticized on the ground that the figures applied only to master policies in force and this made it impossible to determine the lapsation experienced among group certificate holders. In the ordinary sense of the term, there is practically no lapsation of certificate holders. The insurance premium is paid customarily monthly, covering the period insured. At the end of the month, the certificate holder has had insurance protection and he continues it provided he is still employed, or, may elect to convert his policy to ordinary insurance if his employment ceases. The exhibit does show the amount of insurance terminated on individuals, which gives an index of the amount of turnover. Practically all terminations in group insurance (which are called withdrawals) arise from termination of employment. Very few employees discontinue their group insurance while still employed.

Supplementary Contracts. It was further charged in the testimony that the annual statement included in death claims, the moneys which are set aside at the time of death to comply with supplementary contracts. These contracts contain the conditions under which the proceeds of a life insurance policy at death, or maturity, are left with the company for subsequent payment to designated persons as annuities, installment payment over a period of years, or otherwise. Those familiar with insurance practices know that when a death claim is paid, that ends the transaction, and that when a new contract, technically known as a supplementary contract, is accepted, the funds representing the obligations under the new contract appear as income in the com[84]pany's books. To illustrate, let us consider a supplementary contract for an annuity. The proceeds of the death claim are used to purchase an annuity, and the insurance company includes that sum in income and sets the money aside for that purpose. In other words, one contract is liquidated and a new transaction begun, and both are recorded properly.

Contingency Reserves. The witness was unable to explain the reason for, or the basis of, the contingency and special reserves, and presented confusing testimony with regard to the allocation of contingency reserves to the various lines of business. In most cases, contingency reserves are set up to take care of unforeseen contingencies, or specific contingencies on which there is not sufficient experience to base a specific reserve. In part, they are set up on the recommendation of the actuaries in an attempt to evaluate the future from past experience in such a way as to prevent any sudden, unfavorable shock to the company's business. The State authorities are particularly watchful as to the source and use of contingency reserves and are careful to emphasize the proper allocation of expenses or losses to the proper branch of the business.

The testimony gives the impression that in some companies the division of earnings is made to the detriment of the industrial business and for the benefit of the ordinary business. The witness overlooked the fact that it is the practice of industrial companies to maintain separate accounts, which reflect the experience of the business of the industrial and ordinary departments.

Inter-Company Comparisons. The criticism that the form of annual statement prevents comparisons between companies disregards the fact that the statement is in the analytical form required by the State insurance authorities. Experience indicates that the schedules in the annual statement are wholly accurate and adequate for the purposes for which they are submitted. They can be made the basis of comparison between companies, [85] provided there is used in their analysis the same care and discrimination as exercised by the State regulatory authorities. However, the tables prepared by the Securities and Exchange

Commission, embraced in Exhibit No. 2250,[1] were demonstrably inadequate and unfair when used during the hearings to compare companies.

The unfairness of using only a statistical table for criticizing companies is clear from one illustration. In analyzing one of the exhibits of the Commission which compared companies, its witness criticized the practice of capitalizing interest on delinquent mortgage loans by some companies. He failed, however, to give supporting evidence to prove that, in the actual cases where this had been done, there was inadequate security behind the mortgage loans, or that the policyholders suffered in any way. Further, the witness gave no consideration to determining how much of this so-called capitalized interest had been charged off by adjustment of book value, or losses on sales, or had been affected by profit on sales.

Audits by the State Insurance Department. An erroneous impression was created by the witness' criticism that some companies failed to employ independent auditors, suggesting a lack of proper audit—especially of liabilities. The major item in liabilities is policy reserves. These reserves are computed by the companies' actuaries, and they are completely verified by the State Insurance Departments on the basis of full and complete data. These audits may extend back to the original application for the policy and to the premiums paid. Other items, both of assets and liabilities, are investigated with similar thoroughness in every examination made by the State Insurance Departments. In fact, representatives of the public not only audit but also investigate management as well.

[1] Hearings, Part 10–A.

The valuation of life insurance assets has been the subject of legislation in many States and has continuously been given the closest scrutiny by State Insurance Commissioners. The Securities and Exchange Commission failed to emphasize this during the hearings or in its published statistical statement on life insurance investments. Instead, the method of valuing investments was attacked.

A life insurance policy is a long-term contract based on certain actuarial calculations. As a consequence, life insurance companies are primarily interested in the average rate of return from their investments over an extended period of time. Their purchases of securities are generally based on the expectation of holding such securities to maturity. They are vitally concerned that the interest on such investments be paid when due and the principal met at maturity, but with these conditions of safety satisfied, market fluctuations in the meantime are of secondary importance. Were such investments affected to any sizable extent by current market fluctuations, there would be a tendency toward speculation which would be alien to the life insurance business. Furthermore, the income available for distribution would be then subject to wide fluctuations, being rapidly increased in periods of high bond prices and as drastically decreased in periods of low prices.

