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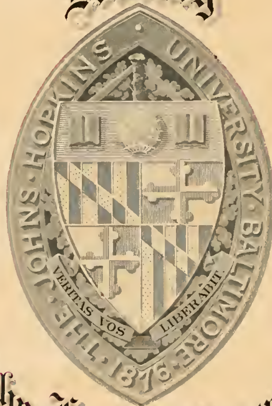

Johns Hopkins University
of the

A

SHORT DISCUSSION,

HISTORICAL, DESCRIPTIVE AND CRITICAL,

of

TRUST COMPANIES

in

THE UNITED STATES.

By

GEORGE CATOR.

-:-

Dissertation submitted to the Board of University Studies of the Johns Hopkins University in conformity with the requisites for the degree of Doctor of Philosophy.

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PREFACE.

This paper is not intended as an exhaustive treatise on trust companies or on any particular feature of them; it is simply a brief discourse giving a general outline of the subject. The first chapter is of a historical character, and notes, among other things, the past and present use of the term trust in the titles of different corporations, and also the development of trust companies in several of the chief cities of the country. Then follow a descriptive account and a critical discussion of the functions exercised by trust companies and of their regulation by the State. The concluding remarks are a sort of summary of what precedes, along with suggestions as to some of the main causes that have led to the growth of these institutions and as to the present place occupied by them; in this part, and elsewhere also, a few broad speculations are ventured concerning their future. The appendixes comprise tables of statistics regarding trust companies in different parts of the country and schedules indicating to some extent their legal status throughout the Union. The main paper and the appendixes are in a great measure independent, and yet they are also somewhat connected; for the former contains many statements based upon the authorities which are quoted in the appendixes, and the latter, in turn, owe their conception and development

to the impressions formed by the writer while collecting the materials for the essay. Attention is called to the fact that, instead of foot notes on the respective pages, the references are placed together at the end of the essay.

The principal authorities that have been consulted in the preparation of this work have been the laws of the different states and territories, and the reports of the banking departments of New York, Pennsylvania and Massachusetts, of the Auditor of Illinois and of the Comptroller of the Currency of the United States. Furthermore, in this connection the Bankers' Magazine and the Commercial & Financial Chronicle of New York are especially to be mentioned. From the papers read at the meetings of the Trust Company Section of the American Bankers' Association, which have been published in full in these journals, and from other items, which have appeared in the same periodicals, has been drawn not only the principal portion of the sketches made of the companies in New York and Philadelphia, as well as the main part of the description given of the distinctive functions of this institution in general; but also much that is stated throughout the whole essay.

I desire to thank Dr. Barnett of the Johns Hopkins University, and Mr. C. [illegible] Porter of Baltimore, for their services to me in this work, and I want, moreover, to make particular recognition of the assistance which has been furnished by Dr.

Phillips of the State Library at Albany, New York, in the col-
lection of the data for the appendixes.

Baltimore,

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INTRODUCTION.

Trust companies act as trustees and execute other forms of trusts. Corporations exercising such powers are not entirely unknown elsewhere, as, for instance, in England where some of them gained about ten years ago an unfavorable reputation as promoters of speculative enterprises; but in the United States they have had a marvelous growth and success, and have thus become distinctively an American institution.

Although trust companies have existed in this country for more than three quarters of a century, their great development has been within very recent years. They are not noticed in such books of general reference as the 1883 edition of Appleton's Cyclopedia or in the ninth edition of the Encyclopaedia Britannica. Just about the time, however, of the issue of these works trust companies began to attract more attention, and in the 1885 Annual of Appleton's and in the American Supplement of the Britannica articles upon them are found.

HISTORICAL.

Institutions with Word Trust in Titles.

For a long time there appears to have been a more or less vague meaning attached to the word <u>trust</u> in the titles of corporations. In some respects there is at present even greater confusion than ever, for the great industrial combinations

which now occupy so much of the public attention are generally referred to as trusts. Indeed part of the popular prejudice existing against trust companies is due to this fact. The term, however, in the sense of an industrial combination is entirely different from what it is when used in connection with trust companies. A trust or combine conducts business solely on its own account, whereas a trust company manages the property of others.

Although a trust company is at present a distinct institution, nevertheless it must not be supposed, that because a company has the word trust in its official name, this necessarily indicates, even now, a corporation with the power to act as trustee. The term trust has long been used for the titles of various kinds of financial institutions, and has often been adopted with no other idea than that of signifying strength and of inspiring confidence. The choice in this particular, as may have been expected, has not always been a proper one. Such was the case with the North American Trust and Banking Company of New York, whose failure some fifty years ago was referred to in the London Times of that day, as one of the numerous instances in the United States where there had been gross mismanagement in financial matters. This company had given its notes, bearing interest and secured by

collaterals, for a loan negotiated in England; and after it had failed, long litigation ensued for the possession of the collateral securities. The court at first held that the notes were void, and that the securities must be surrendered to the receiver; as a bank could only issue notes which were payable on demand and bore no interest. This decision, however, was finally reversed, and the English creditors were afforded protection.

At the present time, in some states, the legal authority of a regular trust company to receive deposits, subject to check, is questioned, and indeed in others has actually been held by the courts not to exist. Notwithstanding this condition, trust companies in such states have frequently large lines of demand deposits; and this practice has already given rise to litigation in a somewhat similar way to the case of the North American Trust & Banking Co., to which allusion has just been made.

As another example of the use of the term in a broad sense, we may refer to the Ohio Life Insurance & Trust Co., whose suspension in 1857 precipitated the panic of that year. There are many illustrations in the past, as at present, that the titles of banks especially are often misleading, and, in fact, that their names have at times been selected for the sole

purpose of deception. In the long list is the Wisconsin Fire & Marine Insurance Co. of Milwaukee, a corporation that operated so largely as a bank of issue in Chicago before the Civil War, and continued as an important financial institution in the West until it failed during the panic of 1893. Then too may be mentioned the famous Manhattan Co., that was formed in 1799 ostensibly as a company to supply the city of New York with water, and now under the perpetual charter that was granted a century ago does a large banking business.

It is therefore not surprising that, with this freedom existing in the choice of names for banks, trust, a term of attractive significance, has been thus employed. A company with such a title readily suggests to the mind a safe depository for trust funds. The attorney general of New York in 1850, in a written opinion, spoke of savings banks as merely trust associations acting under corporate powers for the security of deposits, and for that purpose only. In the Encyclopaedia Britannica a trust association is described as an institution, which borrows money on debentures and invests the proceeds in the loans of foreign states or similar securities. A high rate of interest is promised the investor on the principle that the numerous investments of the association are on the average safe and yield a good income. As already stated, the regular trust companies are not noticed in the Britannica.

When the early corporations were formed with powers to act as trustees, this special feature was not considered at that period of sufficient importance to constitute an independent business of itself or to establish a peculiar institution. The first charters, that were granted allowing the trust privilege, were given to insurance companies; and for a long time the trust and insurance businesses were carried on together. Even when they began to be conducted separately, they were still popularly regarded as of the same class of operations; and this was more particularly the case, as far as life insurance was concerned.

The United States Trust Company of New York was chartered in 1853; and although it was not permitted to underwrite insurance risks, it was nevertheless classified at the time with the life insurance companies. The Bankers' Magazine of 1853 calls a corporation belonging to the latter class a trust company. It is an important trust, too, the magazine says, for it holds the savings of thousands of people to whom it has issued policies; and so it assumes contracts which will in the end involve the payment of millions of dollars of trust funds.

At present, however, a trust company is something more definite. With the growing importance of corporate bodies,

the trust company has its part to perform. It is a corporation that receives and executes different forms of trusts, although even now, as has been already stated, with many companies bearing the title, the word has not this significance.

5 In some states where no restriction exists to prevent, small concerns formed for advancing loans on furniture while in use, on salaries, and on such classes of security, select, as may be expected, high sounding names for their titles, and _trust_, _guaranty_, _loan_, and the like, serve their turn with 10 them. In New York there has existed for some years a restriction which has prevented, except under the Banking or the Insurance Law, the formation of corporations having certain terms in their titles; but until 1900 _trust_ was not included in the list. This omission was taken advantage of in the 15 meantime; and although under the Banking Act a trust company could not be organized in the Empire City with a capital of less than half million dollars, yet the spirit of this law was evaded, and under the Corporation Act, as it then existed, a company with the word _trust_ in its name was formed to 20 do an agency business with a capital of one thousand dollars.

Trust Companies in New York.

The claim has been made that the first trust company in

the United States was the Pennsylvania Company for the Insurance on Lives and Granting of Annuities, a corporation started in Philadelphia and still located there. This company was chartered in 1812, but it did not receive definite powers from the legislature to act as trustee, and did not so act, until 1836; whereas the privilege was granted in New York to one company in 1822, and to another in 1830.

The Farmers' Loan & Trust Co. of New York was incorporated in February, 1822, under the title of the Farmers' Fire Insurance & Loan Co., and later in the same year was empowered to execute all lawful trusts. This appears to have been the first corporation in the United States to act as trustee. A second company in the state to be granted the power was the New York Life Insurance & Trust Company, which was chartered with the right in 1830, and consequently also antedated the Pennsylvania Company in this respect. Next should be mentioned the United States Trust Co. chartered, as before stated, in 1853, and the Union Trust Co. chartered in 1864. Both of these corporations, as well as the other two, which have just been mentioned, are still in existence and among the great companies of the metropolis.

For a number of years there continued to be very few trust companies in New York; and in 1874, when they had become

more prominent and were first required under a general law to make reports to a state officer, only eleven of them were in that city. Ten or twelve years after this, the period set in that marked their growth, and now (in 1901) there are in New 5 York and Brooklyn forty of these companies which have resources of over nine hundred millions of dollars, exclusive of the enormous amount that is comprised in the investments of the estates under their control.

Prior to 1887 the trust companies were formed by special 10 charters. In this year the Trust Companies Act was passed providing a general law for the formation of these corporations with powers such as those given to the ones previously chartered. Within five years thirteen new companies were incorporated under this law and one company with an old char- 15 ter commenced business.

Subsequent amendments of the laws of the state have placed the trust companies on an equal footing with the banks in regard to loans and discounts. By the act of 1901 the rates of taxation are fixed about the same for both institu- 20 tions.

The charters of the first corporations, that were empowered to act as trustees, contained a provision forbidding them to engage in banking operations. The trust companies, however, of the present day make banking a main feature, and,

furthermore, are not restricted, like the banks are, in regard to a legal reserve to protect deposits and also in regard to investments.

Trust Companies in Philadelphia.

The first two trust companies in Philadelphia were the Pennsylvania Co., that has already been alluded to, and the Girard Life Insurance, Annuity & Trust Co., that was chartered in 1836. Both of these corporations were given the power to act as trustee in this last named year. After the Pennsylvania Co. was granted the right, the Girard Co. was given its charter with the same privilege. In 1853 the Pennsylvania Co. was authorized to act as administrator and executor, and in 1855 like powers were conferred upon the Girard Co. By the law of 1856 agents of foreign trust companies were allowed, under certain conditions, to do business in the state, but this privilege was not taken advantage of; and as no other domestic companies entered the field until 1865, the two original companies remained without competitors up to that time. In the eight years following, however, about thirty-seven new charters were granted, although it should be stated that very few of these were used. It was at this period that the life insurance and trust businesses began to be carried on separately. In 1866 the Fidelity Insurance, Trust & Safe

Deposit Co. was incorporated. It was the first company in Pennsylvania that was given the power to underwrite fidelity insurance.

This business "has since constituted an important branch
5 in most Pennsylvania companies." In many of the states the two classes of operations are not combined; such is the case in New York.

