

high. Underwriters investigate situations themselves, and commonly dispute ratings thought to be too low as well as these viewed as too high. The investor, once a purchase is made, only hopes the rating will not be lowered, for he too remembers the 1930's when events caused so many issues to be devalued and rating agencies adopt their lingering conservative attitudes.

Investor preferences are usually guided by ratings. In general, there is greatest demand for those issues rated A or better; unrated issues are preferred to those rated Ba or lower (unrated issues will usually carry higher yields than those rated issues believed to be comparable). A bonus awaits the analytical investor if he can take advantage of unrated issues or those which seem to be rated lower than justified by careful analysis.

As of June 30, 1965, commercial banks held more than \$31 billion of public bonds. One must, therefore, be careful to consider the preferences of investment officers and understand the rules and regulations under which banks are charged to operate by examining authorities.

National and State banks, which are members of the Federal Reserve System and Federal Deposit Insurance Corporation, must adhere to rules and regulations set forth by the Comptroller of the Currency. State banks which are not members of the Federal Reserve System are regulated by the FDIC. State banking authorities also examine banks within their States, and Federal Reserve banks may look into the affairs of State member banks within their respective districts. Most often, difficulties which could result from these overlapping jurisdictions are fortunately avoided by close cooperation among the several regulatory authorities.

In 1949, the Comptroller of the Currency, the FDIC, the Federal Reserve System and the Executive Committee of the National Association of Supervisory of State Banks issued a statement in which investment securities purchased by banks were divided into four categories:

Group I securities are marketable obligations in which the investment characteristics are not distinctly or predominantly speculative. This group includes general market obligations in the four highest grades and unrated securities of equivalent value.

Group II securities are those in which the investment characteristics are distinctly or predominantly speculative. This group includes general market obligations in grades below the four highest, and unrated securities of equivalent value.

Group III securities are those securities in default.

Group IV securities; stocks.

In an opinion of the Comptroller of the Currency it is stated that:

Although the rating services and investment counselors play an important part in the intelligent and informed acquisition of securities by banks, management may not under any circumstances delegate its responsibilities for maintaining a sound investment account to a rating service or any other individual or entity. Therefore, it is incumbent upon management to use all necessary and available sources of information to keep informed and the data obtained should be retained for ready reference.

Another opinion from the Comptroller regarding ratings states that:

Responsibility for proper investment of bank funds rests primarily with each bank's directors and this responsibility cannot be delegated to the rating services of others or be considered as having been fully performed merely by ascertaining that a particular security falls within a particular rating classification.