Another valuable provision of the bill is that of section 33, which gives the Securities Exchange Commission the power and duty to investigate proposed settlements of suits against the management for official misconduct, and to make an advisory report to the court concerning the fairness of such settlements. Suits of this kind are ordinarily brought against the management by minority shareholders suing on behalf of the corporation. In such cases, the defendants are, of course, interested in settling the case as cheaply as possible, while the plaintiff and his lawyer are too often interested in settling on terms which are advantageous to them personally, with little or no regard to the interests of the corporation. Under these circumstances, there is no one in court who is genuinely interested in the welfare of the corporation, and the judge is often without adequate means of determining the fairness of a proposed settlement. This situation is one in which a report by an administrative commission which possesses investigatory powers and an adequate staff for making such investigations would be of great value. This whole matter of stockholders' suits and their settlement is one of the notoriously weak spots in our existing corporation law, and section 33 is a decided advance over existing practices.

I have discussed those sections of the bill which seem to me to be the most important and the most salutary. A word in closing as to the bill as a whole. It deals with an industry in which, owing to the liquidity of the assets, misuse of shareholders' funds is peculiarly easy to accomplish. It deals with an industry the primary function of which is to serve as a medium for the investment of the savings of the small investor, the type of investor who can least afford to lose his investment and is least able to protect himself. It deals with an industry in which, owing to the extent to which it has been managed by persons in the security-selling business, self-dealing has been widely prevalent, just as it would be in the railroad and coal industries if railroads were controlled by coal companies or if publicly financed coal companies were controlled by railroads.

The industry is, thus, one which needs regulation, and all of the regulations which are proposed are aimed at evils which have been proved to exist. The regulations go no further than is required to cure the evils; in fact it may be questioned whether some of them go far enough. The bill has been thought by some to confer an undesirable amount of discretionary power on the Commission, but a bill which did not confer a substantial amount of discretion would prove in practice to be unduly rigid. A careful study of the bill will show that a very large part—probably the larger part—of the discretionary powers conferred are powers to grant exemptions from restrictions which, although generally desirable, may operate with unnecessary harshness in some unusual situation. The elimination of discretionary powers of that sort would make the act not only more rigid but more severe.

Senator WAGNER (chairman of the subcommittee). Then, Senators, we can adjourn until tomorrow at 10.30.

Senator HERRING. Yes; fine.

Senator HUGHES. Mr. Sholley's statement is a part of the record, then.

The committee will hear the S. E. C. tomorrow, and will adjourn until half-past ten tomorrow morning.

(Thereupon, at 12:15 p. m., an adjournment was taken until tomorrow, Wednesday, April 24, 1940, at 10:30 a. m.)

# INVESTMENT TRUSTS AND INVESTMENT COMPANIES

**WEDNESDAY, APRIL 24, 1940**

United States Senate,
Subcommittee on Securities and Exchange
of the Banking and Currency Committee,
*Washington, D. C.*

The subcommittee met, pursuant to adjournment on yesterday, at 10:30 a. m., in room 301, Senate Office Building, Senator Robert F. Wagner presiding.

Present: Senators Wagner (chairman of the subcommittee), Hughes, Herring, Townsend, and Taft.

Senator Wagner. The subcommittee will come to order. We will proceed, Mr. Smith.

## ADDITIONAL STATEMENT OF L. M. C. SMITH, ASSOCIATE COUNSEL, INVESTMENT TRUST STUDY, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.

Mr. Smith. During the course of these hearings, Senator Downey raised the question as to the extent of the losses in investment companies which were due to looting and mismanagement, asking whether it was possible to determine how much out of the $3,000,000,000 of capital shrinkage was attributable to such causes.

The calculation of such a figure is at the best an estimate and subject to various limitations which must be obvious. However, we have attempted to make such an estimate.

So that you may know not only the sources of our estimate but have the background to determine whether or not we have merely presented a few rare and horrible examples, as various witnesses would have you believe, I am going to present some over-all facts about what happened to a large section of the industry.

Out of roughly 850 investment companies—and I am excluding other types for the purpose of this discussion—which had been organized up to the end of 1935, over 50 percent, or about 460 companies, ended their individual corporate existence.

At least 61 investment companies had by the end of 1935 gone into receivership or bankruptcy, and this number is greater if later years are taken into account.

Senator Townsend. Do you mean that the figure 850 represents the total of the companies?