The constitution of Pennsylvania of 1873 required that
10 all future corporations should be formed under general laws, and this provision led to the passage of the general corporation act of 1874. No reference, however, was made in that act to trust companies, an omission which was to all appearances due simply to a lack of interest in the matter and not
15 to any hostility to such companies; but this apparent oversight, nevertheless, prevented the formation of new companies until 1881, when the law was amended to correct the defect. In 1881 there were eight trust companies in the Quaker City, in 1899 there were thirty-nine.

20 By the amendment in 1881 of the corporation act title insurance companies were given trust, surety and safe deposit powers, and were permitted to receive on deposit and in trust real and personal property. The law of 1881, however, forbids trust companies doing a banking business, and
25 requires them to keep trust funds separate from their own as-

sets. This latter is a provision made by a number of states, but in some instances it may only amount to a necessity for a special book-keeping device.

Although the trust companies in Philadelphia receive de-
5 mand deposits, it has been until very recently a mooted question, whether they have had the legal right to do so. The Bankers' Magazine, in 1898, called attention to the fact that under the provisions of the constitution of Pennsylvania no corporation with banking and discount privileges could
10 be organized without three months' public notice at the place of intended location. The legislature, this authority remarked, could not dispense with a constitutional requirement, and on general principles it was to be supposed that the trust companies had not given the necessary notice. No de-
15 cision construing the term banking, as used in the constitution, had come under observation; but the opinion was expressed that it would be held to mean, among other things, receiving, like the banks, deposits subject to check. The law of 1885 gave additional powers to trust companies; but necessarily
20 this particular privilege, the article said, would not be implied if in violation of the constitution. It would appear, however, under a decision lately rendered by a federal court in Pennsylvania, that trust companies in that state can legally receive demand deposits. Such being the case, these

companies have now full banking powers, except those of discounting paper and, of course, of issuing bank notes.

Trust Companies in Boston.

The first trust company in Massachusetts was the New England Trust Co., which was chartered in April, 1869, by a
5 special act of the legislature. It was empowered to execute trusts, to receive money on deposit and to make loans on real estate and other securities. The following companies were later granted similar privileges by the legislature: the Northampton Loan & Trust Co. in 1870, (this became in 1875
10 the Massachusetts Loan & Trust Co. of Boston,) and the Boston Safe Deposit & Trust Co. in 1874. All of these companies were required by their charters to make reports to and be examined by the commissioners of savings banks. In 1874 the commissioners stated in their report that the companies named
15 did an ordinary banking business, except the Northampton, which did not receive deposits.

A general law was passed in 1888 providing for the incorporation and regulation of trust companies. Under this act corporations may be formed with powers like those of the
20 earlier trust companies, they may invest in the same securities as the savings banks--the only state banks in Massachu-

setts--and may loan money on collaterals. All of the trust companies are under the supervision of the commissioners of savings banks.

In 189[illegible] there were thirty-four companies in the state authorized to execute trust powers, but only eleven of them had established trust departments.

Trust Companies in Chicago.

Many banks were incorporated by the legislature of Illinois between 1855 and 1870 with the word <u>trust</u> in their titles. Although these institutions were generally empowered to "accept and execute trusts," yet banking was the main feature of their charters.

The Merchants' Loan & Trust Co., chartered in 1857, was one of the earliest companies of importance in the state to act as trustee. As was the case with other companies of this class, it was authorized to engage in banking operations, except the issue of notes. Among the other early corporations exercising similar banking and trust powers were the Chicago Loan & Trust Co. chartered in 1857 and the Real Estate Loan & Trust Co. in 1861; both of these latter two companies are now out of existence.

The constitution of 1870 required the incorporation of banks and trust companies under a general law, but no action

was taken regarding trust companies until 1887, when banking laws were passed under which banks and other authorized companies were granted full trust powers upon the proper deposit of securities with the auditor of the state.

5 In 1900 fifteen home banks and companies and four foreign companies were qualified to execute trusts in the state.

DESCRIPTIVE AND CRITICAL.

I.

Functions of Trust Companies.

Among other powers trust companies exercise those of trustee, executor, administrator, guardian, committee, receiver, assignee, transfer agent, registrar, investment agent, 10 fiscal agent, promoter, underwriter, &c. These companies do also a guarantee, safe deposit and general banking business.

In England during the middle ages attempt was made to prevent the granting of ~~power~~ to the church. To overcome the restriction estates were placed in the hands of individuals 15 for use and purposes of this character. From such a custom and through the influence exerted by the ~~old~~ Roman law the English system of trusteeship is said to have developed. The corporation, with its continually extended use in different ways, began in time by a natural evolution to perform the 20 function of trustee. This artificial person created by the

law has an existence that is not terminated by death. Besides, the institution affords a means of wide coöperation among men; it renders available for effective work a large fund, collected in small amounts from numerous sources, and diffuses the risk of adventure among many persons, with a limited liability of a stated sum for each one of them. As before noted, the practice of having a corporation to act as trustee, although not unknown elsewhere, has had in the United States a conspicuous growth.

(a) Trustee under a Will, Executor, &c.

In former times, when a man was about to make a will disposing of his property after death, he would recall to mind his acquaintances, and from their number would make a choice of one or more, best qualified in his opinion to settle his estate, or to act as trustee or guardian for certain wards for whom he might desire to make special provision. No doubt, on account of unwise selections for these positions, the beneficiaries under wills frequently suffered loss.

It is now said that this difficulty has been overcome by having corporations with large capital to act in such capacities; and, without doubt, much good has been accomplished by these institutions. A great trust company has a capital which is very impressive as a guarantee of responsibility.

Furthermore, with the large volume of business under its charge it can establish special and well organized departments, by means of which trust estates can be most intelligently managed and complete records in regard to them kept.
5 Yet all that may be said in favor of these institutions, does not indicate that the faults incident to the administration by individuals of such trusts may not be somewhat overcome at present through the agency of surety companies, which now act as bondsmen in these cases. It may in fact be advisable
10 under some circumstances to select an individual rather than a corporation for purposes of this kind.

(.) Trustees for Real Estate.

Differences of opinion exist as to whether real estate is managed better by a trust company, or by an individual acting in the capacity of trustee. The impression pre-
15 vails with some that an individual generally gives more attention to small details, and that he makes closer investigations of the cases when tenants desire changes or repairs made to property. The result is, it is contended, that frequently he either refuses altogether the request for an im-
20 provement on a house, or makes a less expenditure answer; whereas, under similar circumstances, a trust company grants all that is asked.

It may be that the individual trustee really makes a greater effort than a trust company to reduce to the lowest amount expenditures of this kind on property, nevertheless a more liberal policy may, as a rule, pay better. Liberality may tend to keep tenants, while the opposite course may drive them away. Furthermore, when an old tenant leaves, to secure a new one, usually the property must be improved, and possibly at greater expense than may have been necessary to have kept it occupied; besides, there is to be considered the loss of rent, while the premises have been idle.

The question, in fact, resolves itself at last in this, as in other business matters, into one of honest and intelligent management of each particular case. It is, however, a belief of some, whose opinion should have weight, that better results are generally obtained from this class of property under the care of individuals than under that of corporations.

(2) Trustee for Personal Property.

Those who claim that a trust company manages real estate at greater expense than an individual, as trustee, does, also contend that the former, in settling up an estate, is apt to dispose of the houses and lands at too low a price in the effort to make a quick sale and to distribute the proceeds without delay. It is also said that a trust company,

acting as trustee, may at times sell at a sacrifice the real estate in order to make investments in personal property, because this can be handled with less trouble and at greater profit.

As to the various securities on the market, a trust company is in a specially favorable position to decide intelligently in regard to them. It should unquestionably be better posted about these matters, than is ordinarily a private individual most of whose time may be occupied with other things of an entirely different character. The point, however, is sometimes made that a company may use its position as trustee to unload securities in which it is interested. The weakness of human nature may be counted upon in certain respects, and it may be that the judgment of the officials is occasionally influenced in an undue manner to turn over to an estate securities with which their company has been connected in floating. The dividends of a trust company are often largely increased by the liberal commissions which it receives for underwriting various schemes; and it is very advantageous to have a place to dispose of the investments thus acquired. Injustice may thus easily be done to an estate in this way; but such is not necessarily always the case, for transactions of this kind may occur without any loss or disadvantage whatever to the beneficiaries of a trust.

One of the claims made in favor of having the companies act in the various capacities of executor, trustee, guardian, etc., is that their great wealth and prominence put them in position to command ample funds for the protection or development of interests committed to their care. Individuals in these offices, it must, however, be remembered, have on occasions also acted liberally, and indeed have on account of friendship done more by making large advances and assuming personal risks, than may be expected of a company. An individual, as guardian of minors or of incompetent persons, will often, for special reasons, feel a deeper concern in his ward, than will the officials of a corporation.

There is another matter which, although it may be contended, should not enter into the consideration of this question, yet it needs to be mentioned as a factor at times operating in the selection of an administrator or trustee; and that is, that an individual may be better able than a corporation to evade the payment of taxes upon an estate.

As seen in the brief survey, advantages may in certain instances be said to rest with an individual in these fiduciary relations. Nevertheless, if one will weigh the uncertainties as to capacity, responsibility, integrity and duration of life, it will probably be decided that better results may often be expected from a large and conservatively managed

trust company than from an individual, especially in cases covering long periods of time.

(b) Assignee and Receiver.

Much that has been said in this discussion relative to executors and trustees under wills applies to assignees and receivers. In the receivership of railroads the choice has usually fallen upon individuals. Many of the great railroad systems of the country have in late years gone into the hands of receivers; and although trust companies have been prominent during this period, nevertheless individuals have generally, if not always, been appointed by the court to take charge of affairs. Under the present arrangements, however, by co-operating with the receivers, trust companies and private banking firms have reaped great benefits; and in the reorganizations of bankrupt railroads they have found a very lucrative business.

(c) Trustee under Mortgage Deed.

Trust companies have almost entirely absorbed the business of acting as trustees under the mortgage deeds of railroad and industrial corporations. It may be said that this is an improvement over the old practice of having indi-

viduals serve in this capacity.

Frequently these bonds are issued for long terms, and trustees without a corporate existence would probably not live to the expiration of the trust. Moreover, a company has generally a greater prominence than an individual, and its legal residence may be more easily determined. The bonds of railroads and other corporations often have a market of more than national extent, and it is important as regards the sale of the securities, as well as the protection of their eventual holders, to select proper trustees. It must, however, not be supposed that the trustee, as such, acts as a guarantor of the bonds in case of default.

A trustee may, indeed, limit very narrowly his liability by a statement of such in the deed of trust. Of course it is the business of a trust company to protect itself when serving in this capacity. Nevertheless, as a particular trustee may be chosen to give standing to a security, the limitations of the liability should be plainly stated in the deed, so that the terms may be easily observed and understood by an ordinary purchaser. There should be used no equivocal or misleading expressions; and although as regards a certain class of bonds, it may not be right to obligate the trustee to see to the recording of the deed, yet where a trust company

assumes the office of a trustee under a mortgage deed of a railroad or industrial corporation, it does seem proper to make it the legal duty of the trustee to see that the deed has been recorded in due form, and that the recitals contained in the same are substantially correct. Where securities change ownership simply by delivery of hand and are extensively dealt in, as is the case with these bonds, each indorsement that is made upon them by a responsible company to promote their sale should carry with it the proper legal liability-- one that cannot be escaped by the employment of indefinite terms, or of expressions, clear in themselves, but easily overlooked or misunderstood on account of the manner of presentation.

(3) Trustee under Private Agreement.

Trust companies act as trustees under private agreements, and almost their entire trust business, except that which is done under the order of the court, is of this character. Their powers in these numerous instances necessarily vary with the conditions of the trust. As to whether an individual or a corporation may be the proper choice will especially depend upon the circumstances attending each particular case.