The States have properly recognized the importance of a stable form of valuation in the life insurance business. As a consequence, most States have required by law that amply secured corporate obligations and govern [87] mental securities, having a fixed term and rate of interest and not in default, are to be valued on an amortized basis. The vast bulk of the life insurance companies' security investments fall within this category. The States have, with equal propriety, recognized that where the interest or principal of certain investments is not reasonably assured, such securities are not subject to amortization and must be carried at market value. As a consequence, all bonds in default and those which, even though meeting their interest requirements, are not held to be amply secured, must be valued at market value. The soundness of this policy is not impaired by the fact that on exceptional occasions of chaotic market conditions the Insurance Commissioners have set market values based on averages for a period of time rather than on the market quotation at the statement date. Subsequent market action has proven the soundness of this procedure. In order to have uniformity of determination as to what securities may be considered as not amply secured, the Insurance Commissioners have generally relied on the opinions of the outstanding bond rating organizations.

During the hearings, particular attention was devoted by the Securities and Exchange Commission to those two categories of bonds rated as Baa and Ba, even though not in default. The Commission dwelt at some length on the assumption that since these two categories of securities were permitted to be carried on an amortized basis, they appeared in the companies' statements at a figure above their then market value. The Commission failed to bring out, however, that in the case of the 26 companies under study only 5.6% of the companies' assets were included in the higher of these two categories, namely Baa, and only 2.1% were in the Ba classification. Nor did it point out that had such Baa securities been carried at market value, the assets of the companies involved would have been reduced only ½ of 1%, and had such Ba [88] securities been carried at market value, assets would have been reduced only approximately ⅗ of 1%. The unfairness of criticizing one particular category of the companies' assets is emphasized by the fact that had this type of valuation used by the Commission been applied to all of the security investments of the companies under consideration, their current market value would have been two hundred million dollars above are value at which such securities were carried in the companies' statements.

As to foreclosed urban real estate, the Commission apparently attempted to intimate that this asset was overvalued in the companies' statements, based on a theory that foreclosed real estate should be valued at a certain number of times gross revenues from the properties. Such rules of thumb cannot be broadly applied to foreclosed real estate properties. For example, a certain portion of the real estate held by life insurance companies is going through a period of rehabilitation. Obviously in such a period, the earning power of the property is not normal. However, the soundness of the companies' valuations is reflected in the aggregate prices received for properties sold, and it is interesting to note that in the case of the investments of the 26 companies specifically studied, these prices exceeded book value by a reasonable margin. The inconsistency of the suggested method of valuation of urban real estate is further evident from the Commission's own tabulations. From these figures, it is evident that in the case of companies with sales of urban real estate in excess of $60,000,000, the aggregate sales were actually consummated at a higher ratio to income than the ratio indicted by the book value of the real estate held.

One basis for checking the valuation of real estate is that used by the State Insurance Commissioners. They employ independent experts to value individual pieces of real estate. By this method, an indication of the value [90] of the entire foreclosed real estate portfolio of an insurance company is obtained.

The implied weakness in life insurance investment valuation practices, upon which the Securities and Exchange Commission concentrated, is insignificant in comparison with the proven strength of the insurance companies. At the end of 1938, the 26 companies studied by the Commission were protected by a surplus, including contingency funds of $1,294,000,000. This fund would absorb any unforeseen contingencies arising from losses due to investments or adverse mortality experience. An even more forceful picture of the inherent strength of these life insurance companies would be gained from reviewing their experience from 1929 through 1938. During this period the companies were able to increase surplus and all contingency funds by over $300,000,000, and to pay dividends to policyholders of $4,508,000,000 and to stockholders $82,390,000. Obviously, these latter funds represented additional cushions which were available if needed.

The Securities and Exchange Commission conducted the hearings in such a way as to give the impression that there were collusive and secret conferences of actuaries which preceded the alleged adoption of anticompetitive agreements among the companies.

The Examiner for the Commission did not put into the record complete information about conferences of actuaries; for example, that no one company has adequate data on many basic matters, such as mortality, and that, in the interest of safety, it is the custom of the business for actuaries to bring together information and the experience of their companies in an effort to build the broadest possible basis for judgment. Furthermore, the Commission failed to develop adequately that such conferences do not affect competition because their results are not binding, in any sense, upon the respective companies, that many conferences were the result of requests from State insurance authorities, and that actuaries normally confer on various subjects, such as the adequacy of rates, problems associated with permanent and total disability benefits, and annuities. Neither did the Examiner explore sufficiently the extent to which competition in the life insurance field exists, nor did he show that as a result of such competition charges to policyholders for ordinary, industrial, and group insurance vary by companies; to illustrate, reference to a standard insurance publication indicates that out of 197 companies listing their ordinary premium rates, 163 had different costs under a 20-payment life policy issued at age 35.

