

INVESTMENTS

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by

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The tremendous growth of the investment portfolio held by commercial banks, both in dollar amount and relatively, is the outstanding development over the period encompassing the two world wars. As illustrated by the accompanying chart, these investments in any year during World War II were roughly 10 times the amount reported for the corresponding year in the first war period. Moreover, the portfolio accounted for about one-fifth of total assets through World War I, whereas by the end of the recent war the portfolio had grown to include slightly more than three-fifths of the total.

Dwarfing all of the other items in the investment portfolio, securities issued by the Federal Government accounted for almost 95 percent of the total amount of bank investments at the conclusion of World War II. During the first war period, Federal securities never accounted for more than 40 percent of the investment portfolio. Viewed from another angle, it is interesting to note that the first World War left the commercial banks with securities evidencing about one-fifth of the Federal debt as compared with approximately one-third of the total at the present time. Furthermore, a little over two-fifths of the Federal debt may be found in the combined holdings of the Federal Reserve and the commercial banks.

Notwithstanding the overwhelming preponderance of Federal securities in the portfolio of bank investments, the total dollar

amount of securities in the other investment categories has increased appreciably. Thus, the volume of obligations issued by States and minor subdivisions of government held as bank investments has grown with relatively few interruptions throughout the entire period now under consideration. For the years immediately preceding World War I, municipal securities totaled in the neighborhood of \$450 millions; by the late 1920's, the figure had climbed to \$1 billion; during the 1930's, it grew steadily to a total of slightly more than \$3 billion, and in 1946 it was just short of \$4 billion. The proportion of all outstanding municipal securities in bank portfolios has increased to a surprising extent since the middle 1930's. According to the best available estimates, bank holdings of these securities expanded from about 18 percent to slightly more than 30 percent between 1937 and 1946. Probably the commercial banks now constitute the largest single class of investors in municipal securities.

Railroad bonds, which prior to World War I loomed as one of the major types of securities held by commercial banks, now in relative terms, have almost disappeared. In the years immediately prior to the first world war, rail investments came to roughly \$800 million, or about one-fourth of the entire securities portfolio. During World War I, these holdings shrank dollarwise so that by 1918 they stood at less than one-half billion dollars and accounted for approximately 6 percent of bank investments. Thereafter the downward trend was reversed, and

in the postwar years bank holdings of rail bonds gradually rose to a peak in 1931 of \$2½ billion. At that time, about 16 percent of the portfolio consisted of rail bonds. A substantial liquidation of these securities occurred during the ensuing three years, incidentally on rather unfavorable price terms; then the holdings stabilized at about \$1 billion for several years. In 1941, the latest year for which statistics are available, scarcely more than \$800 million of railroad bonds remained in the portfolio, or approximately the total held by commercial banks in the years immediately preceding the first world war.

Data with respect to categories of securities held by commercial banks, other than Federal, municipal and railroad bonds, have not been compiled with consistency over the 1909-1946 period. These miscellaneous investments, however, increased from \$1½ to \$5 billions during World War I and then climbed to a record high of \$8½ billions in 1928. Subsequently the total declined quite rapidly to about \$3 billion in 1934; it continued at that level for the remainder of the decade, and exhibited practically no change during World War II,

According to the consolidated data for all commercial banks, it would appear that the only remaining investment problems are those which might arise in connection with Federal bonds. However, the statistics conceal the tremendous diversity in the composition of the securities portfolios held by individual banks, as well as the regional

differences. Sometimes banks with only nominal amounts of U. S. Governments present investment problems which are especially troublesome to the supervisory authorities -- and the FDIC.

To sum up, Federal Government securities now predominate in the investment portfolio of the banking system. In relative as well as absolute terms, they dwarf all other types of securities. However, the dollar amounts of non-Government issues are still considerable. Over the period between the Wars, the amount of municipal securities held by banks has grown substantially. As a consequence, the banks now appear to be the largest single group of municipal bond holders. Bank commitments in railroad securities opened and closed the period^{at}/about the same figure. Overall statistics, however, conceal the tremendous diversity in the composition of investment portfolios for the individual banks. These differences give rise to many knotty problems which confront bank supervisory authorities.