When a trustee is to be appointed to take charge of property, pending the settlement of a dispute, if the interests involved are sufficiently large to justify it, frequently it will be better to select a trust company, as there is not the same likelihood of claims of favoritism being made later against such a trustee as against an individual. Again, where a trust is created by a person who feels that he is not qualified to manage the property in question, or has certain ends in view that he desires to carry out, it is often wiser to make a company the trustee, as in case an attempt is made to break the trust, the charges of fraud and duress cannot be brought with the same force.

Where large corporate and individual interests have been concerned, trust companies in recent years have occupied a conspicuous place in acting as trustees. In the reorganizations that have resulted in the railroad and industrial combinations, and also in the promotion of new industries, these companies have become the depositories of bonds, titles and equities of corporations, firms and individuals; and although they have not been absolutely necessary for the great development of the enterprises with which they have been connected, yet they have been very important factors in the matter.

Trust companies act under private agreement as transfer

agents and registrars of corporations; and next under a separate head this feature will be discussed.

(e) Transfer Agent and Registrar.

The duties and responsibilities of transfer agents and registrars are very similar. A transfer agent transfers the stock of a corporation; that is, upon request, it passes "upon the evidence of transfer title," and when such evidence is considered satisfactory, issues a new certificate. A registrar keeps a register or record of all the stock issued. Sometimes a corporation may employ both agencies, the registrar acting as a check upon the transfer agent.

The practice of having transfer agents appears to be comparatively modern. When and how it came first into vogue is said to be uncertain; the growth, however, is plainly one incident to business requirements. As may be easily imagined, it is not always convenient for a company to have the delegated officers at hand to transfer the stock; moreover, it may be desirable to have an office for the transfer of the stock in an entirely different place from where the main office is located. Indeed it may be well to have more than one transfer office; so it is readily understood how the institution has become necessary.

The custom of employing a registrar is due, according to one authority, to the fact that in New York, some years ago, the transfer agent of a railroad company, who was also its president, was guilty of an over-issue of the stock of his company. The disclosures made in the investigation of this matter and the irregularities of a similar character in other corporations were the cause finally in 1869 of the New York Stock Exchange requiring all stocks dealt in upon that exchange to be properly certified to by a responsible registrar.

The appointment to these positions is made simply by a vote of the directors of the corporation, and no special agreement usually, if ever, exists between the contracting parties as to what liabilities are assumed. There is, according to the reports of those who have looked into the matter, much uncertainty about the measure of legal responsibility of these agents, except, of course, in regard to loss arising from glaring neglect of duties. In commenting upon the subject an attorney connected with a trust company has remarked, that if a transfer agent is uncertain how to act in a particular case and asks his principal for instruction in order to protect himself, the principal may properly refuse to give any orders, on the ground that the transfer agent in accepting the office is supposed to have known what its duties are.

The investing public is deeply concerned in the work of these agencies. A certificate of stock, for instance, is issued; upon it is the indorsement of a well known bank or trust company that the certificate is genuine and is what it
5 is represented to be on its face. Afterwards there proves to be some irregularity in the issue. In such a case the innocent holder will, no doubt, feel that he has a just claim against the party making this authentication; furthermore, that the claim should be enforcible by law, and should not be
10 debarred by a plea set up that the agent has used care in executing the duties of his office, but has himself been deceived. The statement, indeed, is made that even certain brokers of prominence have really been under the impression that a security has been guaranteed to some extent by the indorse-
15 ment of a registrar, and that the use of this agency has represented "many things besides the fact" that the certificate has been "within the stated issue."

If the trust companies which act in these capacities desire to disclaim all liability for their certification, the
20 question naturally suggests itself, why are not the indorsements made in such a way as to indicate this without any room for doubt. The reason assigned for this omission is that the public have become accustomed to the present form, and

that stock upon the certificate of which a different wording is introduced may possibly be viewed with suspicion and its sale affected. A change that may injure the market for securities is not likely to be adopted, especially when there 5 is such strong competition among trust companies to obtain this class of business. As the present form of certification indicates to an ordinary buyer a certain guarantee; this fact, it rather seems, if a case arises for judicial determination, ought to have great weight in fixing the legal lia- 10 bilities of the parties who use it.

The case, indeed, is a very complicated one, as the transfer agent and registrar may be residents of a different state from the company which they represent; furthermore, the company itself may be incorporated in several states, and all of 15 these states may have more or less conflicting laws governing certain features of the matter. It is clearly recognized by their counsel that trust companies in performing these functions, as they frequently do, may incur great liabilities, and that the small rates charged for the services may be by 20 no means proportionate to the risks assumed.

II.

Auxiliaries to Trust Business.

(a) Fidelity Insurance.

Trust companies in acting as trustees in various ways may conveniently carry on as auxiliaries to their regular business other branches--such as one for fidelity insurance--which may prove profitable. In many instances an in-
5 dividual under bond may be preferred as a trustee or executor to a corporation in the same capacity; and in such a case a trust company which can bond the individual for the office may at times in this way not only extend its transactions into a new field, but also retain old business that will be oth-
10 erwise lost to it. In Philadelphia, as has been stated, trust companies exercise the power of acting as bondsmen, but generally this class of operations is carried on by distinct corporations which do not act as trustees or executors.

Fidelity insurance is guaranteeing the honesty or finan-
15 cial ability of parties; it is a kind of business which, in the opinion of many, a trust company should not conduct, and, as before observed, in a number of states it is not permitted to do so. It may be, furthermore, remarked that some of the earlier surety companies, like the one started in London fifty
20 years or more ago, have been formed especially to furnish surety bonds. Experience in the past seems to have demon-

strated the advantage of separating the fire and life insurance from the trust business which was originally joined with them; and the indications now somewhat appear to be that the trust and fidelity--or, as this latter may also be called, surety, guarantee or bonding--business, will be developed apart.

There are at present only a few large American bonding companies. Some of these possess all the powers of the trust companies, except that of acting as trustee and executing such forms of trusts, and some even have the word <u>trust</u> in their titles, although they cannot serve as trustees. Moreover, as the bonding companies compete with the trust companies for certain kinds of business, and, as added to this fact, in some places trust companies act as bondsmen, there is no wonder that in the public mind no distinction is made between these two institutions.

(b) Title Insurance.

It has already been noted that in Pennsylvania trust companies are now formed under a general law allowing title insurance companies to exercise trust powers. In New York and some other states the two features are not combined, and what may be termed distinctive title insurance companies exist;

for these latter either confine themselves solely to the title business, or make it their main one in case they carry on banking and other operations.

Title insurance requires a special plant for the work. Nevertheless either a trust or a bonding company can acquire this plant, and each is in a favorable position to conduct a title insurance department. The former company may examine or guarantee titles for the estates under its charge, or offer its services to its numerous patrons who constantly consult it about such matters. The latter company is in close association with attorneys to whom it furnishes bonds, and through this means may coöperate further with them. The business appears to be well suited to both institutions.

(c) Safe Deposit.

Although safe deposit companies are said to be an ancient institution, it has only been within recent years that they have become of importance. Much of what is at present called wealth is in the form of evidences of debt, paper securities, a large amount of which changes ownership merely by delivery of hand. The great growth of this class of property which may be so easily lost or destroyed, has created a demand for specially guarded vaults for its safekeeping. Before the common existence of the modern companies the vaults of regular banks were to an extent employed for the storage of

valuables, and frequently without charge being made for their use. Safe deposit companies now perform this service and charge for the same according to the space occupied or the value of the property stored.

5 When some of the earlier of the modern companies were started, it was thought necessary, in order to provide greater security against the visitation of improper persons, to establish a code of pass words and other formalities. This rigid system is no longer as a general rule, if at all, in operation, and it now requires little difficulty on the part of any respectable person to rent a box in such an institution and gain entrance into its vaults. Private watchmen and detectives may often be employed to guard the buildings of safe deposit companies, and also a system of mechanical enunciators may be used. But aside from these precautions, the only additional one in this particular that is really taken at present--and it appears in its results to be all that is necessary--is to station special guards at the door-ways, to note the exit and entrance of each visitor and to prevent the passage of any improper person, only those being allowed to pass who are known to the guards as entitled to do so.

The safe deposit business, though at times conducted as a separate and distinct one, as is generally the case in New York, may be and is very satisfactorily carried on by trust

companies. Persons who use the safe deposit vaults of a trust company get into the habit of visiting its office, and so when in want of information about an investment, a trusteeship, or some other matter are quite likely to consult one of its officials. A great trust company has often a large number of estates under its charge, and is thus compelled to furnish a safe place of deposit for the securities belonging to these various trusts; so in opening its vaults to the public it gains a handsome revenue at little extra expense. Furthermore, as just intimated, such a use of these storage places serves as a means of advertisement.

A person may go into the office of a trust company, enter his safe deposit box, then clip off his coupons and deposit them with the banking department for collection. He may buy securities in this office, when he desires to make new investments; he may employ the company virtually as a broker, solicitor and policeman and may secure through it "protection from outside attacks and inside inexperience." He may during his life transact his whole financial business through this one office, and after his death the same institution may take complete charge of his affairs.

(d) Fiscal Agency.

A trust company can at times build up a large bank-

ing business by acting as a fiscal agent and depository. It can also by this means keep in close touch with varied interests of the country and be placed in a better position to develop other branches of business. For instance, in serving as the fiscal agent of states, towns and railroad and industrial corporations it becomes more intimately acquainted with their affairs and has a better opportunity of exercising an influence over their financial arrangements and of negotiating their loans. The securities which it obtains in this way it may offer to its clients or turn over at the proper time to the estates under its charge. Thus the various branches of business may be made to assist each other.

(e) Savings Bank.

Trust companies enter into competition with other financial institutions of the country. They take an active part in promoting railroad and industrial enterprises and engage largely in the general banking business. They receive small sums of money at interest, and through this means have in some places diverted deposits from the savings banks. Although these latter institutions have still a strong hold upon the public confidence, they probably have not yet fully felt, as they later may, the effects of those changes which have taken place in recent years in financial conditions.

Formerly savings banks invested more particularly in real estate mortgages. They do not now loan money so extensively in the same way, but put much of their funds in government, municipal, railroad, street railway and other securities of 5 like character. The offerings of this kind of investments are widely advertised at present by trust companies and other dealers, and the result has been that the investors in such property have greatly increased in number, and no doubt many who once deposited in savings banks no longer do so, but buy 10 stocks and bonds. Moreover, there has been a great decline in the market rate of interest; and it is therefore difficult to see how savings banks can continue to pay their present dividends, especially when narrowly restricted by law in regard to their investments. Even if trust companies, as it 15 is insisted should be the case, are subjected to the same requirements as savings banks are for this class of deposits, they can still afford to pay a higher rate of interest than their competitors; for the expense of operating a savings department, as a branch of a large banking business, is rela-20 tively small.

Many of the savings banks are conducted on the mutual basis, their resources being supplied entirely by their deposits and accumulated earnings. By the side of this the capital, surplus and additional liability of stockholders of the

great trust companies make an impressive showing as a further guarantee for their debts. Some of the old savings banks, however, have enormous deposit lines, and on account of their large volume of business can keep down the expenses of operation to a small percentage; with this advantage and their great prestige they may long be able to maintain their leading position. On the other hand, it is different with the smaller mutual savings associations. These have a struggle for existence; and although many new ones are continually springing up--as it is so easy to start a bank of this character--their future is not bright. The banks whose charters allow a wide field of operation have a better chance of success.

(f) Deposit and Discount Bank.

Prior to 1875, roughly speaking, trust companies received but little attention. About this time, however, the banks began to feel the competition and to complain that the trust companies did a banking business. Certainly it was unfair, it was contended, that the banks should be taxed heavier and subjected to greater legal exactions than their competitors.

