Volume 7 | Issue 1 Article 2

January 1953

New 1952 Taxpayers: Mutual Savings Banks, Cooperative Banks and Building and Loan Associations

Fancis E. Jasper

NEW 1952 TAXPAYERS: MUTUAL SAVINGS BANKS, COOPERATIVE BANKS AND BUILDING AND LOAN ASSOCIATIONS

*Francis E. Jasper**

Introduction. Section 313 of the Revenue Act of 1951 repealed the exemption from the federal income tax of mutual savings banks, domestic building and loan associations, cooperative banks and federal savings and loan associations, hereinafter referred to as "institutions." By virtue of a specific statutory provision, however, these institutions are exempt from the federal excess profits tax. As a result of the repeal of the exemption, institutions are now subject to all of the applicable provisions of that vast body of rules referred to as the federal income tax law. Such rules consist of the statutory law, namely the provisions of the Internal Revenue Code, hereinafter referred to as the "Code;" the case law, which has evolved from the almost countless number of judicial decisions relating to the federal income tax; and the administrative law, made up of the Treasury Department's official interpretations of the statute and the seemingly endless rules issued in connection therewith.

Recently the Treasury Department issued final regulations in respect of the taxation of institutions. Prior to the final adoption of such regulations the Treasury Department gave consideration to any data, views or arguments pertaining thereto which were submitted within the period of thirty days from the date of the publication of the proposed regulations in the Federal Register.

---

*B.S., LL.B., Fordham University; C.P.A., Peat, Marwick, Mitchell & Company, New York City; member, New York bar.

This paper was delivered at the Second Annual Tulane Tax Institute in New Orleans, Louisiana, on November 19, 1952. Revisions have been made to reflect changes put into effect by the Treasury Department since that date. The Southwestern Law Journal expresses appreciation to the College of Law and School of Business Administration of Tulane University for permission to publish Mr. Jasper's address.

Provisions of New Law. In addition to repealing the exemption from the federal income tax and establishing the exemption from the federal excess profits tax, Section 313 of the 1951 Revenue Act contains several other specific provisions relating to institutions. These other provisions will be referred to briefly at this point but will be the subject of more detailed discussion hereinafter.

Section 23(k)(1) of the Code, relating to the deduction for bad debts, has been amended to provide rules for institutions with respect to additions to a reserve for bad debts. Section 23(r) of the Code, relating to a deduction for certain dividends paid by banking corporations, has been amended to provide under certain circumstances a deduction for institutions of amounts paid to or credited to the accounts of depositors or holders of accounts as dividends on their deposits or withdrawable accounts. Section 23(dd) has been added to the Code, providing for a deduction for institutions for the repayment of certain loans made to them. Section 104(a), relating to the definition of "bank," has been amended to provide that such term also includes a domestic building and loan association, the definition of which, contained in Section 3797 of the Code, has been amended to include a domestic savings and loan association and a federal savings and loan association. The significance of the definition of "bank" will be developed subsequently, when some of the provisions of the federal income tax law which relate exclusively to banks are considered. Section 101(4) of the Code has been amended to provide exemption from tax for certain guaranty funds. Lastly, the amendments made by Section 313 of the 1951 Revenue Act are applicable only with respect to taxable years beginning after December 31, 1951.

Taxable Year. The Code provides that the net income of institutions shall be computed upon the basis of the taxpayer's annual accounting period — fiscal or calendar year, as the case may be — in accordance with the method of accounting regularly employed in keeping the books. A fiscal year means an accounting period of twelve months ending on the last day of any month other than December. If the taxpayer's annual accounting period is other than a fiscal year, as defined, or if the taxpayer has no annual accounting period or does not keep books, the net income shall be computed on the basis of the calendar year.

Not infrequently the determination of a taxable year is fraught with difficulties. However, such determination is purely a factual question, to be resolved in the light of the surrounding evidence. The most weighty item of evidence may be said to be the manner of keeping the books. Some other evidentiary data are: provisions of the institution's by-laws with respect to the accounting period; accounting period used in reports furnished supervisory authorities and in Treasury Department Form 990.

Once a taxable year has been adopted by an institution, no change in respect thereof may be made without the permission of the Commissioner of Internal Revenue, hereinafter referred to as the "Commissioner." Application for permission to change must be made within sixty days prior to the end of the newly selected year-end date.

The final regulations provide that the taxable year of an institution shall be determined without regard to the fact that such institution was exempt from the tax during any prior period. Institutions will not be permitted to elect a new taxable year in their first federal income tax return.