Mr. Smith. The 850 represents approximately the total of the management investment companies. I mean the type like—well, this general group that has been here before you.

Senator Townsend. Then you were speaking of the total number of companies.

Mr. SMITH. That is correct. Now, that figure does not include fixed trusts or face amount companies on the installment plan. The total figure would be something like around 1,200 if you include them. I am now talking about the principal type of management investment companies.

Senator TOWNSEND. Then you are talking about over two-thirds of the total companies.

Mr. SMITH. When speaking of the 850 companies that is correct, sir. I am now trying to discuss what happened to those 850 companies.

Senator TOWNSEND. All right.

Mr. SMITH. As I have said, at least 61 investment companies had by the end of 1935 gone into receivership or bankruptcy, and that this number is greater if later years are taken into account.

Some 200 more investment companies were liquidated or dissolved—a number of these probably went into receivership or bankruptcy—with about one-half of these 200 liquidations or dissolutions occurring during 1930 to 1932. These were 3 years of very low security prices, and indicate in the main a disastrous ending to the investors' funds in these companies.

That the management of these 200 companies may not have fulfilled their obligations is witnessed by the fact that, despite efforts on our part, we have not been able to get adequate data on many of these companies or determine in many instances just what happened to the funds of these companies. We only know as to a number that they had so much in funds when organized or at a year-end and that they disappeared.

Finally, another 200 companies were merged or consolidated with other companies. The numerous examples of mergers and consolidations in the 500 pages of stories contained in chapter 4, Part III, of our report, shows that many of the mergers and consolidations were admittedly effected only because of the disastrous record of one or both of the companies involved. I do not say that all of these companies were failures, but there were not a great many that were not.

Now let us look at the losses of these investment companies. The 61 companies mentioned above which went into bankruptcy or receivership by 1935 had a contributed capital of about $500,000,000, of which over $400,000,000 is known to have been lost. It is by no means certain that the losses did not exceed this figure.

I am submitting these companies and the names in table 1.

Senator WAGNER. Will you put that in our record?

Mr. SMITH. Yes, sir; I will put that in the record.

Senator WAGNER (chairman of the subcommittee). That will be made a part of the record by the committee reporter.

(The paper entitled "Table 1, Investment Companies in Receivership or Bankruptcy, 1927–35" is here made a part of the record, as follows:)

**Table 1.**—*Investment companies in receivership or bankruptcy, 1927–35*

[Amounts in thousands of dollars]

| Name | Date organized | Date of receivership or bankruptcy | Contributed capital | Repurchases | Contributed capital minus repurchases | Net assets at end of 1935 | Capital loss | Remarks |
|---|---|---|---|---|---|---|---|---|
| All American Shares Corporation | 1929 | 1932, receivership | 1, 100 | | 1, 100 | | ([1]) | A. L. Chambers & Co. exchanged non-liquid securities for portfolio securities. |
| Allied Capital Corporation | 1928 | 1929, bankruptcy | 700 | | 700 | | 700 | |
| American Associated Investors Corporation. | 1928 | 1931, nonpayment of taxes | 360 | | ([1]) | | ([1]) | Officers disappeared. |
| American Participations, Inc | 1934 | 1935, bankruptcy | ([1]) | | | | ([1]) | |
| American Utilities and General Corporation (succeeded by American and Dominion Corporation). | 1929 | 1933, receivership | 14, 739 | 1, 121 | 13, 618 | None | 13, 618 | G. E. Barreth & Co., sponsor. |
| Amherst Shares Corporation | 1929 | 1932, bankruptcy | 500 | | | None | 500 | Amherst National Bank, sponsor, failed. |
| Anglo-American Holding Corporation | 1927 | do | 2, 500 | | | | ([1]) | |
| Atlantic Midland Corporation | 1929 | 1932, receivership | 2, 926 | | | | ([1]) | Consolidation of Financial Investment Co. of New York and Domestic & Overseas. Investment Co. Ltd., controlled by Bankstocks Corporation of Md. |
| Atlantic & Pacific International Corporation. | 1928 | 1935 receivership | 6, 798 | | 6, 798 | 349 | ([1]) | |
| Bankers Holding Trust, Inc | 1924 | 1932, receivership | ([1]) | | | | | |
| Bancscrip Investment Corporation | 1929 | 1930, forced to liquidate | 876 | | | | | |
| Bankshares Corporation of the United States. | 1928 | 1930, receivership | 1, 709 | | | | ([1]) | President sent to penitentiary. |
| Bankstocks Corporation of Maryland | 1925 | do | 2, 249 | | | | ([1]) | |
| Boardwalk Securities Corporation | 1925 | 1934, receivership | 950 | 100 | 850 | | ([1]) | Boardwalk National Bank, sponsor. |
| Chippewa Share Corporation | 1929 | 1930, consolidated | [3] 329 | | | | ([1]) | Officers sent to prison, Burns, Smith & Co. Inc., sponsor. |
| City Financial Corporation | 1927 | 1931, bankruptcy | ([1]) | | | | ([1]) | |
| City Shareholders, Inc | 1929 | 1935, receivership | [4] 849 | | 849 | | ([1]) | |
| Consumers Securities Co., Inc | ([1]) | 1933, receivership | ([1]) | | | | ([1]) | |
| Continental Shares, Inc | 1926 | do | 111, 108 | 9, 719 | 101, 389 | 3, 204 | 98, 185 | |
| Corporation Securities Co. of Chicago and Insull Utility Investments, Inc. | 1929 | 1932, bankruptcy | 229, 363 | 13, 742 | 215, 621 | 4, 611 | 211, 010 | After intercompany adjustments. |
| Eastern Bankers Corporation, Bankers Financial Trust, Bankers Capital Corporation, American Fiduciary Corporation, and Bankers Capital Co. of Connecticut. | 1922 | 1931, receivership | [5] 4, 154 | | 4, 154 | None | 4, 154 | R. H. Grender Group. |