From the period beginning with, say, 1885, a further development of trust companies took place, and the complaints

became decidedly more pronounced. It was especially observed that certain large deposits, which had been carried with the banks without interest, were growing less in amount and fewer in number. What was the cause? The trust companies paid interest on deposits and consequently diverted business from the banks. Complaints still continue at the present day on the part of the banks against the trust companies, but not to the same extent as formerly; indeed, in some quarters where there was hostile criticism, there is now favorable comment. In 18[illegible], for instance, the American Bankers' Association, which is composed of the bankers throughout the United States and holds annual conferences for the consideration of banking matters, inaugurated a special section where subjects particularly pertaining to trust companies are discussed. In this connection it may be proper to remark that very interesting information upon our subject may be gained from the papers read at these meetings, and that much stated in certain parts of our essay has been taken from this source.

Possibly the change of sentiment in regard to the trust company has taken place, because it is realized that the institution is now firmly established, and, moreover, that although it competes with the older corporations in some respects, yet in others the interest of the two are closely al-

lied. In the first place the same men are often connected with both of them, and in the second the trust company is among the largest depositors of the bank. Furthermore, through the bank the company indirectly makes use of the clearing house--an association which is an important agency in facilitating exchange and one which exercises a far-reaching influence upon financial affairs. No trust companies belong to the New York Clearing House, but clear entirely through such national and state banks as are members. Some time ago the association passed a rule, requiring the trust companies to be subject to the same examinations and to make the same reports that were exacted of the members, otherwise they could not continue to use the services of these banks for clearing house purposes. This regulation seems to be reasonable, yet as the trust companies have influential friends in the association, such requirements, if they conflict seriously with certain interests, may possibly not be strictly enforced. The trust companies, moreover, have apparently sufficient power, in case it becomes necessary to do so, to establish a separate exchange; but it rather appears that there is at present too great a community of interests for this action to be taken.

Trust companies perform many of the functions of the regular banks, and although they do not possess the right

of note issue, like the national banks, yet they are not hampered to any extent on this account, for note issue is not the profitable feature it once was. Moreover, in place of this privilege that they lack, they have many substantial advantages over these banks.

Trust companies in late years have usually accepted demand deposits, even in states where there has been a question whether they have had the legal right to exercise the privilege. Reference has already been made to the status of the case in Pennsylvania. In Minnesota in 1893 a number of conferences between representatives of the trust companies and the attorney general of that state took place in regard to the powers of the companies to receive these deposits. The law of [illegible] allowed trust companies to do a banking business as therein provided; but the provisions were so indefinite, that a conflict of opinion prevailed as to their proper construction. Some companies, however, received demand deposits, although others refused them. By the statutes of [illegible] the companies are not permitted to engage in banking.

The Supreme Court of Missouri also decided, some five or six years ago ([illegible] 1901) that a trust company had no legal power to take deposits subject to check and that in doing so

it violated its charter; but this act, according to the court, did not make the company a bank. The officers who received such deposits, when the company was insolvent, were held not to be criminally liable, as they would have been, had the institution been legally empowered to do a banking business. In 1893 the Court in this state decided that a trust company had no power to receive deposits on which interests were not paid. The Bankers' Magazine in commenting upon the matter said that, as no rate of interest was fixed by the law, it would require little ingenuity to overcome the effects of this decision; for instance, merely by allowing a nominal rate of interest.

These and other illustrations rather indicate that trust companies have to an extent developed in some states their banking departments outside of their recognized powers under the law. A reference to a number of the early charters emphasizes this fact, for it is there seen that these operations were specially forbidden to such corporations. It appears from the history of some of these companies that they were originally established to manage estates and not to be banks, the latter being an institution which, according to the public sentiment of the time, should be under special regulations. As a precautionary measure against an evasion of the

law, it was quite logical to refuse banking privileges altogether to other concerns, or to grant them only under the conditions which subjected the recipients to the same restrictions as the banks had been.

5 As clear ideas did not always prevail as to what constituted banking operations outside of note issue; and furthermore, as at times laws were passed and charters were given that were susceptible of different interpretations, some trust companies after a while began to claim and exercise powers

10 that were originally not intended to be allowed, if indeed they were not strictly forbidden. In this way it would appear that they escaped the regulations under which the banks were placed.

Certain it is that legal exactions have been made of one

15 institution that have not been of the other. The trust companies, for example, are not generally required like the national banks to hold reserves for the protection of deposits; and in many of the states, where the state banks are subjected to the requirement of keeping these reserves, the companies

20 are more leniently treated. They have thus an advantage over their competitors, as they are not compelled to have on hand the same amount of idle funds that bring in no revenue. They have profited by the freedom from restraint and have kept very

little cash in their vaults, most of what they have counted as cash being in reality money on deposit at interest with the banks. For example, in the summer of 1901 forty trust companies in New York and Brooklyn had a reserve of only seven and a half million dollars and had deposited with the banks nearly a hundred million; on the other hand, sixty-one banks in that city at the same time had in reality a reserve of over two hundred and sixty million dollars. In fact the reserves of the banks cover both their own deposits and those of the trust companies. In the same way, to an extent, the reserve of the Bank of England operates in regard to the deposits of the great joint stock companies of London, and the resources of the Imperial Bank of Germany act as a support to the other banks in the empire.

The trust companies of the United States loan considerable on collateral security and compete with the banks for this class of business. The same forty companies just referred to had loans of this kind out amounting to five hundred and ten million dollars and loans on personal security amounting to only thirty-eight million dollars. As a rule these companies loan very little in the latter way; it is, however, the reverse with the banks.

The trust companies underwrite various enterprises; the

banks also do the same but not so extensively. At times the two institutions may cooperate as a syndicate in the same work, or the banks may advance largely on securities brought into existence by the schemes of the trust companies. The
5 companies exercise a relatively free hand in making loans and investments; they are not subjected in these respects to the same legal restrictions as the national banks and, in some instances, as the state banks. The national banks are forbidden by law to advance more than one tenth of their capital
10 to one party, to loan money on real estate, or to own real estate except in a limited way. Although the requirements as to the limitation and character of loans may not be always observed, yet their existence has a great effect and prevents these banks from engaging in many profitable operations
15 that are open to the less hampered institution.

Trust companies have now grown to be of great importance, and in 1899 so many new ones were formed that it looked for a time almost as if they were about to supersede the banks. In the following year, however, there was an arrest of the rap-
20 id progress. This set back, that is, as far as New York was concerned, was but temporary; for although recently (1901) there has been little, if any, increase in the number of trust companies in that State, yet the gains in resources of those already in existence have been large. The banks also have

made progress during the last few years; the old ones have had an established business, and with active trade for merchants they have reaped a benefit and, furthermore, have shared in the general prosperity of the country. A factor tending to make an unfavorable showing for trust companies for the six months ending January 1st, 1900, was that a large number of new companies had come into existence during the early part of 1899. This, for the time, produced a greater supply than was needed, and in the struggle to get business some concerns under the management of inexperienced men engaged in risky undertakings which resulted in heavy losses.

The banks, moreover, have a prestige in regard to the safety of deposits, which the trust companies do not enjoy. There is a general impression that the system of government examinations of the national banks makes them especially secure. There is no doubt that these inspections have rendered great service; nevertheless they are not thoroughly effective. Disclosures, at times, make it apparent that defalcations can escape notice for a long period, during which a number of official examinations of the banks have taken place. The remark is occasionally heard, and is made by those in a position to know, that the federal inspectors are indeed very liable to accept with too much faith the calculations which

they find in the bank records. It is believed by many that state inspection can be made, and is in some states where trust companies are subjected to regulations, just as thorough as the system in operation in regard to the national banks.
5 Notwithstanding the fact that much of this claim in regard to state supervision must be admitted, yet the general public feel, and with some reason, that a federal inspection gives usually greater protection than one conducted by a state; and the national banks in a measure get the benefit of this confidence.

10 In order to secure the prestige possessed by national banks and at the same time to obtain the freedom enjoyed by trust companies, the Chestnut Street National Bank and the Chestnut Street Trust & Savings Fund Company, some years ago, conducted business together in the same office in Philadel-
15 phia. This close coöperation, however, afforded a great opportunity for the practice of fraud and for the concealment of an insolvent condition by the temporary transfer of funds from one institution to the other, in case the occasion required this action. The exigency arose, and the results which
20 followed exposed the evil of such a combination.

The advantage that prestige and previous possession of the field give to the old banks may long allow them to main-

tain their supremacy. But new financial institutions will be called into being by the growth of the country, and these are likely to be more especially among that class which is subjected to the least restriction.

(g) Promoting.

Trust companies with their large accumulation of funds are ever on the alert to get business, and consequently afford an effective instrument in developing enterprises. This, of course, is not a new character of work for financial corporations, either in this or in other countries; and trust companies, in acting in this way, have followed a course which has been pursued previous to their existence. Sometimes a corporation has indeed been formed simply to finance a particular enterprise. This was the case with the Credit Mobilier, which operating under a charter of a Pennsylvania company undertook to build the Union Pacific R. R. It will be remembered that the Credit Mobilier became notorious in 1872 on account of one of the greatest political scandals, which ever occurred in the United States.

Although trust companies and other financial corporations greatly aid and encourage the development of large enterprises, yet generally they engage in such undertakings in

answer to some demand for them; and were they not the promoters, individuals or firms would, as is often the case, take their place. It is recalled that when those financial corporations, interested in promoting railroad enterprises, went down in the crash of 1873, two great private banking firms, concerned in similar operations, failed at the same time. At present the names of certain individuals and banking firms in connection with great railroad enterprises, industrial combinations and other schemes of a gigantic character are far more prominent than those of any trust company or other financial corporation. It is, however, a well known fact that these same men and firms are interested in and identified with banks and trust companies and use them largely as instruments to carry out their various operations.

III.

State Regulation.

There is a decided opinion held by many persons that the less supervision or regulation by a government which any business receives, the better will be the results. But whether the laissez faire doctrine be yet strongly cherished or not by its advocates, the idea is now rapidly losing force in this country in the practical conduct of affairs and in the

continual extension of governmental interference. Furthermore, the people of the United States have for years been accustomed to this supervision of the national banks, and have for a longer period been familiar with that in regard to the state banks. Trust companies, however, developed to a great extent without these restrictions. Although in some of the states they have now been brought under the same supervision as the banks, in many of them still they have been subjected to little or no regulation.

Is there a need of putting these companies under state supervision? If it is admitted that banks not exercising the right of note issue should receive this regulation, and if trust companies can and do perform all the functions of such banks, then it is difficult to see why they should escape the same exactions.

The companies have large lines of deposits subject to check and their importance in this particular is increasing; nevertheless, they are not to the same extent required to keep like the banks a reserve proportionate to their deposits. In this respect the great trust companies are all more favored than the large national banks and also in the main than the state banks. They have claimed that much of their deposits have been trust funds, and on the other hand that those of the banks have been of a kind which are more subject to su

early or a sudden withdrawal; hence, that the restriction upon the banks has been more necessary. In the summer of 1901, however, six sevenths of the three quarters of a billion dollars on deposit in forty trust companies in New York and Brooklyn were subject to check. Consequently, there is not a great distinction at present between the deposits of the two institutions, nor should such be expected, for trust companies solicit all classes of deposits and allow interest on the same in order to obtain them. The companies, indeed, have been so active in their efforts to get business that frequently the banks, although disclaiming that they give interest on money placed with them by local depositors, are compelled to offer this inducement to retain some of these patrons. The trust companies, in fact, are said to go even so far as to borrow money on collateral and reckon the sums thus received with their so called deposits, in order to make a more favorable showing and thereby further attract similar funds. This practice, however, it must be stated, also obtains with other financial institutions. The foregoing instances are cited to show the force of competition in often compelling all who seek the same class of business to adopt finally much the same methods. The concerns that are not subjected to strict inspection are usually the first to resort to these

means. Sooner or later what is done leaks out, as it is difficult to keep such things secret; and often what in the beginning is confidentially allowed as a special inducement to a few, becomes in the end a common practice.