Accounting Methods. The Code provides that the net income of an institution shall be computed in accordance with the method of accounting which it regularly employs in keeping its books; but if the method of accounting does not clearly reflect the income, the computation shall be made in accordance with such method as in the opinion of the Commissioner does clearly reflect the income. Before any change of accounting method can be effected, permission must be obtained from the Commissioner. Application for such permission must be made within ninety days after the beginning of the taxable year in which the change is to be effected. The final regulations provide that a method of accounting recognized under the applicable section of the Code and regulations and used in the institution's first income tax return shall be deemed to constitute the method of accounting regularly employed. The method selected is subject to the approval of the Commissioner upon examination of the return. Thus, institutions will be permitted to elect a new accounting method in the first income tax return.

Generally, there are two methods in use for the determination of an institution's net income: the cash method and the accrual method. Technically, hybrid methods of accounting are not recognized by the Treasury Department. As a practical matter, however, deviations from an adopted method of accounting have been known to have been accepted where the amounts involved were relatively immaterial, provided such handling was consistent and was based upon sound business reasons.

Bad Debts. Prior to amendment by Section 313 of the 1951 Revenue Act, Section 23(k)(1) in effect permitted the computation of net income by deducting either specific bad debts, in whole or in part, or a reasonable addition to a reserve for bad debts which was subject to approval by the Commissioner. Subsection (e) concerning "Bad Debt Reserves," an important and perhaps the most troublesome provision of Section 313 of the 1951 Revenue Act, added the following amendment at the end of Section 23(k)(1):

> In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951. In the case of a taxpayer described in the preceding sentence, the reasonable addition to a reserve for bad debts for any taxable

year shall in no case be less than the amount determined by the taxpayer as the reasonable addition for such year; except that the amount determined by the taxpayer under this sentence shall not be greater than the lesser of (A) the amount of its net income for the taxable year, computed without regard to this subsection, or (B) the amount by which 12 per centum of the total deposits or withdrawable accounts of its depositors at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of the taxable year.

In arriving at net income, institutions have the right to use either the charge-off method or the reserve method. The final regulations provide that the selection of either of the alternative methods for treating bad debts may be made in the first income tax return. The method selected is subject to the approval of the Commissioner of Internal Revenue upon examination of the return, and any change in the method so selected and approved may be made only if permission is granted by the Commissioner. Application for permission to change the method of deducting bad debts must be made within thirty days prior to the end of the taxable year in which such change is to be effected.

Under the charge-off method the institution is entitled to a deduction for bad debts in the year in which debts become worthless, in whole or in part. Worthlessness is a factual question to be determined in the light of all of the circumstances.

The amendment to Section 23(k)(1) by Section 313 of the Revenue Act of 1951 provides special rules relative to institutions which elect the reserve method. The first sentence in the amendment provides that the reasonable addition to an institution's reserves shall be determined with due regard to surplus or bad debt reserves on December 31, 1951. The next sentence in the amendment grants an institution the right of determining the addition to its bad debt reserves, provided that the addition shall not exceed the lesser of the following sums:

(1) Net income for the taxable year (exclusive of bad debts), or

(2) Amount by which 12 per cent of total deposits or withdrawable accounts at the close of the taxable year exceeds the sum of the institution's surplus, undivided profits and reserves at the beginning of the taxable year.

For convenience the first limitation on an institution's power to determine the addition to its bad debt reserves may be designated as the "net income limitation." Since the phrase "surplus, undivided profits and reserves" which appears in the second limitation on an institution's power to determine the addition to its bad debt reserves in effect describes the institution's net worth, the second limitation can be briefly designated as the "net worth limitation." An analysis of the amendment to Section 23(k)(1) discloses that an institution's power to determine the addition to its bad debt reserves depends on whether its "net worth," that is, its "surplus, undivided profits, and reserves at the beginning of the taxable year" is less than 12 per cent of the "total deposits or withdrawable accounts of its depositors at the close of such year." Institutions which have a net worth which is lower than the 12-per-cent sum are herein for convenience designated as "low net worth" institutions. In arriving at net income, low net worth institutions which elect the reserve method will be entitled to deduct an addition to a reserve for bad debts in an amount equal to the lesser of two figures: (1) its net income (computed without any bad debts) or (2) an amount which when added to its net worth will bring it up to the so-called 12-per-cent position. Institutions which have a net worth equal to or in excess of the 12-per-cent sum, herein for convenience designated as "high net worth" institutions, obtain no benefits from the 1951 amendment to Section 23(k)(1), under which no automatic addition can be made to their bad debt reserves. However, the final regulations provide that high net worth institutions which elect the bad debt reserve method are controlled by the original part of Section 23(k)(1), which grants the Commissioner discretionary power to approve additions to bad debt reserves.