However, in its annual report for 1939, the Securities [91] and Exchange Commission, while hearings before the Temporary National Economic Committee were still in progress, stated:

> "Testimony demonstrated that insurance companies have entered into anti-competitive agreements and understandings. Efforts of companies to fix group insurance rates, non-participating rates for ordinary insurance, uniform annuity rates, and to establish uniform settlement option agreements and uniform surrender value programs were explored."

The statement is presumably based partly on testimony given with respect to certain actuarial conferences, partly on erroneous inferences drawn from this testimony, and partly on the failure to include in the record certain basic information. Most of these conferences either were the result of direct requests made by the State insurance authorities, or were conferences of which the authorities had knowledge or had given specific approval. The hearings did not develop fully the extent of the interest of State insurance authorities and failed to present an adequate statement of the facts relating to it. Furthermore, throughout the hearings, the Commission did not record certain important differences between the operations and objectives of life insurance companies and ordinary industrial corporations which would have made clear both the necessity for the conferences and the active interest of State regulatory authorities in maintaining insurance company operations on a safe basis.

LIMITATIONS ON LIFE INSURANCE OPERATIONS

Life insurance companies are not free to complete in any manner which would involve the intrinsic safety of policies. An appreciation of these limitations is necessary to understand the purposes of the conferences of actuaries and the interests of State supervisory authorities.

The first major limitation on life insurance companies [92] relates to reserves. For the most part, a life insurance company's liabilities are contingent in the sense that they will accrue over a long period of years and it is not known when an individual claim will mature. The investments made to meet these liabilities for future benefits make up by far the greatest proportion of a company's assets. The assets required to meet these contingent liabilities are called "reserve" funds. The "surplus" built by a life insurance company merely constitutes a factor of safety over and above the reserve funds, both of these being needed to assure the payment of future benefits. The maintenance of reserves on a prescribed basis is a statutory requirement. If the reserve funds became impaired, the company would be insolvent and the Insurance Department of the States of its domicile would have to step in. However, the Insurance Department checks most closely the reserves maintained by each company, so that corrective steps may be taken to avoid impairments.

Another limitation of importance deals with acquisition costs of new business. The extent to which life insurance companies may expend their funds in an effort to obtain new policyholders is directly limited by laws which govern the operation of life insurance companies with about 83% of the business in force.

These and other legal limitations, such as those restricting the amount of new business, are designed to permit companies to grow in a normal but safe manner. These limitations have been operating for more than a generation and have played an important part in the safety record of life insurance. They contrast sharply, though, with the latitude in which the usual type of commercial corporation operates.

A life insurance company, however, is free to select the market which it will cover, both with respect to economic levels and to geographical limits. The ramifications of differing policies of operation are numerous and varied. One company may prefer to sell to a selected or [93] preferred market and to cover the country. Another company restricts its business to a portion of the country. Some endeavor to spread their production over the largest number of persons possible by aggressively urging the general public to insure. These companies make the benefits available not only to the economically and physically favored, but to the less fortunate and less healthy. All of these general policies of operation call for dynamic action, constant search for new fields of opportunity, and readiness to try out new methods within fixed limits.

Competition has resulted in many benefits to policyholders through experimentation in liberalizing policy provisions. Early restrictions upon travel, suicide, and occupation have been removed. In the absence of fraud, statements in the application are no longer warranties. The period of grace for payment of premiums and the incontestability clause have been developed. New types of policies, such as educational, family income, group, and other special types of policies, have been devised under competitive pressure. These and many other benefits have accrued to the public under competitive conditions, long prior to the enactment of compulsory legislation.

Such improvements resulted from the experimentation possible under the system of State regulation. Group insurance, for instance, was first experimented with by permission of one Insurance Commissioner. The experiment was closely supervised, and after actual trial proved it successful, group insurance was generally adopted into the laws of other States as well. So also many other progressive changes have resulted from supervised experimentation in one State, by actual trial and evolution, and, when proven sound, adoption by other companies and other States has followed. Similarly, the adverse effects of other experiments, which in actual trial were unsuccessful, were confined to small localities. The fact that a single State or a single company may, under State supervision, attempt new concepts and new methods is [94] in itself a guarantee of progress for the insurance business and its policyholders.

The processes of freedom of action in those areas where such freedom contributes to the general interest, the restrictions in other areas, such as reserves, and the limitations upon the acquisition cost of new business and investments have worked satisfactorily and produced a surprising record of safety and progress. The point in developing briefly the limitations upon the operations of companies is to show the close interrelations which exist between the State supervisory authorities and the companies in matters, such as safety, where the public welfare may be affected.

