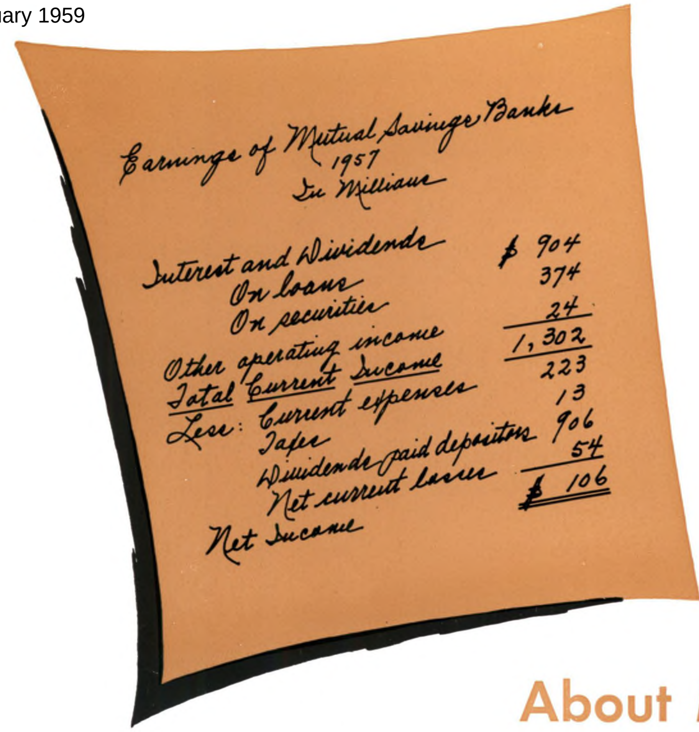

About Mutual Savings Banks

When Reverend Henry Duncan established the first mutual savings bank in 1810 in Scotland, he scarcely could have guessed the impact his actions would have upon the financial world. Today—less than 150 years later—institutions of the type he founded flourish across much of the globe.

His ideas spread rapidly to this country with the founding in 1816 of two savings banks—The Provident Institution for Savings in the Town of Boston and The Philadelphia Saving Fund Society —both of which are now among the nation's largest savings banks.

All told there are presently 519 U. S. mutual savings banks, serving over 22 million depositors and holding assets exceeding $37 billion. They range in size from tiny institutions with deposits of $1 million or so to eleven financial giants with deposits of $500 million to $1.5 billion.

Almost all savings banks are located in New England and the Middle Atlantic states. Six other states—Indiana, Minnesota, Ohio, Oregon, Washington, and Wisconsin—have a few, but thirty-one states and the District of Columbia have none. Their real strongholds are New York, Massachusetts, Connecticut, and Pennsylvania, where savings banks hold about 87% of the industry's total deposits. Maryland's seven banks are the only ones in the Fifth Federal Reserve District.

THEIR SUM AND SUBSTANCE The main business of mutual savings banks is collecting and channeling savings deposits of small investors into mortgages, Government bonds, stocks, and other securities. In general, they do not accept demand deposits and hence cannot conduct many ordinary commercial banking operations. They do, however, offer safe deposit facilities, sell travelers' checks, and collect funds for their customers. New York, Massachusetts, and Connecticut savings banks are permitted in addition to issue various types of low cost, over-the-counter life insurance. In late 1957, there was almost $1 billion of such insurance in force.

All mutual savings banks are state-chartered, state-supervised, nonstock institutions owned entirely by their depositors. Earnings are distributed quarterly or semiannually to savers in the form of dividends. Requests from depositors for withdrawals customarily are paid in full on demand and must be met within a specified length of time to avoid default.

Depositors of a mutual savings bank have no voice in management, however. Policy rests in the hands of a self-perpetuating board of trustees whose original members were selected by those who organized the bank. Trustees are usually elected for life and generally serve without either salaries or fees. Day-to-day operations—like those in any other corporation— are directed by a slate of officers chosen by the trustees.

THEIR SOURCES OF FUNDS Such familiar names as the Dime Savings Bank, the Dollar Savings Bank, and the Boston Five Cents Savings Bank suggest where the banks obtain most of their funds —from small individual investors. State laws often limit single deposits to only a few thousand dollars, and banks themselves frequently specify limits in the absence of statutory requirements.

Savings deposits typically supply something like 90% of savings banks' funds. Surplus, undivided profits, and other minor capital accounts generally furnish about 9%, and miscellaneous sources such as borrowings from commercial banks contribute the rest.

At the end of last June, savings banks had over 17 million regular savings accounts averaging $1,906 in size. In addition, they had some 2.5 million school accounts, 2.1 million vacation and Christmas club deposits, and a few other types of accounts. These three types together averaged only $70 each, however, and made up scarcely 1% of total deposits.