It is evident that any regulation in regard to the deposits of banks to be fully effective must have some application to those of trust companies. There can be no doubt that should there come at the present time a financial panic, or a severe strain upon the money market, trust companies with their large lines of deposits and small or merely nominal reserves would rather contribute to than check a catastrophe.

The superior organization of a trust company should not necessarily exempt it from regulation, for it is not unlike that of other corporations. It comprises a president, possibly one or more vice-presidents, and a board of directors; from this latter body is usually selected a smaller number who constitute an executive committee. In some instances the board of directors consists of twenty-five members. It is no over-statement to say that frequently directors know, and are apparently expected to know, as little about the affairs of their company as outsiders. Some of them are put on the board on account of their prominence in the community, their names being used to produce a favorable impression upon the public, and others owe their position to the fact, that they can command

business for the company. But whether appointed for these or other reasons, many of the directors may be nothing more than figure heads, and may exercise little or no influence upon the policy of the company. The directors meet at more 5 or less extended intervals, probably once a month, or not so often, and may, according to a growing practice, receive about five dollars, or possibly more, apiece for each meeting attended; they usually transact business in a very perfunctory manner, leaving the management of affairs entirely with the 10 president and one or two controlling spirits of the executive committee. Much the same comment, however, in regard to the inefficiency of a directory will apply with equal force to all classes of corporations, perhaps with the exception, to an extent, of the banks where the directors meet weekly, or oftener, to pass 15 upon the paper offered for discount, and thus have an opportunity of performing their duties with some degree of intelligence. Any security, therefore, which is afforded to the depositors and stockholders by publicity of operations rather seems to be with the bank than with the trust company.

20 It must, nevertheless, be said that although secrecy in the conduct of a business allows a wrong action to be easily concealed, yet close management is particularly effective, when capable men are in charge who direct their efforts solely to the development of their company. The opportunity for

fraud that is due to the concentration of power in the hands of one or two men and to the absence of state supervision have led in some cases to unfortunate results. Public notice, at such times, has necessarily been directed to the matter, and
5 the sentiment created that there has been a need of greater protection for the interests committed to the care of these institutions; that, indeed, much good may be accomplished by a stricter regulation of them.

Some trust companies closed their doors during the fi-
10 nancial crisis in the fall of 1873. But even before the crash came, attention had been called to the lack of state supervision of these corporations. The Brooklyn Trust Co. had failed during that year under circumstances indicating gross mismanagement. The company had done a lucrative busi-
15 ness, but was bankrupted by the defalcations of its president and secretary, both of whom had made heavy losses in speculations. As trust companies were then regarded as institutions that should be even more conservatively managed than banks, it was not strange that there should have arisen--and especi-
20 ally so after the panic of 1873 occurred--a demand for the passage of laws to bring trust companies under regulations similar to those under which banks had been placed.

A prominent financial paper, in the summer of 1873, in referring to the failure of the Brooklyn Co., stated editori-

ally that the directors of a trust company were not looked upon as managers of an ordinary bank, but as guardians of trust funds, in the same way as were the trustees or directors of a savings bank in regard to the funds placed under their care. It contended that their investments should not be such risks as were usually taken by a bank, but should be only such as were considered solid and safe beyond question.

Another illustration from the press may be given. A leading periodical devoted to banking interests, in commenting in 1874 upon trust companies, said that they were intended as repositories for trust funds, for the accumulation of deposits to be loaned on mortgage, and for investment in government bonds; that is, to be savings banks on a large scale. The article went on further to state that trust companies had at that time been converted into stock jobbing concerns, thus becoming factors of demoralization and defeating the original purpose for which they had been established.

With such a public sentiment existing, official notice, as might have been expected, was taken of the matter. In his report of December, 1873, the superintendent of banking of New York, in alluding to the rapid increase of the moneyed corporations which, he stated, were variously styled *trust*, *loan*, *indemnity*, *guaranty*, *exchange*, or *safe deposit* companies, recommended that they be brought under stricter state

supervision. The designation, trust company, had not, even at that time, come to have the full significance which it has since obtained, and there was then in New York no special system for its regulation. Previous to 1874--the year in which these companies were placed under the charge of the state superintendent of banking--some of them were under the supervision of the comptroller, some reported either to the comptroller, to a judge of a supreme court, or to the superintendent of banking, while others did not report at all. The majority, if not all of them, were exempt from making stated reports to a supervisory department of the state, as the banks were required to do; and none were liable to an examination by any authorized state officer. The superintendent urged that there was no reason why these companies should not be subjected to regulation like the banks, for they did a deposit and savings bank business, and in some instances discounted paper.

The comptroller of the currency, in his report of 1873, stated that the beginning of the monetary crisis of that year might be reckoned with the failure of the New York Warehouse & Security Co. Up to the time this company closed its doors, it had apparently stood well. It had been established several years before to make advances on grain and produce shipped to New York; it afterwards undertook to finance a railroad

which had a good foundation, but the enterprise, nevertheless, proved to be too great for the resources of the Farmers' Co. Such, at least, were the views expressed at the time.

As will be remembered, numerous financial concerns suspended during this panic, and among these were included the Union Trust Co. and the National Trust Co. of New York. The great banking houses of Jay Cooke & Co. and Fisk & Hatch, both of which went down at that time, had been largely interested in the negotiation of railroad securities, as also had been a number of financial corporations. In commenting upon the conditions of that period, the comptroller of the currency remarked that the money market had become overstocked with debt, that debt based on almost every species of property--railroad, state, city, and manufacturing and mining companies--had been sold in the market. Furthermore, the panic of that year, he said, might, in a great degree, be based upon the intimate relations of the banks of New York City with the transactions of the stock board; and, according to his statement, from one fourth to one third of the bills received by the banks up to that time since the Civil War had consisted of demand loans to brokers and members of the stock exchange. These operations, the report continued, had a tendency to impede and unsettle, instead of facilitating, the legitimate transactions of the whole country; the rule of business was

to make money--to make it honestly, if possible, but at all events to make money.

If a financial crisis were to occur in the United States at the present time, much the same criticism as was made in 1873 would be heard; but trust companies would come in for a far greater share of the comment.

The trust companies in New York and in some other states are now under somewhat the same regulations as the state banks; there are, however, yet marked differences, as for instance, the latter are more generally required to keep a reserve to protect deposits. Both institutions in New York are obliged to make reports at stated periods to the banking department of the state and are subject to examination by official inspectors. Examinations, of course, do not afford absolute protection, as embezzlements may take place during the intervals between them, and indeed some defalcations occur that escape detection for years. To prevent such frauds and to give greater security to the creditors a private inspection may be resorted to, as was the case with a national bank in Baltimore which employed, on its own account not very long ago, experts to make a thorough investigation of its affairs.

Nevertheless state supervision has a decided effect; and when the system was first inaugurated in New York in 1874, it was the cause of three trust companies ceasing to do busi-

ness. Although it should be stated that the depositors in these instances, with claims amounting to six million dollars, were paid in full, very probably if the state examinations had not been made, and only reports of the officers of the companies had been submitted, these concerns might have continued to operate until a worse condition of affairs had developed. It was indeed said by one critic that a company had seldom failed whose recent published statement--in case it was the practice to make the same--had not shown a surplus; valueless accounts being carried as assets to make a favorable showing. The statement of a trust company in New York, that is now published in the reports of the state superintendent of banking is very comprehensive, and with the system of examination in force allows considerable state supervision of this institution.

Certainly it appears that, if a need exists for the regulation of banks and savings banks to protect the creditors, there is equal reason for the same in regard to trust companies; as the latter have under their charge the funds of widows and orphans and trust of a character around which every safeguard should be thrown. Institutions that are exempt from state supervision can more easily practice deceptions of various kinds.

Among the failures of loan companies was one some years

also in Minneapolis where very little funds were found by the receivers to pay off its debts. It was at first thought that surely the great office building, which bore its name would be a valuable asset, although a mortgage for part of its value
5 was recorded against it. A closer investigation, however, revealed the fact that the company had not even an equity in this property, because it belonged to another corporation, which had been formed with the same officers as those of the loan company; and through this means the entire interest of
10 the latter in the building had been disposed of without exciting suspicion. Such transactions can be carried on with little difficulty by financial institutions, and no doubt many of the large office buildings, that are supposed to be owned by the trust companies, belong in reality to separate
15 and distinct corporations.

It is too true that state inspection does not remove all opportunity for the practice of fraud, and that, even with the existence of a rigid system, an insolvent condition may exist, and yet be concealed so as to escape the notice of an
20 official examiner. This deception can easily be accomplished by relations with a branch or with another concern controlled by the parent company. There was the case in Philadelphia, which was referred to above, where a national bank and a trust company with a similar name conducted business in the same

office, and thus the two institutions were easily enabled to juggle their accounts. Furthermore, state supervision, if such had existed, would not have necessarily prevented the failure of the American Loan & Trust Co. of Omaha, which was bankrupted in 1893 by its speculations in Texas lands carried on through a local company. Even if in the former instance just given a system of inspection did not afford protection, and in the latter transactions of the kind can be so conducted as to elude the detection of state officers; yet these examples serve none the less to show that there is need of government regulation.

As will be remembered, we have alluded to the fact that corporations which do act as trustees frequently use even at the present day the word <u>trust</u> in their titles; this being done at times with the intention to mislead, it seems proper to restrict such a practice. In commenting upon the custom, the superintendent of banking of New York recommended in his report of 1889[9] the adoption of a regulation that would apply not only to corporations created by the laws of New York, but also to foreign trust companies which did some kinds of business in that state, although not permitted to act there as trustees. The suggestion was partially acted upon and, as previously noted, an amendment to the general corporation act was passed in 1900 governing the companies formed under the laws

of New York.

Sometimes the argument is advanced by bank officials that the directors and officers of a corporation, and the public also, should not be taught to rely simply upon government inspections; for at best these institutions are ineffective, and it is well under all circumstances for those who are interested in these matters to make some investigation for themselves. The officials of the national bank in Baltimore, in the case to which we above referred, were perhaps influenced by this idea, when they employed on their own account special experts to supplement the federal examination. It is contended by many that it is far better for a people to be educated to be self-reliant, and attention is called to the fact that in some states where savings banks and trust companies have virtually received no regulation they have, nevertheless, been conservatively and successfully managed. This may all be admitted, but the numerous instances of frauds and failures clearly demonstrate that such a statement of the case is by no means complete. A good system of banking is of extreme importance to all classes of people; it is, therefore, easily understood why a public demand exists for the regulation of the financial institutions that are not under state supervisions; and why some persons advocate this measure, who are generally opposed to an enlargement of the sphere of

the State.

There is a wide difference in the laws throughout the Union in regard to trust companies, and the suggestion has been made that in order to get a uniformity in this respect, it may be well to have a constitutional amendment and bring trust companies under the federal jurisdiction. This plan is much in harmony with that of having all corporations regulated by the general government; and in the view of some it will not be a great step in extending the exercise of this power from the deposits of national banks to those of other financial institutions.

With the rapid changes, now occurring in industrial and financial conditions, it is impossible to attempt to forecast with any degree of confidence the political action, which may in consequence follow. Nevertheless it may be said that, from present appearances, no increase in the federal authority in this particular may be expected for the near future; and that any uniformity which may be obtained in the laws relating to trust companies, will be brought about by the similarity of existing conditions in the different parts of the country and through the efforts made by the citizens in the individual states.

There is always opposition to any extension of govern-

mental interference, and often it is well to be slow in bringing about radical changes of this character. Trust companies have in many states been placed under very little regulation, and the fact, that they have exercised a wide latitude in their actions, has enabled them to build up large and successful businesses. In many instances it may be a hardship and injustice to subject these institutions suddenly to great restrictions; when legislation of this character is undertaken, a conservative course in the beginning seems to be the wise one; and later, if it becomes necessary, more stringent measures may be adopted.