See footnotes at end of table.

TABLE 1.—*Investment companies in receivership or bankruptcy, 1927–35*—Continued

[Amounts in thousands of dollars]

| Name | Date organized | Date of receivership or bankruptcy | Contributed capital | Repurchases | Contributed capital minus repurchases | Net assets at end of 1935 | Capital loss | Remarks |
|---|---|---|---|---|---|---|---|---|
| Empire Equities Corporation | 1929 | 1931, liquidated on sponsor's failure. | 1,200 | | | | (1) | E. R. Diggs & Co., sponsor, failed. |
| Ferguson Participating Trust | 1929 | 1931, receivership | (1) | | | | (1) | |
| First Cincinnati Corporation | 1929 | 1934 (?) | [6] 2,125 | | 2,125 | 500 | 1,625 | Estimated. |
| First Holding & Trading Corporation | 1928 | 1931, permanent injunction | (1) | | | | (1) | First Fiscal Corporation of New York, sponsor. |
| First International Securities Corporation | (1) | 1930, receivership | (1) | | | | (1) | |
| First Investors Co. of Illinois | 1927 | 1932 (?) | [7] 622 | | 622 | None | 622 | |
| First Trust Banks Stock Corporation | 1926 | 1931, bankruptcy | 1,243 | | 1,243 | | (1) | |
| Fiscal Bond & Share Corporation | 1929 | 1931, receivership | 1,800 | | | | (1) | |
| Founders Securities Trust | 1927 | 1930, receivership | [8] 1,200 | | 1,200 | | (1) | |
| Garard Investment Trust | 1929 | do | 2,534 | | 2,534 | None | 2,534 | Garard Trust Co. (Chicago), sponsor. |
| General Industrial & Bancshares Corporation. | 1929 | 1930, injunction | 3,900 | | | | (1) | |
| Goddard Securities Corporation | 1929 | 1932, bankruptcy | [6] 1,375 | | 1,375 | (1) | 1,375 | Estimated. |
| Guardian Investment Trust | 1927 | 1931, receivership | [9] 5,703 | 1,310 | 4,393 | [10] 1,545 | 2,848 | F. E. Kingston & Co., broker, sponsors, bankrupt. |
| Hambleton Corporation | 1929 | 1932, receivership | 7,100 | 5 | 7,095 | 1,311 | 5,784 | |
| Hytag Financial Corporation | 1929 | 1934, court order | 183 | | | 46 | (1) | |
| Insurance Equities Corporation | 1932 | 1934, receivership | (1) | | | | (1) | |
| Knickerbocker National Corporation | 1929 | 1930, bankruptcy | [6] 220 | | 220 | None | 220 | |
| Metal and Mining Shares, Inc | 1928 | 1930, receivership | 5,675 | (38) | 5,713 | None | 5,713 | C. V. Bob, sponsor, convicted in 1931 of mail fraud in connection with looting of the investment company. |
| Mosewell Secureties & Bancshares Corporation. | 1929 | 1931, bankruptcy | (1) | | | | (1) | |
| Municipal Financial Corporation | 1927 | 1930, bankruptcy | (1) | | | | (1) | |
| National Assets Corporation | 1929 | 1932, receivership | [6] 3,125 | | 3,125 | (1) | 3,125 | Estimated; company enjoined from sale of securities. |
| National Associated Investors, Inc | 1927 | 1928, receivership | [6] 856 | | 856 | 57 | 799 | R. H. Watkins & Co., sponsor; convicted of fraud. |
| National Republic Bancorporation | 1930 | 1933, receivership | (1) | | | | (1) | |
| New England Collateral Shares Corporation. | 1925 | 1928, bankruptcy | (1) | | | | (1) | |
| New England Investment Shares | (1) | do | (1) | | | | (1) | |