To attract deposits, most mutual savings banks on June 30, 1958, were paying dividends ranging from 3 to 3¼%. A few had rates as low as 2%, and some paid as much as 4%.

The deposits of most mutual savings banks are covered by some type of deposit insurance. A majority of the banks belong to the Federal Deposit Insurance Corporation—a Government corporation that insures each account up to $10,000. A substantial number in Massachusetts, Connecticut, and New Hampshire obtain instead similar—and in some respects more extensive—deposit insurance through special state institutions.

THEIR INVESTMENT ACTIVITIES Most states permit mutual savings banks to invest only in an approved list of securities prepared by the state legislature or the state agency supervising the banks. Ordinarily, this permits the purchase of securities such as U. S. Government obligations, certain municipal bonds, some Canadian bonds, obligations of the World Bank, good grade secured railroad and utility bonds, high quality industrial bonds, and "blue-chip" preferred and common stock.

Savings banks are also restricted in their loan activities. Usually they are permitted to directly extend first mortgage loans on improved real estate, to purchase such paper from other lenders, to lend to depositors against their savings accounts, and to make several other types of loans.

Mutual savings banks are primarily mortgage lenders. Currently mortgages run around 60% of total assets, but the ratio varies from time to time according to rates, the availability of mortgages, and the attractiveness of other investments. Conventional loans are most important, but both VA and FHA loans are quite significant.

U. S. Government obligations account for about 20% of savings banks' assets. Most of these

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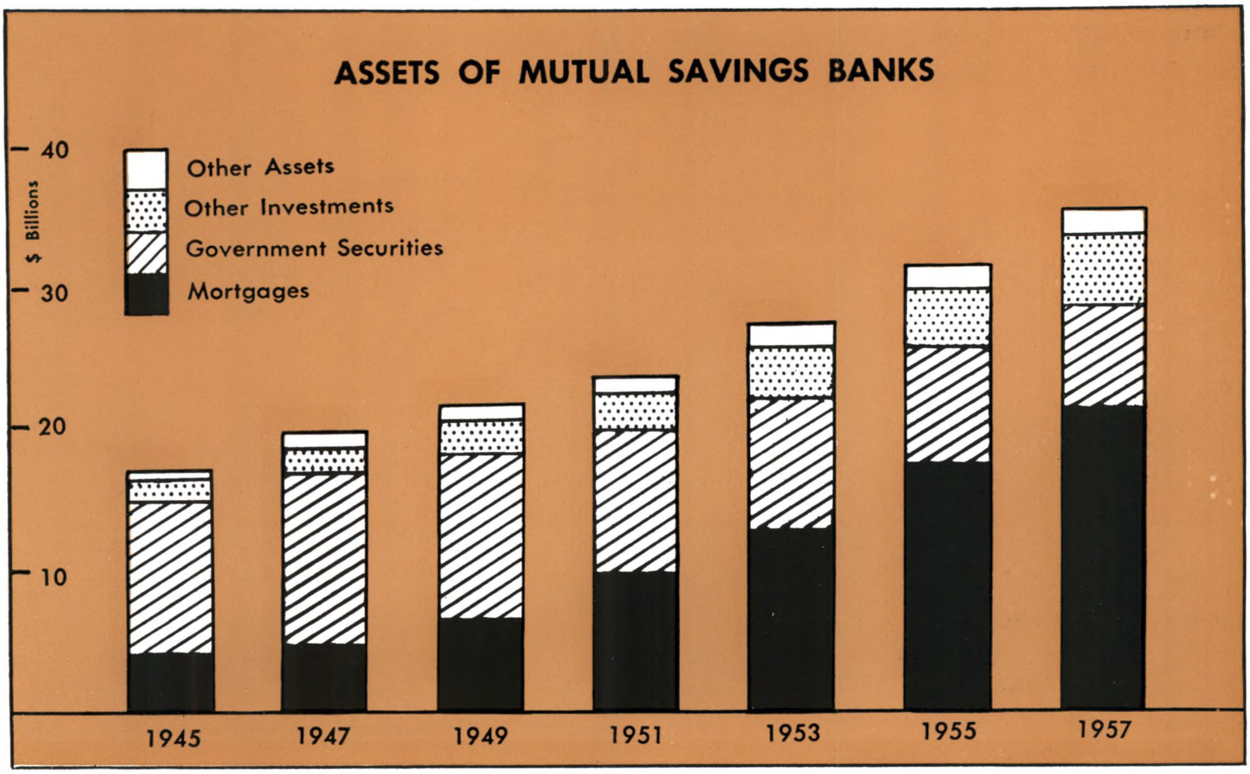