If it be found, as the success of trust companies seemingly indicates, that the need exists for an institution with the power to advance large sums to a single concern and to engage in what may be regarded as speculative ventures; and also, if it be deemed better that for the management of trust estates there shall be another corporation with more limited privileges, there can be established separate companies for performing the two functions. Trust companies are already in existence that have built up a large business in one or the other of these operations and have mostly, if not at times entirely, confined themselves to it; that is, if they act as trustee under wills, they do not devote their efforts to promoting enterprises; or it is the reverse, as the case may be.

This being the fact, the separation of the two functions can in all probability be accomplished by degrees without serious injury in the end to trust companies in large cities, although, as must also be admitted, it appears equally reasonable that such an action may have the effect of retarding to some extent the further development of the institution, especially in smaller places. Of course, in case of a change, the companies that operate extensively in both lines may seriously feel the restriction, until they have accommodated themselves to the altered conditions; and also those that have a main office in a large city and branches in the smaller towns may be compelled to adopt a considerably different policy.

It is often difficult, if not impossible, to get the drift of public sentiment and to determine the factors that may bring about results; it is therefore only speaking in a broad way, when it is suggested that judging from surface indications there is no public demand at present for a law to prevent the same company acting both as a trustee under a will and as a promoter of great enterprises. Merely regulations requiring trust companies to make deposits with a state department to protect trust funds and also those placing them much on the same basis as state banks--except possibly as to some of the present restrictions in regard to loans and investments--are the ones, it appears, likely to be sooner or

later adopted by those states that have not already such a regulative system in operation. In reference to reserves for deposits it should be said that some states require the trust companies to keep them, but these are as yet rather exceptional cases.

As to the formation of trust companies, they are either created under special acts of a state legislature or under a general law of a state. In New York both methods are now in force, and when the general law is made use of, the superintendent of banking is empowered to refuse incorporation to any new company, if in his opinion there is already a sufficient number in existence. Thus the power is delegated to this officer of limiting the number of trust companies in the state, unless the legislature exercises its right and creates by special act additional companies.

In the states, where charters for these corporations have been granted by special acts, they have sometimes been obtained in an unfair way and have been procured merely to be afterwards hawked about the market and sold to the highest bidder. Furthermore, in addition to the general evils of private legislation, there is always a danger in these special legislative grants of some privilege being included that was not intended and was concealed by a "snake in the oil." At any rate, some states such as Pennsylvania, after having tried the other sy-

tem, have adopted a general law under which corporations of this kind must be chartered in order to get an existence.

CONCLUSION.

Place and Cause of Development.

A slight review will aid in fixing more clearly upon the attention what may be the place that is now occupied by trust 5 companies, and also what may be some of the causes that have led to their development.

It has been seen that corporations furnish an effective means for conducting coöperative work, and that they apparently tend by a natural evolution to supersede individuals in per- 10 forming certain functions. It has also been noted that corporations with power to execute all lawful trusts have existed a great many years in the United States, but that the earlier ones exercising this privilege were insurance companies which, although authorized to act as trustees, only engaged in this 15 latter kind of operations in a limited way and as an auxiliary to their insurance business. Furthermore, it has been shown that the trust companies still continued to be classified with insurance associations, and that no distinction was made by the public between the two concerns, even when trust companies 20 began to be operated as separate institutions.

It has, moreover, been indicated that according to general impression the trust powers were originally extended in some of the states to corporations merely to allow them to manage trust funds, and not to establish large banking concerns. This latter idea appears to be correct, for, as has been pointed out, the earliest companies that were empowered to act as trustees were strictly forbidden by their charters to engage in banking operations. In spite of this fact, however, the trust companies have built up large lines of deposit, and now compete for this business with the national banks, and, indeed, under more favorable conditions, as they are not subjected to the same restrictions. To some extent these companies have been formed and successfully operated in the smaller towns, but it is in the large financial centres that they have more especially developed; in New York and Chicago, for instance, some of the companies have deposits ranging from fifty to seventy million of dollars.

There seems to have been a recognition on the part of the banks for the first time about in 1873, that there was a new and serious competitor against them in the field. After the financial panic of that year the banks felt the pressure of the hard times; and therefore, being especially sensitive to the effects of competition, they could more keenly realize that deposits were diverted from them, and that some enter-

prises in which they were engaged were in process of absorption by another institution. Naturally they complained of the unfair advantages that worked against them. It was, however, not until 1886 or 1887 that the great development of trust companies took place. It was about this time that the profits derived from note issue were materially lessened and that many of the banks commenced to decrease their circulation.

At one time the deposit system was of minor importance to that of note issue in the banking business; in later years, however, the condition has much changed; that is, such has been the case in England and the United States where the habit of depositing money in bank and withdrawing it by check is highly developed, and in those countries on the continent of Europe where the custom, though not so common, has greatly extended. In Germany, for example, some banks which formerly enjoyed the privilege of note issue have preferred rather to surrender this power than to submit to the government restrictions incident to it. These latter have found it advantageous to have a relatively free hand in the management of their affairs and have not seriously, if at all, felt the loss of the right to issue notes, as their deposit lines have now grown to large proportions. Some of the great banks in Germany, it may be said, occupy much the same place respecting large enterprises, as do the trust companies in the United States.

It is readily seen how the trust companies have been aided in their growth by the increased importance of the deposit system, for the monopoly of the banks of issue is no longer of the same great advantage that it once was. These corporations have also been favored, as has been observed, by freedom from the regulations to which the banks have been subjected. They have consequently been allowed to engage more than the restricted institutions in the huge schemes which the changes in industrial conditions and the rapid development of the country have required to be undertaken. To be sure, the banks also do this character of business, but only to a limited degree in comparison with their rivals; they have, as a rule, directed their efforts more particularly to operations with the mercantile community.

The conditions in general have no doubt made a place for an institution which advances large sums in a single venture and is free from restrictions as to the character of its investments. It must, however, be admitted that all of the trust companies do not engage in undertakings of this kind, for some of them, as we have noted, confine themselves mostly to what was originally considered the legitimate operations of a trust company and what may be called a strictly trust business; that is, acting as trustee or executor and managing estates and trust funds. It, nevertheless, appears to be true that the enormous development of trust companies has largely been due to

their relations with great railroad and industrial corporations.

Some critics suggest that trust companies owe their success not merely to general conditions alone, but also to the fact that they have been managed by more enterprising and capable men. The success, however, of the large banks of New York clearly demonstrates the contrary of this contention without the necessity of further evidence.

Among other functions which they now perform, trust companies execute various trusts, manage estates and promote enterprises. Furthermore, they often do a safe deposit business; this is a feature that may be adopted and carried on conveniently by almost any financial institution in connection with its other departments, or it may be conducted by a separate corporation. In some states trust companies insure titles of property, in some they act as bondsmen; title and bonding companies, however, have, to a great extent, been developed as distinct concerns, although in the public mind they are all regarded as belonging to the same class of institutions.

Trust companies engage in general banking operations. They do not restrict their deposits to trust funds, but solicit and receive the same kinds as are sought by other banks. As yet the old savings banks have upon a certain class of depositors a strong hold which probably they will long retain.

It may, nevertheless, happen that in this direction their rivals will in time make gains by offering higher rates of interest and attractive inducements in the way of greater conveniences. The small savings banks will be placed at considerable disadvantage in the competition.

At present, the trust companies confine, for the most part, their call and time loans to those secured by collaterals. They advance relatively small amounts on personal security; many of them, in fact, do not discount paper at all, leaving this business almost entirely to the regular discount banks which largely employ their capital in this way. Having first entered the field and enjoying the prestige, the old banks may be expected, at least for some time, to hold their monopoly. Even with discrimination against them, banks of issue will, of course, continue to have a place in the business world; but from the outlook now it rather seems that in the formation of new financial concerns, the tendency will be more to organize them upon the basis that affords the broadest privileges. Furthermore, the trust companies apparently fulfill the requirement better than any other existing institutions, they are allowed a wider scope of action than the banks, and have the advantage, with their diversified interests, of making one department aid the development of another.

In some states trust companies are permitted to pay

branches. Where such is the case, it is possible for them to be developed to almost any degree. Moreover, legal prohibitions against such extension may not be effective, for if a company is prevented by its charter or by local law from forming a branch and desires to accomplish the same result, it may virtually do so by the incorporation of a new company which may be put under its control. The North American Trust Co. of New York, for example, established financial institutions under its management not only in different parts of the United States, but also in Cuba. A great company operated on this principle with capable officers would have large resources at its command; it would have the advantage of a wide range of operations on an extensive scale and could conduct business at a relatively low expense.

The same influences that have operated to combine railroad and industrial corporations have also tended in a measure to produce similar effects among financial institutions. Consolidation has taken place not only among trust companies that have already been established, but also among concerns whose organizations have not been completed. There is also the instance of the Produce Exchange Trust Co. of New York, that suspended in 18[illegible] and afterwards reorganized under a different management with a son of the late Jay Gould as president. This reorganization caused the abandonment of a new company,

that was about to be formed to take care of the large interests of the Gould family--interests which probably comprise great telegraph and railroad properties. The Produce Co. now (in 1901) under the title of the Bowling Green Trust Co. has in a short time built up a large deposit line and been established on a solid foundation. This case gives an idea, to some extent, of the field of operations that are engaged in by these companies, and serves also as one of the many evidences of the great power of wealth controlled by a single directing force.

* * * * * * *

If the conclusions advanced in this paper are correct, it appears that the following may be mentioned among the causes for the development of trust companies:-

The general tendency of corporations to supersede individuals in performing certain functions; and the combination in one company of various classes of financial business, each aiding to build up the other;

The growth of investments in government and corporate securities, and the demand for an institution to manage estates largely consisting of these;

The increased importance of deposits relative to the issue of bank notes, and the payment of interest on demand deposits;

The place for an institution that made large advances in a single venture and exercised a free choice in its investments--one that was not hampered with the restrictions to which the national banks were subjected.

In the analysis of social problems some factors may be easily overlooked and others given undue value. As to what may come to pass, necessarily great uncertainty prevails. The present system of exchanges may be much altered, and indeed the fundamental principles regarding property rights may be modified. But whatever may have been the cause of their growth, or whatever may be their future, it may be said without question that the trust companies are at present very important financial institutions in the United States.

SOME WORKS REFERRED TO IN NOTES.

Work	Abbreviation
Appleton's Cyclopaedia (Annual)	App. Cy. (An.)
Balto. Herald.	Balto. Herald.
" News.	" News.
" Sun.	" Sun.
Bankers' Magazine, New York.	B. M.
" " London.	Lond. B. M.
Clearing Houses, by J. G. Cannon, N.Y.	C. Hs. by Cannon.
Commercial & Financial Chronicle "	C. & F. Ch.
" " Supplement.	" " Sup.
Encyclopaedia Britannica.	Enc. Brt.
Federal Reporter.	F.
Knox. History of Banking, N.Y.	Knox.
Lalor's Cyclopaedia.	Lalor.
Laws of Maryland.	Laws of Md.
" " Massachusetts.	Laws of Mass.
" " New York.	Laws of N. Y.
" " Pennsylvania.	" " Pa.
Nation, N. Y.	Nation.
National Banking Act.	Nat.Bk.Act.
Political Science Quarterly.	Pl. Sc. Q.
Private Laws of Illinois.	Ill. Private L.
Report of Auditor of "	Rept. Ill. Aud.