COOPERATION UNDER STATE SUPERVISION

The efforts of the legislatures and the courts to limit collaboration and collusion between business concerns are aimed to prevent restraints of trade. These aims have only a limited application to the life insurance business, since collaboration between actuaries, for example, is limited to a few special phases, such as determining limits of safety. In these matters, the public interest is further protected by the State insurance authorities.

The requirement of safety in life insurance is essentially different from any similar requirement in other businesses. If a manufacturer sells an article of merchandise at a "bargain price" which proves to be inadequate, the purchaser has his merchandise at the "bargain price," regardless of what happens to the company. He is not directly concerned as to whether or not the company fails because of the inadequate price he paid. On the other hand, when a man buys a life insurance policy, he ordinarily pays premiums to the insurance company over a period of years in anticipation of having a benefit paid back to him or his beneficiary at some time in the [95] future. If the insurance company sells a policy at an inadequate rate and is unable to fulfill its obligations to policyholders, the purchased has no bargain. Even if the insurance company can meet its obligations, an inadequate rate on a particular type of policy simply means that other policyholders must make good the difference. Accordingly, adequacy of rate is of primary importance to the entire insuring public.

The proper conduct of life insurance requires the application of calculations on a basis determined by experience and judgment. Consequently, conferences of actuaries commonly concern themselves with past experiences in life contingencies, interest rates, and other factors, as well as judgment as to their future trends. In conferences where such matters of judgment are under discussion, the experienced actuary will give weight to opinions expressed by other actuaries of proven ability and thus each obtains a broader base for his own independent judgment. Sound judgment regarding the future is necessarily difficult, so that the greater the degree of collaboration in discussing relevant matters, the greater is the degree of resulting safety to the public.

CONFERENCES ON ANNUITIES AND OPTIONAL MODES OF SETTLEMENT

The Commission failed to emphasize in the hearings that the primary concern of the State Insurance Departments supervising life insurance has always been the adequacy of provision for liabilities, which is inextricably bound up with adequacy of rates. In the case of single-premium annuities, for instance, the initial reserve liability is equal to the net single premium for the risk. As indicated previously, it is seldom that any one company has sufficient data of its own on which to construct a mortality table satisfactory for general use; hence, it has been common practice for many years to pool the experience [96] of several companies. Insurance Departments have naturally fostered such collaboration among the actuaries of the various companies to secure for themselves and for other companies the most authoritative information. This has been particularly necessary for annuities, where the paucity of data and the nature of the mortality and interest trends have created problems difficult for any single company to solve.

The chief object of life insurance supervision is absolute certainty that the benefits contracted for will be paid. To this end State laws have emphasized the matter of conservative valuation of liabilities, and have fixed a minimum standard of reserves to be held. As a result of many years of accumulated experience in the life insurance business, various mortality tables have been constructed, and there has been no difficulty in determining proper mortality standards for life insurance reserves. However, relatively few annuities were issued in this country prior to about 1925, and the experience thereon has been scanty as compared with life insurance. Moreover, improving mortality increases the cost of annuities, and the trend of improving mortality during the past few decades has made the problem of determining the proper reserve liabilities for annuities especially difficult.

In view of these facts, the New York Insurance Department in 1927 requested the Actuarial Society of America to investigate annuitants' mortality. Similar investigations had been made in 1896, 1905, 1911, and 1920 by actuaries of the companies at the request of various State insurance authorities. At the request of the New York Insurance Department, a Committee of the Actuarial Society studied the experience of 31 companies between 1928 and 1930 and prepared an annuitant mortality table known as the Combined Annuity table. This table was discussed with the Insurance Department and on its recommendation was incorporated in the laws of New York and other States as a minimum valuation standard [97] for annuities issued after December 31, 1930.

Rates for immediate annuities depend almost entirely on mortality and the interest rate at which the premium can be invested at the time of payment. The factor of expense is almost negligible in relation to the benefits paid out.

After the Combined Annuity table was completed, interest rates began to decrease, thus presenting a new problem. As interest rates decreased, the matter of a conservative table of annuitants' mortality became even more important, because any loss resulting from increased longevity would no longer be offset by the high interest rates earned during the 1920's. So in 1933 the Insurance Department of New York requested the actuaries of several companies to make a further study of current annuitants' mortality. The Insurance Department was concerned because of the old Section 97 (now 213) of the New York Insurance Law prohibiting the issuance of any policy, "that did not appear to be self-supporting on reasonable assumptions as to interest, mortality, and expense." The actuaries of the companies exchanged data during 1933, not only on annuitants' mortality but on all factors entering into the annuity rate, including the interest rate which was declining steadily.