| Parker Trading Corporation | 1929 | 1935, receivership | 385 | | 385 | 38 | 347 | C. D. Parker & Co. sponsors. |
| Penn First National Corporation | 1929 | 1930, receivership | (1) | | | | (1) | |
| Public Utility Investment Co | 1924 | 1934, receivership | [11] 2,458 | | 2,458 | None | 2,458 | Nathan L. Jones, sponsor; assets pledged for bank loan. |
| Railroad Shares Corporation | 1929 | 1935, receivership | 6,767 | 1,355 | 5,412 | 95 | 5,317 | C. D. Parker & Co., sponsor. |
| Seaboard Utilities Shares Corporation (Delaware). | 1929 | do | 16,525 | 260 | 16,265 | 271 | 15,994 | Do. |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Security Shares, Inc | 1927 | 1932, bankruptcy | 1,050 | | 1,050 | None | 1,050 | |
| Southern National Corporation | 1929 | 1935, receivership | [7] 3,149 | 424 | 2,725 | [12] 532 | 2,193 | |
| Standard Shares Holding Co | ([1]) | ——, adjudged insolvent | ([1]) | | | | ([1]) | |
| Stuyvesant National Co., Inc | 1927 | 1927, bankruptcy | ([1]) | | | | ([1]) | |
| Swedish-American Investment Co | 1925 | 1933 (see remarks) | 48,135 | | 48,135 | None | 17,918 | Preferred shareholders exchanged shares for debentures of Kreuger & Toll, which became bankrupt; company repurchased shares from Kreuger & Toll and retired them. Common shares were issued to Ivar Kreuger. |
| United Hellenic Bank Shares, Inc | 1929 | 1930, injunction, receivership | 300 | | | | ([1]) | Hellenic Trading Corporation, sponsor. |
| United Investment Assurance Trust | 1927 | 1930, receivership | 1,571 | | | | ([1]) | |
| United Investors Corporation | 1932 | 1935, receivership | 368 | | 338 | 249 | 119 | McMurray, Hill & Co., sponsor. |
| Utilities Hydro & Rails Shares Corporation | 1929 | do | 1,574 | 56 | [illegible] | 51 | 1,467 | C. D. Parker & Co., sponsor. |
| Web Holding Co | 1926 | 1931, bankruptcy | 767 | | 767 | None | 767 | Share capital only, excluding borrowing. |
| Total known contributed capital or assets at first year-end. | | | 503,120 | | | | | |
| Total known losses | | | | | | | 400,442 | |

[1] Unknown.
[2] Assets, Sept. 30, 1929.
[3] Assets.
[4] Assets, 1929.
[5] Assets, 1928.
[6] Capital.
[7] Capital, 1929.
[8] Assets, 1927.
[9] Paid-in capital, 1931.
[10] May 31, 1935.
[11] Capital, 1931.
[12] Nov. 30, 1935.

Source: Secondary sources and correspondence and field studies.

Senator WAGNER. You may proceed, Mr. Smith.

Mr. SMITH. In my opinion and with my knowledge of the operations of a number of these companies, the greatest part of this loss was due either to looting or faithless management. By the terms "looting" or "faithless management" I mean that the loss was due to a management acting for its own interests either in bad faith or with wanton disregard of the rights of the investors. These are cases of maladministration.

The 200 companies mentioned above which had dissolved or liquidated, had almost as bad a record as the 61 companies, with relatively few exceptions. These companies had about $200,000,000 of contributed capital and the greatest part of this is estimated to have been lost based on the testings that we were able to make.

