small wage earner as a means whereby he could save $5 or $10 a month, and it was represented that through this medium of investment he could build up an estate over a period of 10 years.

I will illustrate that if I may, and in order to do so I should like to read an excerpt from—

Senator Wagner (interposing). Why were both trusts in that plan? Why was there any need for a top trust and also this other—what did you call it, an underlying trust?

Mr. Boland. The top trust is really the contractor through which the subscriber agrees to pay for so many shares each month, and then—

Senator Wagner (interposing). I understand that, but is it a device or is it an additional protection to the investor, or why do they need this method of going through one trust and all that sort of thing when the top trust itself is to handle it, the operation of it, and is to purchase an interest somewhere else.

Mr. Boland. When the underlying investment shares are available for less than $10 a share, then the subscriber can purchase directly underlying shares without paying the service charges of the top trust company.

Senator Wagner. Which is the load you are talking about for that service?

Mr. Boland. Yes, sir.

Senator Wagner. Why is it there? Is it just in order to earn that fee or what is it?

Mr. Boland. Well, Mr. Chairman, I am not in position to base any conclusions as to the economic utility of this type of trust companies. All I know is that they have been in existence, and they have placed a tremendous cost upon the investor to use the medium in the way of investment in investment-trust shares.

Senator Wagner. Which really is merely a sort of agent for the purchaser of an interest in the fixed-type trust?

Mr. Boland. It is really the agent, or a scheme by which the investor feels obligated to pay so much each month. If it were not for this top trust contract the proponents of the periodic-payment plan claim the investor would not make regular payments. So that is really one justification for it according to the proponents of the plan. It is a means of compulsory saving.

Senator Wagner. It is not clear to me yet, but you may proceed with your statement. I mean that I understand what you say, but as to the necessity of the plan, I do not understand that.

Senator Downey. Mr. Chairman, might I interpose a question right there?

Senator Wagner. Certainly, Senator Downey.

Senator Downey. Is the top trustee virtually a selling agency for the organization?

Mr. Boland. Invariably it is the selling agency.

Senator Downey. You can easily enough see, Mr. Chairman, why that can be advantageous from the viewpoint of the promoter.

Senator Wagner. Perhaps so, but I am thinking of the public. Is there anything in it to protect the investor?

Mr. Boland. My own personal opinion is that the economic need is very doubtful.

Senator Wagner. Very well. You may go ahead with your statement, Mr. Boland.
Mr. Boland. The double load or service charges which a subscriber to one of these plans subjects himself in very many cases amounted to more than 20 percent of the total amount which was invested for his account. In a number of instances the underlying trust of the sponsor company charged in addition to the sales load on its sales, a management fee. In those cases the management fee brought that percentage up to as high as 25 percent of the total amount which was invested for the subscriber's account.

Senator Wagner. Is that just paid once, or is it paid as each installment is paid? As I understand the situation described, they are installments over a period of time.

Mr. Boland. Yes, sir.

Senator Wagner. Is there a fee paid for each transaction, or is the fee paid upon the making of the original contract?

Mr. Boland. It would depend upon the particular charge that is being made. For example, the sponsor company of the certificate, or the top trust, takes its service fee out of the first 10 or 12 payments. The load on the underlying shares is paid as the underlying shares are purchased for the subscriber's account; so that that load continues over the life of the plan as the shares are acquired each month.

The management fee, where there is one, is generally taken out of the gross proceeds of the underlying trust, out of revenues, earnings or dividends, on the portfolio of the underlying trust. This management fee generally is set forth at one-half of 1 percent of the daily average value of the underlying portfolio.

Senator Wagner. But if it is reduced there is no charge, no management fee, is there?

Mr. Boland. If the revenues of the underlying trust are nil then the sponsor company does not receive any management fee.

Senator Wagner. But if not nil but reduced, say, by 1 or 2 percent of its value?

Mr. Boland. If the portfolio comes down in market value then the management fee is proportionately reduced.

Senator Wagner. Still there is a management fee, is there not?

Mr. Boland. Yes, sir.

Senator Wagner. All right. I thank you. I will try not to interrupt you any more.

Mr. Boland. Please do interrupt me if I do not make myself clear.

Senator Wagner. All right.

Mr. Boland. I should now like to read from this pamphlet, because it illustrates very clearly the manner in which this type of investment was held out to the small-wage earner. I am reading an excerpt from a pamphlet which was given by one of the distributing companies to its salesmen for use in their distribution plan:

What will the F. I. F. plan do for me?

And I might explain that the F. I. F. represents Financial Independence Founders. I continue quoting:

It will help you—

Senator Wagner (interposing). Is that one of the group testified about on Friday or is that another company? It is not the Founders group, is it?

Mr. Boland. No, sir. This is the periodic-payment plan strictly.

Senator Wagner. All right.
Mr. Boland. I will continue reading:

It will help you—
To create an old-age retirement fund.
To provide a fund for educating your children.
To buy a home or pay off a mortgage.
To raise capital with which to go into business.
To create a business reserve.
To travel and enjoy the comforts and luxuries only money will buy.