Discussion of interest rates in 1933 also led to discussion of the similar problem involved in optional settlement clauses. Under these provisions of policies, the companies frequently guaranteed payment of a stated interest rate after the death of the insured or guaranteed payments in the form of an annuity. The continuation of low interest rates raised a doubt regarding the rate of interest which should be guaranteed in the future, and as to the adequacy of rates for settlement annuities. The consideration of these problems by the actuaries had the full approval of the New York Insurance Department, which was properly concerned about the same matters.

Again in 1937, we find the State supervisory authorities urging actuarial conferences, when the New York Super[98]intendent of Insurance formally requested the actuaries to study and take definite action on the problems of policy loans, interest on policy loans, options, and guaranteed interest rate. (Exhibit No. 784.)[1] Subsequently, the views expressed at the meetings were reported to the Department.

There was nothing secret about the actuaries' conferences and their consideration of these problems. The fact is that they were meeting periodically, and the conclusions arrived at were made known both formally and informally at actuarial meetings attended by representatives of various State Insurance Departments. The new annuity rates adopted by the companies from time to time were filed with the State Insurance Departments. The specific changes in the policy provisions regarding surrender values, guaranteed interest rates, and other matters were disclosed to the Insurance Departments whenever application was made for approval of changes in policy forms. Similarly, the adoption of these changes by a number of companies was announced from time to time in the insurance press.

During the hearings, those who asked questions mistakenly sought to establish a similarity between the purpose and effect of conferences among actuaries, and agreements between manufacturers intended to keep prices at an abnormal level. It was emphasized, for instance, that in 1933 three non-participating companies, which have about 5% of the total life insurance in force, adopted uniform rates for such policies as all three were currently issuing. This involved a slight increase in rate, varying according to the plan of insurance and age, but averaging about 3%. Uniform rates of these same three stock companies were again revised in 1935 and 1937. Both of these revisions involved approximately the same average increase as in 1933. These rate increases resulted from the rapidly falling interest rate available on new investments and the refunding of [99] old investments at lower interest levels.

On analysis, the action of these three particular companies is not fairly subject to criticism. The calculation of rates for non-participating policies involves the expected interest rate during a long future period, the mortality rate expected to be experienced based on the present standard of underwriting, and also the expected expense rate in the business. These expenses include taxes, which are obviously outside the control of the company and the amounts of which are always uncertain. The first two factors will be approximately the same for the three companies because they are operating in the same way, cover the same standards, and in many other respects are much alike. Their expense rates are not materially different. The important item of commissions, for example, is practically identical because the commission scale is subject to the legal limitation on expense in connection with acquisition costs.

Prior to 1933, the three companies referred to had in effect very similar rates, with the result that the variation was unimportant, amounting usually to only

[1] Hearings, Part 10, p. 4860.

a few cents. However, to have the proper perspective, it is important to note that the rates referred to during the hearings were filed with various Insurance Departments and were publicized in insurance publications. Furthermore, these companies are at all times in active competition with each other and also with many of the 300 non-participating and participating companies in the United States.

To sum up, the State supervisory authorities realize the value of actuarial conferences, and have encouraged their use in connection with matters which they regarded as potentially detrimental to the welfare of policyholders. The Commission improperly focused attention upon these conferences in its apparent endeavor to prove they were collusive and secret, and that the companies had entered into anti-competitive agreements.

The testimony gave rise to the inference that the insurance companies had combined to establish a uniform cost for group insurance, resulting in the elimination of competition on the basis of cost. This is not the case.

Group life insurance, as it is now understood, was first introduced in the year 1911. At first it was a field involving a certain degree of experimentation. Such severe competition soon set in that the New York Superintendent of Insurance became concerned with the tendency to cut initial rates unduly, resulting in rates below those which the Department felt the companies could safely charge and continue to do business. Accordingly, in the interest of the general body of policyholders, the Superintendent called a conference of representatives of companies writing group insurance. This was followed by legislation in New York concerning group life insurance premiums. In accordance with such legislation, a minimum group life insurance basic initial premium rate was established by the Superintendent of Insurance in order to insure that the initial rates charged would be amply adequate to provide safety and at the same time be reasonable.

Thus, historically, the fact that the companies charge the same initial premium rates for group life insurance is a direct result of State legislation passed in the interest of the insuring public. For other forms of group insurance, which had their major development subsequent to that of group life insurance, there has not been any statutory regulation of premium rates, except the requirement of a number of States that accident and health rates must be filed with the Insurance Department. The lack of such regulation is undoubtedly due to the fact that the actuaries, recognizing the difficulties encountered in the early days of group life insurance, contributed claim experience to form basic tables. All forms of group insurance, except group annuities, are [101] usually one-year term insurance, and the claim rate is by far the principal factor determining the premium rate, as interest is a negligible factor.