In this connection I am putting into the record a more detailed study of 148 investment companies which failed to respond to our questionnaire (and the most of them had an unfortunate ending) and which raised $700,000,000 of capital and had a loss ratio of 86 percent and 90 percent and over. These 148 companies in this more detailed study overlap some of the other companies mentioned here. However, the study may be of aid in understanding the extent of the losses in the industry. I will put this in your record.

Senator WAGNER. All right. The committee reporter will make that a part of the record.

(The memorandum entitled "General Management Investment Trusts and Investment Companies Which Did Not File Either Questionnaires or Summary Statements and so forth" is here made a part of the record, as follows:)

GENERAL MANAGEMENT INVESTMENT TRUSTS AND INVESTMENT COMPANIES WHICH DID NOT FILE EITHER QUESTIONNAIRES OR SUMMARY STATEMENTS BECAUSE SUCH COMPANIES WERE LIQUIDATED BY DECEMBER 31, 1935, WERE IN THE PROCESS OF LIQUIDATION, OR FOR SOME OTHER REASON FAILED TO FILE OR WERE EXCUSED

INTRODUCTION

Of the 814 general management investment trusts and investment companies to which the Commission directed questionnaires or summary statements for preparation and filing in connection with its study, 130 failed to respond. These had been liquidated or were in the process of liquidation by December 31, 1935. To this group has been added 18 more companies of similar character and status but to which neither questionnaire nor summary statement had been sent, increasing the number of companies falling within the scope of this chapter to a total of 148.

The reasons underlying failures of these companies to file, or for individuals formerly responsible for their management to file for them, were various and in general not unattainable. It was frequently found that during the interim between the date at which a company had been liquidated and the date upon which the questionnaire was sent out, former officials had moved on to other addresses and could not be conveniently located, or, if located, were no longer in possession of records containing the information desired. In cases of companies which had been placed in receivership or bankruptcy, trustees often asked to be relieved of responsibility in the matter on the grounds that they had no staff, nor funds with which to employ a staff, capable of assembling the data. In still other instances, individuals to whom inquiries were addressed simply ignored the inquiry or responded in a noninformative manner.

It was hoped originally to present in this memorandum a complete and accurate over-all picture of the performance of these 148 companies as a group, but with information regarding one phase or another of some of the companies lacking, as it developed, the composite figures and datum must of necessity also be incomplete.

Notwithstanding deficiencies in this respect, which will be pointed out as the memorandum progresses, a sufficiently comprehensive summary has been constructed so as to provide a reasonable approximation of the experience and salient corporate features of that section of the industry which has definitely passed out of existence. The factual matter upon which this summary is based was obtained from the following sources:

1. Field examinations of the books and records of a limited number of companies.
2. Former officials of the companies or firms with which they had been associated.
3. Receivers and trustees in bankruptcy.
4. Moody's Manual.
5. Poor's Manual.
6. Keane's Manual of Investment Trusts.
7. The state departments of several of the States.

With this material at hand the 148 companies were categorized according to the completeness of the information available with respect to each. Segregation was made on the following bases:

| | *Number of companies* |
|---|---|
| 1. Companies regarding which substantial information was obtained through brief field studies conducted by the Commission staff | 7 |
| 2. Companies regarding which limited information was obtained through the examination of available balance sheets and supplemented with data obtained from reference books or supplied by persons formerly connected with the particular company | [1] 68 |
| 3. Companies regarding which the information available consists only of the number of shares offered for sale, or, in some instances, outstanding, and the offering price | 41 |
| 4. Companies regarding which only meager statistical information was available | 32 |
| Total | 148 |

[1] Includes Insull Utility Investments, Inc., and Corporation Securities Co. of Chicago.

Field examinations enabled the Commission's staff to obtain accurately the amount of capital contributed to the seven companies included in first group, while the amount of capital shown as contributed to companies included in second group is based in most instances upon the maximum amount of capital shown as paid in as of dates at which balance sheets could be found. No balance sheets were available with respect to companies included in group three. The amount of capital shown as contributed to these is therefore based upon the number of shares offered for sale by each company (as indicated by financial manuals, circulars, etc.), or outstanding where determinable, at the offering price. No figure at all could be found with respect to the 32 companies included in the fourth group.

Therefore, when the terms "net contributed capital" paid into these companies is used or when any other use of the word "capital" is made, it should be borne in mind that these figures are limited in accuracy to the extent that information was available, as described in the foregoing paragraphs, and serve merely to give the reader some idea of the amounts involved.