Report of Massachusetts Commissioners of Savings Banks.	Rept. Mass. Sa. Com.
Report of the Monetary Commission. Chicago 1898.	Rept. Mon. C.
Report of New York Supt. of Banking.	" N.Y.Supt.Bkg.
" " Pennsylvania Bank Commissioners.	Rept.Pa.Bk.Com.
" " U. S. Compt. of Currency.	Rept. U.S. Comp.
Revised Statutes.	R. S.
Rhodes Journal of Banking.	Rh. Jr.
Standard Dictionary.	Stand. Dict'y.
White; Money & Banking.	White.

In reference to C. & F. Ch. often only two sets of figures are given; the first set indicates the volume, the second the number. Where the third set is given for the C. & F. Ch. it refers to the page. In the other works the second set of figures refers to the page. In all other cases where only one set of figures is given, this refers to the page, unless a statement of the fact is made to the contrary, or the context plainly indicates something else.

NOTES.

Page 1.

Line 1. Trust companies; Stand. Dict'y:

Trust company, "a corporation whose business is to receive and execute trusts."

Line 3. elsewhere; B. M. 59/714:

(Agency houses in India were concerns organized to transact business as trustees.)

C. & F. Ch. 70/1802/III.
Lond. B. M. 56/165.

Page 2.

Line 2. trusts; Stand Dict'y: trust, "a combination of "interests for the purpose of regulating and con- "trolling by means of a common authority the use, "supply and disposal of some kind of property."

Line 19. London Times, B.M. vol. 1/524, 1847;

Page 3.

Line 3.	held;	B.M.	1/227,	
" "	"	" "	4/596,	1849;
" "	"	" "	7/340,	1852.
Line 8.	protection;	B.M. Vol.	12/141,	18[illegible]7;
" "	"	" "	13/202.	

Page 3. continued.

Line 15. litigation; see page 38, line 20.

Line 19. Insurance & Trust; Knox /684;
B.M. 13/567;
" " 15/313.

Page 4.

Line 2. Marine Insurance Co.; Bk. Jl. xx2 /810;
" /876;
White /337;

Line 6. Manhattan; B.M. 3/137;
" /678;
Rep. N.Y. Supt. Bk. Jan.3, 1900, page 134.

Line 15. trust associations; B.M. 4/954.

Line 17. Britannica; Enc. Brt. Article, "Banking," Vol. 3, /328.

Page 5.

Line 5. charters; Farmers' Fire Ins. & Ln. Co., Note pg. 7, line 18;
N.Y. Life Ins.& Trust Co., Note page 7, line 14.

Page 9.

Page 5. continued.

Line 15. Bankers' Magazine; B. M. 9/325.

Page 6.

Line 10. New York; Rept. N. Y. Supt. Bkg., 1899.

Line 13. included; N. Y. Corporation Law, 1900, Sec. 6.

Line 21. Trust Companies in New York; B. M. 59/718

Page 7.

Line 3. located; Rept. Pa. Bk. Com. Nov.16, 1897, p.568.

Line 4. 1812; Laws of Pa. approved March 10th, 1812.

Line 6. 1836; " " " Feb. 26th, 1822.

Line 8. Loan & Trust Co.; Laws of N.Y. approved Feb.28,1822.
Apr.17,1822.

Line 14. Insurance & Trust Co.; Laws of N.Y. app. Mar. 9,1830.

Line 17. United States Trust Co.; " " " " Apr.12,1853.

Line 19. Union Trust Co.; " " " " " 23,1864.

Line 21. metropolis; Rept. N.Y. Supt. Bkg. July 1,1901.
Page 54, line 5.

Page 8.

Line 2. state officer, Schedule;
B. M. 61/787.

Page 8. continued.

Line 2. eleven; C. & F. Ch. 40/1020/42; Table (N.Y. State).

Line 3. twelve years; B. M. 43/339;

" 45/352;

Table.

Line 5. forty; companies in N.Y. & Brooklyn, Rept. N.Y. Supt. Bkg., July 1st, 1901.

Line 9. 1887; Laws of N.Y. approved June 8, 1887;

B. M. 43/721;

Schedule.

Line 18. discounts; Laws of N.Y. approved May 18, 1892.

Banking Law of N.Y., Art.IV, Sec.152.

Line 19. taxation; B. M. 62/741;

Schedule.

Line 21. charters; Notes, page 7, lines 4, 6, 8, 14, 17.

Page 9.

Line 1. banks; Banking Law of N.Y., Art.II, Sec. 43 and 44;

Pl. Sc. Q. June, 1901, page 250, article "Trust Co's."

Line 3. Trust Companies in Philadelphia. B.M. 59/713.

Line 5. Pennsylvania Co.; Notes, page 7, lines 4 & 6.

Page 9. continued.

Line 6. Girard Life; Laws of Pa. approved Mar. 17, 1836.

Line 10. Pennsylvania Co.; Laws of Pa. app. " 26, 18[illegible].

Line 12. Girard Co. " " " Feb. 1[illegible], 185[illegible].

Line 13. 1856; " " " Apr. 9, 1856, Sec. 1.

Line 22. Trust & Safe; Laws of Pa. approved Mar. 22, 1866.

Page 10.

Line 5. states; Schedule.

Line 9. 1873; Constitution of Pa. Art. III, Sec. 7.

Line 12. 1874; Laws of Pa. Act 32, Sec. 2, app. Apr. 29, 1874.

Line 20. 1881; Laws of Pa. Act 26, Sec. 1, approved May 24, 1881.

Schedule.

Line 24. banking; Laws of Pa. Act 26, Sec. 2, app. May 24, 1881.

Line 25. funds; " " " " " 5, " " " " ;

B. M. 59/717.

Page 11.

Line 7. Bankers' Magazine. B. M. 56/100.

Line 11. location. Constitution of Pa. Art. 16, Sec. 19.

Line 24. deposits; 105 F. 491 (Case of Bk. of Saginaw vs. Title & Trust Co., Dist. Ct. Pa. Dec. [illegible]6, 1900.)

Page 12.

Line 1. powers; Schedule.

Line 2. notes; Only national banks issue bank notes.
Rept. U.S. Comp., 1397, page 21, Sec. 80.
Nat. Bk. Act, Feb.8, 1875, Sec. 19, 20, 21.

Line 3. New England; Laws of Mass. '69 Chap. 182.

Line 9. Northampton; " " " '70 " 323.

Line 10. Massachusetts; " " " '75 " 16.

Line 1 . Safe Deposit; " " " '67 " 151.

Line 14. commissioners; Rept. Mass. Bk. Com. '74, page 17 .

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Line 2. commissioners; Laws of Mass. '88 Chap. 413.

Line 6. departments; Knox, page 370.

Line 13. Merchants'; Ill. Private L. '57, " 50.

Line 18. Chicago Loan; " " " '59 " 400.

Line 19. Real Estate; " " " '61 " 462.

Line 20. companies " Rept. Ill. Aud.

Line 22. 1870; " Constitution, Art. II, Sec. 5, 6, 7, 8.

Page 14.

Line 4. auditor; Ill. R.S. 99, pages 197 and 470.

Page 14. continued.

Line 6. state; Rept. Ill. Aud., 1900.

Line 7. Functions of Trust Companies; C.& F. Chr. Bkrs.) & Trust Co's. (Sup., Sept.3, 1898.) (

Art's Trust Co. section.

Line 12. England; Enc. Brt., Article, "Trust," Vol. 23/595.

Page 15. (a) Trustee under Will &c.; C.& F. Chr. (Sup. Sept.3, 1898, p. 63;) " " 71; (

F.M. 57/528.

" "/536.

" "/545.

Page 19.

Line 18. estate; Laws of Md. 1890, Chap. 544, p.658.

(Trust Co's to report to tax Comsr.

trust funds in their care, so that

they can be assessed for taxes.)

Page 20. (b) Assignee and Receiver; C.& F. Chr. Sup.) Sept. 3, 1898, page 67; (

H. M. 57/533.

Page 20. continued.

(c) Trustee under Mortgage Deed; B.M. 61/780.

Page 22. (d) Trustee under Private Agreement; C. & F. Chr. Sup. Sept. 3, 1898, p. 70;

B. M. 57/525.

Page 24. (e) Transfer Agent, &c.; C.& F. Chr. Sup. Sept.3, p. 58;

B. M. 57/514;

" 61/756.

Page 28. (a) Fidelity Insurance; Schedule.

Line 17. states; Schedule.

Line 19. London; B. M. 4/249.

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Line 8. companies; B. M. 40/309;

Line 8. powers; Fidelity & Deposit Co., Balto.,

Laws of Md., 1890, Chap. 26[illegible], p. 2[illegible].

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Line 11. titles; American Bonding & Trust Co., Balto.,
Laws of Md. '94, Chap. 252, p. 355;
" " " '96, " 41, " 41.

Corporations in Md., acting as bondsmen, cannot act as trustee without bond;
Laws of Md. '92, Chap. 279, p. 371.

Line 14. as bondsmen; In Philadelphia, page 10, line 5.

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Line 17. (b) Title Insurance; Schedule.

Line 20. states; "

Page 30. (c) Safe Deposit; B.M. 61/769;

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Line 8. formalities; B.M. 21/316;

" 26/161;

" 26/632.

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Line 23. New York; Table

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Line 18. inexperience; B. M. [illegible]/506;

<u>Page 33.</u> (e) Savings Bank; B.M. 46/695;
" 46/931

<u>Page 34.</u>

Line 15. insisted; Rd. Jl. $XVIII^{1}$/167
XX^{2}/1190

Line 24. liability; Schedule

<u>Page 35.</u>

Line 3. deposit lines; Rept. N.Y. Supt. Bky. Feby. 26, 1901.

pg. 160, Bowery Sav. Bk. N.Y.:-
deposits $70,000,000.
surplus $10,700,000.

pg. 176 Emigrant Ind's'l Sav. Bk. N.Y.:
deposits $60,000,000.
surplus 10,000,000.

Line 13. 1873; C.& F. Chr. Jan. 20, 1883, 36/917/[illegible];
Notes, page 51, line 23;
" 52, " 9.

Line 17. taxed; Rd. Jl. 13/741;
" " 13/788;

B. M. 59/472.

Line 19. 1885; B. M. 43/659;
" 43/721;
" 45/852;
" 46/695;
" 50/599;
" 51/[illegible]8;

C.& F. Chr. January 10, 188[illegible], 40/1[illegible]/4[illegible].
Rh. Jl. [illegible]VIII [illegible]1551.

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Line 5. interest; Rh. Jl. 13/813;

B.M. 50/600;

C.& F. Cl. Vol. 67, page 251.

Line 6. present day; B.M. 50/599;

" 58/506;

" 59/472;

" 61/157.

Line 9. extent; " 58/507;

" 59/471.

Line 11. 1897 " 59/471;

Line 22. established;
C.& F. Cl. 69/1780.

Line 24. closely; B.M. 59/346.

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Line 1. same men; Rh. Jl. XVI/1178;

C.& F.Cl. 70/1804.

Line 3. bank; Rh. Jl. 13/958;

B.M. 50/599;

Rept. Supt. N.Y. Bkg. July 1st, 1901.

Page 41, line 6.

Line 8; Clearing House; B.M. 61/712;

C.Hs. by Cannon.

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Line 10. association; C.& F. Ch. 69/1791/991;
B. M. 59/727.

Line 20. exchange; B. M. 59/472.

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Line 3. feature; Note, page 66, line 7.

Line 10. Pennsylvania; Page 11, line 21.

Line 10. Minnesota; B.M. 48/392.

Line 18. 1894; Schedule.

Line 20. Missouri; B.M. 50/60;
" 50/200.

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Line 6. 1898; B.M. 57/85.

Line 8. Bankers' Magazine; B.M. 57/16.

Page 40.

Line 3. restrictions; Page 12 Trust Co's in Boston;
Page 13 Trust Co's in Chicago.

Line 5. prevail; Rh. Jl. 13/788;
B.M. 2/495, Lockport Bk.& Tr.Co
" 4/100 (Duncan vs.Md.I.Ins.);
" 13/141.