Your great need is to make the setting aside of a certain portion of your income automatic each month.

"A part of all you earn is yours to keep."

Therefore, when you adopt a definite plan to set aside regularly a certain portion of your income in a trust fund, such a plan helps you to convert good intentions into solid financial accomplishments. The Financial Independence Founders plan provides a method whereby it is possible for you to create a fund of sufficient size for you to become actually financially independent. So many other methods for accumulating money offer such low rates of return that it is almost impossible for a person of average earning power to set aside a large enough portion of his earnings during his productive years to build up a capital fund of sufficient size to enable him to live on the income.

Bear in mind that, in America, practically all fortunes are built from the ownership of successful businesses.

The Financial Independence Founders plan makes it possible for you to obtain the same diversified ownership of successful businesses as the man of large means, thus giving you the same opportunity to profit from dividends and from the growth of leading American industries.

From about 1930 to 1936—

Senator Wagner (interposing). When was this pamphlet issued?

Mr. Boland. This pamphlet I believe was used right up through 1935. During the period 1930 to 1936 these periodic-payment plans were distributing in 45 States, in Panama, in Puerto Rico, and in the District of Columbia. During that period the contracts outstanding called for payments amounting to more than $154,000,000. During the period up to 1937 subscribers had paid in approximately $55,-000,000.

Senator Wagner. What period is that?

Mr. Boland. From 1930 through 1937.

Senator Wagner. And you say $55,000,000 were paid in?

Mr. Boland. Yes, sir. Our survey showed that at the end of 1937 the equity which the subscribers acquired through the payment of the $55,000,000 had a market value of only $25,000,000. The shrinkage after considering repayments, amounted to $17,000,000, or over 30 percent, was largely due to the service charges, trustees' fees, and sales loads which were deducted from the subscribers' payments. Our examination indicated that of the $17,000,000, over $11,000,000 in the shrinkage was due to such charges.

Of course these figures are exclusive of the face-amount certificates under which the company obligates itself to pay a fixed sum of money to the subscriber at the end of the period of investment. I might say that Mr. Mathews last week pointed out the regrettable theory upon which the face-amount certificates are issued, and it is regrettable for any company to engage in a business which is predicated upon the primary assumption that a substantial number of people who invest in it, must lose all or the most of their money.

Senator Wagner. Do you think that is a fair assumption?

Mr. Boland. I believe Mr. Mathews pointed that out rather clearly last Friday, Mr. Chairman, when he pointed out that the sales overhead and maintenance costs on these face-amount certificate
companies almost consumed entirely the dividends or revenues from the underlying portfolios; so that the only way in which these face-amount certificate companies can make good on their guarantees to pay the subscriber a fixed amount at the end of the period of investment, is by realizing income from another source. The only other source conceivable is through lapses and defaults of a vast number of their subscribers. The thing certain in these face-amount certificates is that if a subscriber defaults within the first 2 or 3 years he forfeits all payments theretofore made.

These periodic-payment plans are different from the face-amount certificate plans inasmuch as the issuer of the periodic-payment plan is obligated in no way to pay to the subscriber anything. All the subscriber to this type of plan is entitled to is the value of the underlying trust shares which are purchased for his account. The value of the subscriber's equity will naturally vary with the fluctuating stock-market prices of the underlying common stocks.

Senator Wagner. Is there any limitation in law anywhere upon the type of investment that these corporations may make?

Mr. Boland. None that I know of.

Senator Wagner. In other words, so far as their authority goes?

Mr. Boland. It is limited only to the terms of the trust indentures which are adopted.

Senator Wagner. Yes. Do the trust indentures set forth the loads or the payments to be made to the top trusts?

Mr. Boland. Yes, sir.

In November 1937 several complaints were presented to the Securities and Exchange Commission which indicates that the fraud provisions of the Securities Act of 1933 had been violated by a number of companies issuing the periodic-payment plans. Accordingly, the Commission directed that an investigation be made into the sales practices and sales methods in which the companies had indulged.

Our investigation revealed that less than 5 percent of the hundreds of subscribers who were examined really had any idea as to the nature of their investment. The investigation also demonstrated that the vast majority of plan-holders had been induced to buy their plans by gross misrepresentations in material facts.

Senator Wagner. Did it disclose that any of them read this—what do you call that?

Mr. Boland. This is a brochure, or sales pamphlet.

Senator Wagner. Brochure.

Mr. Boland. Investigation revealed that very often these pamphlets were handed to subscribers, but in the majority of cases we found the salesman would not hand the subscriber anything except sales talk.

It was repeatedly suggested to salesmen during the course of their training that to hand an investor anything during the course of the sales presentation would interrupt the sales talk; therefore, be very careful, the salesmen were instructed, when handing things to prospects while the sales talk was going on.

Senator Wagner. Could you tell us, just briefly, what type of people they were? Were they wage earners?

Mr. Boland. They were truck drivers, W. P. A. workers, butchers, and people in the smallest income bracket.

Senator Wagner. How many of the typical holders were there? What was the number of certificates in this amount of $55,000,000?