### CONTRIBUTED CAPITAL

For the most part, this group of 148 companies, numerically comprising nearly 18 percent of the total of 832 general management companies included in the Commission's study, present a picture of that section of the industry which was paled into relative obscurity by the overshadowing size and popularity of their better-known contemporaries. Of diverse corporate characteristics and size, predicated upon a variety of ideas, experiencing different degrees of success or failure, they possess one feature in common. All are permanently out of existence, and the former owners are left with comparatively negligible, if any, hope of recouping any part of their huge loss through future improvement in business conditions, an anticipation remaining to the security holders of surviving companies.

Upon the bases of computation already explained, a total of $696,714,143.07 share and borrowed capital was paid into 116 companies in the proportions shown on table 1 which follows:

TABLE 1.—*Contributed capital*

| Group | Number of companies | Preferred share capital | Common share capital | Paid-in or capital surplus | Total share capital | Borrowed capital | Total capital contributed |
|---|---|---|---|---|---|---|---|
| 1 | 7 | $6,882,912.00 | $40,915,777.52 | | $47,798,689.52 | | $47,798,689.52 |
| 2 | 68 | 123,953,464.25 | 232,943,572.28 | $61,845,023.57 | 418,742,060.10 | $154,394,593.55 | 573,136,653.65 |
| 3 | 41 | 21,409,725.00 | 54,369,075.00 | | 75,778,800.00 | | 75,778,800.00 |
| 4 | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Total | 116 | 152,246,101.25 | 328,228,424.80 | 61,845,023.57 | 542,319,549.62 | 154,394,593.55 | 696,714,143.17 |

[1] Figures not available.

If figures with respect to the 32 companies included in group 4 were available this aggregate would, of course, be increased substantially. Moreover, the figures shown on table 1 represent only the amount which was actually paid into the 116 companies involved (on the three bases indicated) and does not reflect any differential between the amounts that the companies received and the amounts paid by the public to the distributors. This may have been considerable for it is definitely known that in keeping with the widespread practice of the time, some of these companies sold their capital securities to a distributor who then ran up the market and disposed of them to the public at greatly increased prices.

Reference to table 1 will disclose that of the total of $696,714,143.17 capital contributed to these 116 companies, $390,073,448.37, or 56 percent was raised through sale of common shares. Capital or paid-in surplus has been added to common share capital here since practically all of this surplus appears to have been paid in on this class of shares. Preferred share capital represents 22 percent of the total and borrowed capital 22 percent.

It was observed in the course of assembling data regarding this group of companies, that many had two classes of common shares outstanding, designated generally as class A and class B, in one of which resposed full or special voting privileges. While more precise information with respect to this practice is lacking, the assumption that these special voting shares were acquired and held by those identified with the organization and management of the companies is not illogical. Thus, many common-stock holders surrendered complete control over their funds to an infinitesimally smaller group whose financial contribution to the common fund was much less.

Still another practice observed to have been indulged in, in a few instances, was the issuance of common "founders" or "managers" shares to the sponsors and managers of the companies. In the light of the limited information at hand, these appeared to be identical in all respects to the other common shares except that they were bestowed free upon the recipients or sold to them at nominal prices.

In groups 1 and 2, included in the preceding table, there is an aggregate of 75 companies, 11 of which borrowed capital funds to the extent of $154,394,593.55. There were also three additional companies that are known to have borrowed heavily in aggregate, but the amounts could not be accurately determined. No figures at all were available with respect to the borrowing of the 73 companies in cluded in groups 3 and4.

There has been included in the total of $154,394,593.55 borrowed capital not only funds raised through bond issues but also loans made from banks and retained by the companies for so long a time—generally a period of years covering the greater part of the company's existence—that, in effect, it became permanent capital. It is not represented here that this figure reflects all of the money borrowed by this group for loans made and repaid within a short time have been purposely omitted as not constituting permanent capital. Moreover, funds may have been borrowed after the date of the last available balance sheet.

Further analysis discloses that of the total borrowed capital shown to be $154,394,593.55, $147,201,678.76 was owed by the two Insull companies, Insull Utility Investments and Corporation Securities Co. of Chicago, leaving only $7,192,914.79 borrowed by nine companies. While the loss suffered by the banks from which the two Insull companies borrowed is known to have been a large