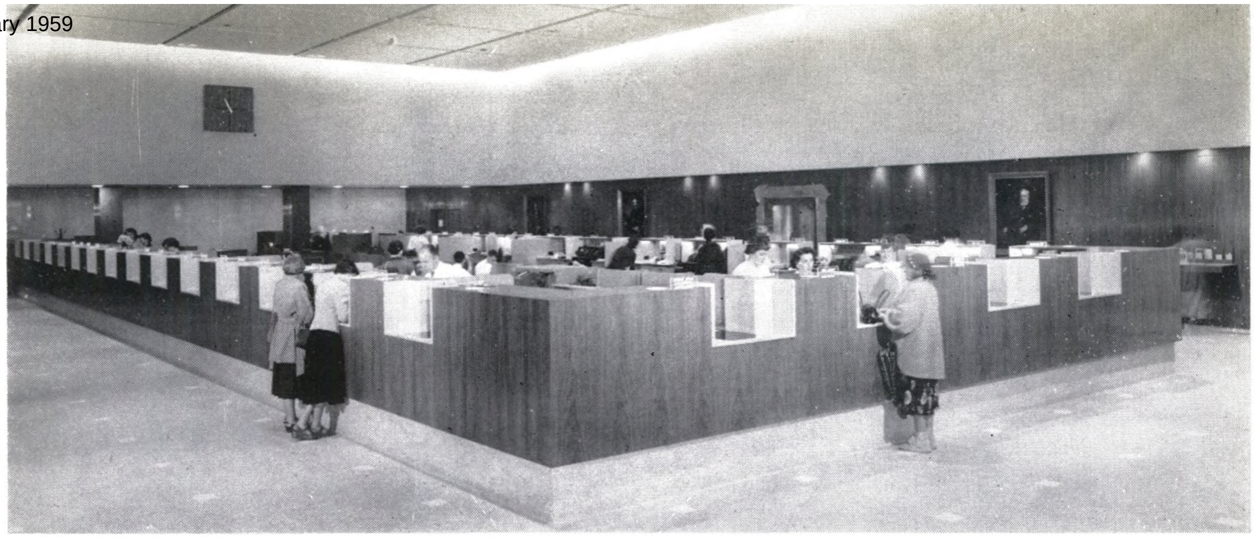

This is the ultramodern lobby of The Savings Bank of Baltimore—the largest of the Fifth District's seven mutual savings banks.

mature after ten years, but Government securities totaling an estimated .9% of assets are less than a year from maturity. This .9%—together with 2.3% in cash and bank balances—gives mutual savings banks about 3.2% of assets in liquid funds with which to meet depositors' withdrawals. Longer term securities could, of course, be sold—although at times with large losses—to obtain cash if the need arose.

Other holdings include over 7% in corporate bonds, notes, and debentures; more than 2% in corporate stocks; and a shade less than 2% in municipal securities such as highway, school, and airport bonds. World Bank bonds, miscellaneous loans, building and equipment, and similar items make up the remaining assets.

THEIR EARNINGS Mutual savings banks are rather profitable financial institutions because of their heavy investments in mortgages and other high-yielding assets. In 1957 gross earnings of U. S. savings banks ran 3.74% of average total assets, and net earnings before taxes and dividends totaled 3.00% of assets. Taxes—most of which were state rather than Federal taxes—took income equal to just .04% of assets, leaving earnings amounting to 2.96% of average assets.

Savings banks—like savings and loan associations—have been subject to Federal income taxes only since 1952 when they were made subject to regular Federal corporate income tax rates. In computing their taxes, however, mutual savings banks can deduct all dividends to depositors and are allowed to transfer other income to bad debt reserves until surplus, bad debt reserves, and retained earnings total 12% of deposits. This naturally discourages banks from building these accounts beyond the 12% limit and encourages them to pay out most of their earnings in dividends.

THEIR SUPERVISION AND EXAMINATION Mutual savings banks are directly supervised and examined by the state banking departments or their equivalents in the states in which they are incorporated. The 239 savings banks that belong to the Federal Deposit Insurance Corporation, the 3 that have joined the Federal Reserve, and the 24 that are members of the Federal Home Loan System are also subject to further regulation from these organizations.

THEIR GROWTH Mutual savings banks have not been growing as fast as some other nonbank financial institutions in recent years, but they have by no means been standing still. Since the end of 1945, their assets and deposits have more than doubled and the number of their depositors is up by nearly a third. During the same period, the resources of the average savings bank have increased from $31 million to $72 million.

THEIR IMPORTANCE In terms of total assets, savings banks—though confined to scarcely one-third of the states—rank third in size behind life insurance companies and savings and loan associations among the nation's nonbank financial institutions. They are relatively most important in the home mortgage field, where last year they extended 6% of all nonfarm mortgages of less than $20,000—about the same amount as life insurance companies made. Quite impressive, too, are their savings deposits, which come to 23% of total U. S. institutional savings accounts.

PHOTO CREDITS

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