The combining of the general experience has been accompanied by successive reductions in initial premium rates for both group life and group accident and health insurance. The trend of the extra premiums under group life insurance policies, as promulgated by the Superintendent of Insurance, for industries having a mortality rate higher than average, has been downward, and the basic group accident and health rate, for industries having average experience, has been reduced a number of times, the latest reduction having been made in 1937, amounting to 14% on the most popular plan of insurance.

The uniformity of the initial premium rates for group insurance among the various companies does not mean that the cost of insurance is the same or that competition is eliminated. The initial premium rate is not the determining factor in the ultimate net cost to the group policyholder. In the case of both mutual and stock insurance companies, group insurance is written on an experience-rating basis, which means that the experience of each group policy is reviewed annually and the premium is adjusted or a dividend is payable (or both), as warranted by the actual experience under that particular group and the business as a whole. The actual net cost for any year for a given policy of group insurance thus depends on the difference, for that policy, between the premiums charged for that year and the dividend paid or rate reduction granted, if any, for that year. The latter in turn depends largely on the actual experience of the individual group—which cannot be determined until after it has actually been in force for the complete policy year. It is also affected by the expenses incurred by the insurance company, and such expenses vary among the companies. The method of computation of such dividend or rate reduction also differs by companies, [102] and it is very unlikely that two companies having the same claim experience would pay the same dividend. It is clear that the real cost of group insurance is the net cost to the policyholder at the end of each year.

Accordingly, the fact that the initial premium rate for both group life and group accident and health insurance is uniform in many companies does not mean that the cost of the insurance in such companies is the same and does not not affect the competition among the companies based on cost. Actually, the keenest competition exists in the field of group insurance, and ability to reduce costs without impairing safety is a controlling factor.

Group life insurance in force has increased from $1,700,000,000 in 1920 to nearly $14,000,000,000 in 1939. The number of employees insured in the same period has increased from approximately 1,700,000 to nearly 9,000,000. As group insurance has grown, the expense of handling the business—the principal item under the control of the company—has been steadily reduced. The companies which can most effectively keep costs down have a distinct competitive advantage. For the seven United States companies writing the largest amount, the expense rate for group life insurance, including taxes, has been reduced from 16.2% of the premium income in 1925 to 11.8% in 1930, 9.5% in 1935, and 8.8% in 1938.

In general, State supervision has not recognized any necessity for the determination of the amount of life insurance premiums except in setting the minimums. The explanation of failure to fix maximum premiums lies in the unique character of the life insurance business. In effect, competition is based upon the actual net cost.

NO ANTI-COMPETITIVE BUSINESS PRACTICES

Some testimony also was offered as to arrangements relating to interchange of medical information, prevention of twisting policies, and similar trade practices. None of [103] these are anti-competitive either in intention or effect; on the contrary, they are in the interests of the policyholders. That they have had no effect upon competition is convincingly shown by the intense competition everywhere manifested in selling all types of life insurance. The Committee's Exhibit No. 2250,[1] and particularly that section which contains the calculations showing net cost of the most common types of policies to policyholders in 26 companies, in itself demonstrates the freedom of this business in all of its significant aspects from any artificial restraints resulting from actuarial conferences.

[1] Hearings, Part 10-A.

One might infer from the annual report of the Securities and Exchange Commission for 1939 and the testimony developed by the Commission in the record of the Temporary National Economic Committee that the companies should do nothing when legislation detrimental to policyholders is proposed. No other inference is possible from the criticism of the Commission, which was based on isolated cases and ignored thousands of others which typify customary legislative procedure of the companies. The Commission did not put in the record the exact character of the bills involved, their potential detrimental effect upon policyholders, or their legislative history.

Life insurance companies, like individuals and corporations in other lines of business, have occasion to appear before legislative committees which are considering proposals affecting life insurance. They have a responsibility to present facts concerning legislation that may affect any interest of their policyholders. Accordingly, they concern themselves with the presentation of arguments on the merits of proposed bills, and their contributions to the discussions of such proposals, quite frequently by way of valuable assistance in perfecting the form of the legislation under consideration, are most generally welcomed by committee members.

Expenses incurred in such presentations, principally by way of counsel fees, are fully itemized in Schedule K of companies' annual statements filed with the Insurance [105] Departments as required by law and thus are subject to the close scrutiny of the State insurance authorities. Moreover, the amounts and the character of such expenditures are at all times subject to the most comprehensive inquiry by Insurance Department examiners. Life insurance companies welcome the utmost inquiry into the nature of their legislative appearances and into the expenditures involved.

