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study or in a position to obtain materials as a by-product of related financial inquiries. The person selected to assume charge of this field of exploration should be familiar with the credit techniques and practices of both consumer finance companies and banks, and in addition be competent and resourceful in applying statistical methods. Most important of all, perhaps, he should be capable of making friendly contacts and winning the confidence and cooperation of financial institutions whose assistance and aid would be imperative throughout the investigation.

THE INVESTMENT EXPERIENCE OF BANKS IN SELECTED CITIES, 1926–1936

General Background

The liquidity and soundness of banking institutions today is primarily dependent on the quality or soundness of the investment assets held. Though this condition is not entirely new in American banking, still it does present aspects that are unique, for the dependence on investment assets is far greater than at any other time. It remains to be established, moreover, that a stable and effective unit banking system can be continuously maintained if the investment account constitutes the bulk of earning assets.

The following facts serve to illustrate the preponderant importance of investment assets in the contemporary banking situation. Approximately 60 per cent of the earnings assets of all commercial banks in the United States were investment assets on June 30, 1936, in contrast with about 28 per cent in 1929. Excluding notes and bills of the Federal government, the percentage is reduced to 42 as a rough measure of the relative importance of the long term investment account. Even if we ignore all direct obligations of the Federal government, the percentage of investment assets was still 26. If loans on securities are included with investment assets as an indication of the total dependence on investment market assets, the percentage becomes 71.

Perspective on the present importance of investment assets may also be gained by viewing their relative importance as a source of earnings. Prior to 1929 interest and dividends on investments accounted for approximately one-fourth of the earnings from this source of all member banks, though investments constituted a somewhat higher proportion of assets. After 1929, and throughout the depression and recovery, investment income has constituted an increasing share of interest earnings, reflecting both the liquidation of loan accounts and a tendency among banks to hold a greater volume of investments as earnings assets. In 1935 the source of nearly half of member bank interest income was the investment account. During the years of deepest depression, active member banks apparently lost more from write-downs and losses on investment portfolios than on customers' loans, while in the subsequent upswing the appreciation of security holdings has been the source of the bulk of recoveries on loans and securities.

Specific Problem

The crucial importance of investment income for banks today, the importance of investments in total earning assets, and the record of apparent losses for this type of asset, amply justify a study of the investment experience of banks over a period of years. Paralleling a projected study of mortgage experience, this investigation would differ only with respect to the kind of asset covered.

Data drawn from the investment records of a number of banks in selected cities and surrounding localities would constitute the working materials for analysis. For each bank cooperating it would be highly instructive to obtain supplementary detail on general investment policies and practices pursued at various times over the period surveyed. Among the useful facts would be information bearing on: (1) the direct expenses of administering investments; (2) the personnel and facilities of investment departments; (3) the extent to which various investment services and those of investment counselors are used and relied on; (4) the nature of other sources of investment advice.

These data assembled, the various investment accounts should be analyzed with respect to quality of security holdings, maturities, marketability, diversification, etc., and the shifts in and activity of bank bond accounts from time to time. The Comptroller's ruling of February 15, 1936, concerning the purchase and sale of investment securities by national banks, issued under the authority of the Banking Act of 1935, would constitute an effective reference base from which this analysis might proceed. The yield fluctuations and the price movements of bonds of different classes, grades and maturities over the entire period and also of investment losses and recoveries, would be studied intensively. The calculation of quality indexes for the investment accounts of separate institutions would be essential to a comparative analysis of banks of different types.

It is proposed that the examination and research divisions of the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation be urged to make, concurrently with this inquiry, an independent investigation of the investment portfolios of