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Line 18. states; Schedule.

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Line 1. cash; B.M. 50/599;

58/505;

59/472.

Line 3. 1901; Rept. N.Y. Supt. Bkg. July 1901.
Balto. Herald, Aug.13, 1901, quoting
N.Y. Journal of Commerce.

Line 9. reserves; Rh. Jl. 13/818.

Line 11. England; Rh. Jl. 13/959.

Line 13. Germany;

Line 16. forty; Note page 43, line 3.

Page 42.

Line 7. restrictions; Pl.Sc. Q. Art.,"Trust Co's," page 250.

Line 7. banks; Nat.Bk.Act.Rept. U.S. Comp. 1874,
page 26, Sec. 110.

Line 13. year; C.& F. Ch. 70/1808/308 and Rept.
N.Y. Supt. Bkg. Feby. 26,
1901, page 17;

Trust Co's in New York State:
July, 1899 Resources $722,000,000
June,1900 " 677,000,000,
June,1901 " 799,000,000,

Page 43.

Line 3. benefit; Table

Page 43. continued.

Line 9. needed; C.& F. Ch. 70/190/306.

Page 44.

Line 7. reason; Rh. Jl. XX^2/1159.

Line 21. advantage; R. M. 59/472.

Page 45.

Line 4. restriction; Rh. Jl. 21/70.

Line 6. business; C.& F. Ch. 70/1810/10;

" " " 70/1810/410.

Line 13. Credit Mobilier; Lalor. Vol. 1/709;

App. Cy. (An.) 1873, Pgs. 213 & 671.

Page 46.

Line 14. instruments; C.& F. Ch. 72/1851/VI.

Page 47.

Line 5. banks; Knox, page 404, &c.

Line 9. regulation; Schedule

Line 15. exactions; R. M. 58/507;

" 59/472;

Rh. Jl. 13/741.

Line 17. importance; Table.

Page 47. continued.

Line 22. claimed; B.M. [illegible]/506.

Page 48.

Line 3. 1901; Note, page 41, line 3.

Line 8. interest; Rept. N.Y. Supt. Bkg., July 1901;
(Interest paid on 11/12 deposits

Page 51.

Line 23. paper; C.& F. Ch. July 26 Vol. 17/122/102
& Aug. 30, 1873 Vol.17/277/270.

Page 52.

Line 9. periodical; B. M. 28/520;

(This is a review of the Rept.U.S.Comp.

that is referred to on page 55.)

Page 55.

Line 4. 1874; Schedule New York.

Line 18. comptroller; Rept. U.S. Comp. for 1873,p. XXVI,

Note, page 51, line 23.

Line 24. railroad; (Mo. Kas.& Tex. R.R.)

C.& F. Ch. 17/409/341 - Sept. 13, 1873 [illegible]

Page [illegible]4.

Line [illegible]. Union Trust Co. Page 7, Line 18.

Line 9. Securities; Rept. U.S.Comp. 1875, p. XXVI.

Line 24. rule; Rept. U.S. Comp. 1873, p. XXVI.

Page 5[illegible].

Line 7. New York; B. M. 61/787;

Schedule

Line 20. Baltimore; Merchants Nat. Bank.

Line 24. three; B. M. 61/787.

Page 56.

Line 12. reports; Rept. N.Y.Sup.Bkg. Feb.26,1901,p.[illegible];

B.M. 61/788.

FORM OF STATEMENT RENDERED BY NEW YORK TRUST CO'S.

Resources.

Bonds and Mortgages.

Stock and Bonds Investments (itemized)

Amount loaned on Collaterals.

Amount loaned on Personal Securities, including Bills purchased.

Overdrafts.

Due from Directors of the Institution.

Due from Banks.

Due from Brokers.

Real Estate.

Cash on Deposit in Banks or other moneyed institutions.

Cash on hand.

Amount of Assets not included under any of the above heads (accrued interest receivable, &c.)

Liabilities.

Capital Stock paid in.

Surplus Fund.

Undivided Profits.

Deposits in Trust.

General Deposits by Individuals, Associations or Corporations, payable on demand.

Other Liabilities not included under any of the above heads (accrued interest payable, &c.)

Supplementary.

Total amount of interest, commission and profits of every kind received during the year.

Amount of interest paid to and credited depositors during the year.

Amount of expenses of the institution during the same period.

Amount of dividends on capital stock declared during the year payable July 31,--and Dec. 31.

Taxes paid during the year.

Amount of deposits on which interest is allowed at this date (January 1st.)

Total amount of such deposits.

Rate of interest on same.

Amount of bonds and mortgages invested in during the year.

Amount received from bonds and mortgages paid or sold during the year.

Page 57.

Line 1. Minneapolis; Rh. Jl. XX^{2}/1114.

Page 58.

Line 4. Omaha; Rh. Jl. XX^{2}/760;

Schedule Nebraska.

Line 24. 1900; Note page 6, line 13.

Page 59.

Line 9. Baltimore; Note, page 55, line 20.

Page 60.

Line 14. Political action; Balto. News, Sept. 16, 1901.

Extract from the speech of Vice-President Roosevelt, (now President,) delivered Sept. 2, 1901, at Minneapolis:

"The vast individual and corporate fortunes, the vast combinations of capital, which have marked the development of our industrial system, create new conditions and necessitate a change from the old attitude of the state and nation toward property."

Page 6[illegible].

Line 24. reverse; Maryland Trust Co., Balto.

Laws of Md. 1892, Chap. [illegible], p.[illegible].

Page 6[illegible].

Line 1. states; Schedule.

Page 65.

Line 4. concerns; B. M. 59/471;

Nation, 69/220 (Sept. 21, 1899);

Line 14. centres; B. M. 59/505.

Line 16. deposits; Rept. N.Y. Supt. Bkg. July, 1901;

C.& F. Ch. 70/1820/924.

Page 66.

Line 4. development; B. M. 43/659;

43/721;

45/85[illegible];

46/695.

Line 7. circulation, Rept.Mon. Chart II opp. pg. 2[illegible].

Note circulation of national banks in U.S.

Dec.	'84	$280,000,000.
	'[illegible]	260,000,000.
	'86	200,000,000.
	'90	120,000,000.
Oct.	'97	[illegible],000,000.
Dec.1901		

Page 66. continued.

Line 22. Germany; C.& F. Ch. 72/1865/[illegible].

Page 67.

Line 2. deposit; C.& F. Ch. 70/580/30[illegible].

Page 68.

Line 1. corporations; C.& F. Ch. 70/1803/59;
" " " 70/1812/508.

Page 69.

Line 21. action; Pl. Sc. Q., June, 1901, page 250.)
Art., "Trust Co's." by A.D.Noyes.(

Page 70.

Line 1. branches; [illegible]. M. 62/252;
C.& F. Ch. 70/1807/262;
Schedule.

Line 7. North American; C.& F. Ch. 70/1812/IX;
" " " 70/1820/925;
" " " 72/1854/[illegible];
" " " 73/1901.

Line 15. combine; [illegible]. 65/515.

Line 17. consolidation; C.& F. Ch. 70/[illegible];

Page 70. continued.

70/1811/460;

70/1813/563.

Line 21. Produce Exchange Trust Co.;

C.& F. Ch. 70/1804/108.

Page 71.

Line 4. Bowling Green; Rept. N.Y.Supt.Bkg.,July 1,1900, page 445: General Deposits $10,000,000

Page 71.

Line 21. interest; N. Y. 28/518.

Page 72.

Line 2. restrictions; Rh. Jl. 21/79.

TRUST COMPANIES IN NEW YORK STATE.
From
Reports of Superintendent of Banking.

ears.	No.	Capital.	Resources.	Trust Deposits.	Gen'l. Deposi
875	b 12	11,584,475.	69,654,948.	29,442,552.	20,923,017.
881	c 13	11,500,000	125,888,913	61,321,484	32,800,8[illegible]2
885	c 20	14,202.900	165,023,132	75,422,656	52,289,212
886	c 20	15,260,950	189,166,059	76,971,344	72,523,792
887	c 21	15,603,000	201,030,840	106,133,132	[illegible]1,854,4[illegible]9
888	c 25	19,501,300	224,018,183	89,463,837	85,640,807
889	c 29	22,237,000	269,517,355	130,954,406	83,290,7[illegible]6
890	x 32	24,787,000	293,427,787	104,974,386	124,537,051
895	a 38	29,600,000	392,630,045	123,069,072	134,2[illegible]2,820
898	x 44	33,000,000	483,739,925	185,099,694	198,229,029
899	x 49	34,850,000	579,205,442	197,664,749	269,519,509
900	x 59	48,050,000	672,190,671	213,484,885	310,056,[illegible]34
901	x 57	47,150,000	797,983,512	245,367,995	392,[illegible],[illegible]74

x January 1st.
a " 1st, 1896.
b June 30th.
c July 1st.

RESOURCES OF FINANCIAL INSTITUTIONS IN NEW YORK STATE.

From

Report of New York Supt. of Banking, Feb. 26th, 1901. pg. 11

Jan. 1st.	Savings Bank.	Deposit & Discount Banks.	Trust Cos.	Safe Deposit Cos. [a]
1891	$667,845,396.	$233,339,051.	$280,683,768.	$3,964,945.
1892	675,987,634.	271,830,499.	300,765,575.	4,370,117.
1893	713,454,662.	295,459,929.	335,707,779.	5,048,787.
1894	704,935,118.	271,496,822. xx	341,466,011.	5,025,769.
1895	735,863,598.	284,911,631.	365,419,729.	5,102,689.
1896	783,078,580.	285,407,997.	392,630,045	4,517,699.
1897	812,173,632.	280,691,855.	396,742,947.	4,677,325.
1898	869,571,244.	324,766,619.	437,739,925.	5,116,362.
1899	932,420,861.	355,485,972.	579,605,442.	5,197,996.
1900	1,000,209,099.	366,304,182.	672,190,671.	5,269,271.
1901	1,066,019,216.	380,711,930.	797,983,512.	5,255,452.

xx Nov. 28th, 1892.

a. The Buffalo Loan, Trust and Safe Deposit Co. and the Rochester Safe Deposit and Trust Co. are not included with the Safe Deposit Cos., as they are given under the head of Trust Companies.

EXPLANATORY NOTES FOR SCHEDULES.

-:-

"In the absence of statutory provisions on the subject, a trust company authorized to receive money on deposit, has lawful authority to issue certificates of deposit therefor in the usual form." 105 F. 491.

U.S. e.e. Pa. Dec. [illegible], '[illegible].

"To loan money on real or personal securities," "buy and sell stocks, bills of exchange, bonds and mortgages and other securities" means discount paper. 57 S.W. 936.

Sup. Ct. of Arkansas.
June 16, 1900.

In Missouri trust companies may receive demand deposits if they pay interests thereon. Such deposits may be paid on checks. They may not operate a general deposit account without paying interest. Trust companies may buy and sell bills of exchange. When statute enumerates powers of a trust company, no others should be assumed.

144 Mo. 562.
Sup. Ct. of Mo. June 1[illegible], [illegible].

National banks can only be taxed on shares of stock in names of share holders, and on their real estate.

17[illegible] U. S. 66[illegible].
U.S. Sup. Ct. April [illegible], [illegible].

In Illinois, trust companies as such do not have banking powers, but banks may qualify under the trust act, thus combining powers of bank and trust company.

BIOGRAPHY.

George Cator was born in Baltimore. He attended a private school in this city and afterwards engaged here for a number of years in the mercantile business. In 1896 he entered the Johns Hopkins University as a special student, and has since then retained a residence in the university. In 1901 he received the degree of Bachelor of Arts, and now holds a University Scholarship. He has taken graduate work for the past three years in Economics and for two and a half years in Politics.

Baltimore,