We wish that it were possible to bring to the Committee the heartfelt expressions of appreciation of thousands upon thousands of policyholders and beneficiaries whose experiences prove conclusively that the Institution of Life Insurance did not fail them in their time of need. However, we shall conclude this statement with some excerpts from an address made by the Hon. Charles E. Hughes. It will be recalled that in 1905–06 he was Counsel for the Armstrong Committee of the New York Legislature which investigated life insurance Much constructive legislation was enacted as a result of that investigation. In December 1926, when Mr. Hughes was in private life, he delivered an address on the subject of "The Life Insurance Enterprise from the Standpoint of the Public." After speaking of the growth of the companies during the preceding 20 years, he said:

> "This expansion, it is most gratifying to observe, has been achieved with wise conservatism in management, without undue expenditures in obtaining business, and with the returns to policyholders that are consistent with safety. I believe that there is no safer or better managed business in our country than yours."

Elsewhere in his address, he said:

> "Manifestly the interests are too vast and those dependent upon your management are too many, to permit such enterprises to be conducted without legal restrictions and appropriate public supervision. The State undertakes to supply these. It would be the highest misfortune if confidence in this supervision [107] were shaken by attempts to make the supervisors the protégés or lackeys of those who are supervised. It would be equally disastrous if State supervision were incompetent, capricious, and constituted an interference rather than a help. Supervision of the life insurance business is not as difficult an administrative duty as railroad rate-making, for example. But it does demand a high degree of technical knowledge, and it absolutely requires honesty and intelligence. I am glad to believe that in the past 20 years there has been a great improvement in the administration of State Departments of Insurance. Proper measures of protection are better understood and more wisely applied. There is not only co-operation between the life insurance companies in the interest of policyholders and to secure improvement in direction and management, but there is a better and more intelligent co-operation between the States and the insurance companies than in the past.
>
> "From the millions of policyholders you would get strong criticism if you were remiss, but you are also assured of powerful support against mischievous assaults upon management which they recognize to be conducted in their interest. We have a fortunate balance—mutual undertakings under competent direction, with confidence in the integrity of management and a wholesome public supervision which is now as little menaced by political interference as any great public undertaking in democracy can well hope to be."

The situation today is even better than it was pictured by Mr. Hughes in 1926. Since then, the companies have passed through a prolonged period of depression and have emerged therefrom with an outstanding record of safety and service. This record would not have been possible if it had not been for the sound policies adhered to before the depression began.

TABLE OF CONTENTS

The following memorandum by Gerhard A. Gesell, is included at this point in connection with the preceding "Statement on Life Insurance."

MEMORANDUM

October 28, 1940.

To: Temporary National Economic Committee.
From: Gerhard A. Gesell, Special Counsel, Insurance Section, Securities and Exchange Commission.
Re: Statement on Life Insurance.

Pursuant to the request of Chairman O'Mahoney the Commission's staff has examined the *Statement on Life Insurance* prepared for filing with the Temporary National Economic Committee by a group of life insurance companies and "presented for the purpose of supplementing and, in some instances, correcting the record of the hearings on life insurance before the Committee."

The staff of the Commission wishes to make it clear that it is not in full agreement with the various statistical interpretations and comments contained in the *Statement on Life Insurance.* Indeed it is quite apparent that wide differences of opinion exist. The *Statement* is primarily a somewhat argumentative interpretation of information presented during the course of the hearings rather than a factual analysis of the accuracy of the information itself. This is well indicated by the *Statement's* use of facts established in one portion of the hearings to prove the supposed inaccuracy or inadequacy of another portion of the hearings. Furthermore the *Statement* frequently seeks to set up as facts, and then to attack as inaccurate, inferences quite unjustifiably read into the record by the companies' special research staff. A casual question by a member of the Committee is often treated as if the query were a deliberate recommendation of the full Committee based upon a careful study of all facts presented in the record. For these reasons it seems futile to engage at this time in an extended discussion of the various opinions expressed by the companies.

A detailed analysis of the hearings prepared by the staff of the Commission prior to receipt of the *Statement on Life Insurance* will be found in the forthcoming Committee monograph containing the complete report of the Commission's staff on all phases of the insurance study. This report will be based primarily upon the sworn testimony. When the report appears it will be possible to compare the position taken by the insurance companies signing the *Statement* with that of the Commission's staff and each Committee member will then be in a position to weigh independently the merits of the respective points of view expressed.

It should be pointed out that the *Statement on Life Insurance* is not signed by many leading companies whose representatives appeared at the hearings. Among such companies not signing the *Statement* are the following: Acacia Mutual Life Insurance Company, The Prudential Insurance Company of America, The New York Life Insurance Company, The Mutual Life of New York, The Northwestern Mutual Life Insurance Company, The National Life Insurance Company of Vermont, and the Western and Southern Life Insurance Company. Assets of these companies total over $10,000,000,000.

The *Statement* presents supplementary material which in some respects is a contribution to the Committee's factual study and provides further insight into problems considered in the course of the hearings. In only a few instances, however, is this supplementary material cited to source and for this reason it has not been possible to check the accuracy of the information given. Indeed in some cases even the names of the companies whose experience is cited for purposes of example are not made known.

It is submitted that the *Statement* of the companies is factually incorrect in a few respects indicated immediately below:

(1) On page 21 it is stated, "The witnesses presented by the Securities and Exchange Commission laid emphasis upon the locale of the home offices, but failed to give consideration to the actual wide geographical dissemination of investments." The committee's attention is called to Exhibits No. 2341, 2341–A, 2341–B.[1] These exhibits contain a detailed analysis by states and territories of the distribution of life insurance investments and the distribution of reserves, premiums and disbursements. The material presented in these Exhibits was taken from information assembled by the Association of Life Insurance Presidents, which incidentally constitutes the most detailed data on this subject available.

(2) On page 37 there is a quotation from a publication by Dr. Davenport entitled "The Cooperative Banks of Massachusetts." This quotation is intended to demonstrate that even one of the Commission's own representatives recognized that depositors in the cooperative banks were frequently unable to carry through their program due to economic circumstances; the inference being that a similar situation exists in the case of life insurance and is accountable for high lapse rates. On page 45 of the publication of Dr. Davenport referred to, however, there appears the following statement which the companies entirely ignored but which is most pertinent to the point in issue:

> "There is reason to believe that the typical cooperative bank has been so eager for deposits in the past that it has not been sufficiently careful in the selection of new members. Taking out a serial share involves a contract on the part of both the bank and the new member. The high turnover of members even in good times indicates that many were accepted as members who should have been sent to a savings bank. Members should be accepted only if they understand the nature of their obligations and if they can give some evidence of being able to carry out their part of the contract. A high turnover of serial shareholders adds unnecessarily to the expense of doing business and is an element of instability."

(3) On page 13 of the *Statement* the point is made that the record does not contain any suggestion that policyholders suffered loss or disadvantage as a result of the activities of directors who used their influence to obtain business for firms or institutions with which they were connected. In fact the record reflects many instances where policyholders suffered as a result of such activity by directors. For example, the Committee's attention is called to testimony concerning the activities of officers or directors of the following companies: Federal Reserve Life Insurance Company, Illinois Bankers Life Assurance Company, Monumental Life Insurance Company, and Shenandoah Life Insurance Company.

Acknowledgment is willingly made of the following specific factual errors in the insurance hearings which the *Statement on Life Insurance* uncovered.

(1) It is true that Exhibit 221[2] includes a chart which overstates the assets of the life insurance companies in the amount of approximately one billion dollars. The supporting schedule, also an integral part of this Exhibit, correctly states the amount of assets. The error was inadvertent and does not materially change the effect of the chart as an examination of it will readily indicate.

(2) Exhibit 227,[3] which was introduced in the very early stages of the hearings, was taken from secondary but wholly reliable statistical sources then available. It is correct that the figures contained in this Exhibit are not in all respects comparable. More exact figures relating to the same subject were introduced subsequently and appear at page 125 of Exhibit 2250.[4] These latter figures are as accurate as the subject matter permits. The inconsistency betwen the two sets of figures was overlooked on the occasion of the introduction of Exhibit 2250 and should have been noted.

(3) The criticism and analysis of figures contained in Exhibit 680,[5] which commences at page 44 of the *Statement* and continues through page 46, also deserves some comment. While the Commission's staff is unwilling to agree with the opinion of the companies that the period from 1935 to 1937 is the only period between 1920 and 1937 which reflects normal conditions vis-a-vis terminations, new

---

[1] Supra, appendix, pp. 15582–15593.
[2] Hearings, Part 4, pp. 1189, 1513.
[3] Ibid., pp. 1222, 1520.
[4] Hearings, Part 10–A.
[5] Hearings, Part 10, p. 4733.

insurance and gain force, it does acknowledge that the figures contained in this Exhibit with respect to the amount of new business may have been overstated through the inclusion of rivivals, increases and reinsurances of business in bulk. It is a debatable question, however, as to whether the overstatement is as large as indicated by the companies and in any event it should be pointed out that the resulting differences in the ratio of new business to gain of business in force following the adjustment is very slight according to the companies' own table contained on page 46 of the *Statement.*

The Commission will not interpose any objection to the introduction of the *Statement* as an exhibit in the record of the hearings provided this memorandum is also accepted for introduction in the record as an accompanying exhibit.

INDEX