It is desirable to consider some additional definitions contained in the final regulations concerning the amendment to the bad debt section of the Code. "Surplus, undivided profits, and reserves" means the excess of total assets over total liabilities. "Total assets" means the sum obtained by adding the institution's money to the aggregate of the adjusted basis of the property other than money. The adjusted basis of an asset is its adjusted basis for determining gain upon sale or exchange for federal income tax purposes. The determination of total assets must conform to the method of accounting employed by an institution in determining net income and earnings and profits. "Total liabilities" means all liabilities which are fixed and determined, absolute and not contingent, and includes those items which constitute liabilities in the sense of debts or obligations. The obligation of institutions with respect to their deposits or withdrawable accounts is a liability. In the case of a building and loan association having permanent nonwithdrawable capital stock represented by shares, the paid-in amount of such stock is also considered a liability. Reserves for contingencies and other reserves which are mere appropriations of surplus are not liabilities. "Total deposits or withdrawable accounts" means the aggregate of (A) amounts placed with an institution for deposit or investment, and (B) earnings outstanding on the books of account of the institution at the close of the taxable year which have been credited as dividends or interest upon such accounts prior to the close of the taxable year, except that in the case of a building and loan association such term does not include permanent nonwithdrawable capital stock represented by shares, or earnings credited thereon.

In defining "surplus, undivided profits and reserves" the final regulations provide, in effect, that the components thereof, namely, assets and liabilities, shall be determined in the light of the principles of the federal income tax law. It is in this definition that the tax balance sheet may be said to have been conceived. In this connection it should be remembered that the principles of federal income tax law are not necessarily in accord with sound accounting principles. In the determination of an institution's net worth for tax purposes, assets must be reflected at their adjusted basis for determining gain, sometimes hereinafter referred to as the "tax basis." Such basis may be quite different from the basis at which assets are reflected on an institution's financial statement. Likewise, in such determination only actual liabilities are recognized. Bookkeeping accruals made in accordance with budgetary requirements do not constitute liabilities. Moreover, of the various reserves employed by institutions the income tax law recognizes only depreciation reserves and bad debt reserves; other reserves are regarded as a part of net worth. In this connection, for the purpose of the so-called 12-per-cent computation the bad debt reserve will be considered a part of net worth.

It can be seen that one function of the tax balance sheet is to establish net worth on a tax basis at the beginning of each taxable year for the purpose of the so-called 12-per-cent computation; another function is to determine the tax basis of assets for the purposes of gain or loss in connection with sales or exchanges and for the purposes of computing depreciation and amortization. Institutions will find in the tax balance sheet a very effective tool for use in determining net income subject to federal income tax. There will be discussed hereinafter the tax basis of some of the major assets appearing on an institution's financial statement, such as mortgages, bonds, fixed assets, etc.

After construction of a tax balance sheet, an institution will be in a position to determine whether its net worth is under or over the so-called 12-per-cent position. As stated above, the final regulations relating to additions to bad debt reserves establish different rules for low net worth institutions and high net worth institutions.

The reserve for bad debts and all adjustments thereto must be reflected on the regular books of account of an institution at the close of the taxable year, or as soon thereafter as practicable.

Minimum amounts credited, in compliance with federal or state statutes, regulations, or supervisory orders to reserve or similar accounts, or additional amounts credited to such reserve or similar accounts and permissive under such statutes, regulations, or orders, against which charges may be made for the purpose of absorbing losses will be deemed to have been credited to the bad debt reserve discussed herein. Recoveries of debts charged off during a prior taxable year in which the institution was subject to tax shall be credited to the bad debt reserve; also, bad debt losses sustained during the taxable year shall be charged against the bad debt reserve.

An institution having a net worth which equals or exceeds the 12-per-cent sum which elects the reserve method of computing bad debts is not entitled to the bad debt deduction which the 1951 amendment allows to a low net worth institution but must look to the general provisions of Section 23(k)(1) relating to a reasonable addition to a reserve for bad debts. The final regulations point out that for such an institution there is allowable as a deduction from gross income a reasonable addition to the reserve for bad debts determined under the general provisions of Section 23(k)(1). In making this determination there must be taken into account net worth on December 31, 1951, and changes therein from this date up to the beginning of the taxable year. A high net worth institution will be allowed a deduction for an addition to the reserve for bad debts if it proves to the satisfaction of the Commissioner that the bad debt experience of the institution warrants the maintenance of a bad debt reserve in excess of its net worth at the beginning of the taxable year.

The final regulations leave much unsaid. They make no mention as to how an institution is to establish satisfactory proof that its experience warrants an addition to the bad debt reserve. It is hoped that the Treasury Department will recognize this deficiency and that this particular aspect of the bad debt question will be clarified and treated in much more detail. Commercial banks —

and let it be remembered that institutions considered herein are banks for federal income tax purposes — are permitted to compute additions to reserves for bad debts in accordance with the principles of the twenty-year moving average method. Equity would seem to require that the special class of institutions considered in this paper be permitted to use a similar method with perhaps some modification to reflect their special problems.

Basis of Property. As indicated above, total assets means the aggregate of the adjusted basis of an institution's property for determining gain upon sales or exchange. The determination of an institution's tax basis must be made for the purposes of (1) establishing net worth in connection with the so-called 12-per-cent computation, (2) computing gain or loss on the sale or other disposition of property, and (3) computing the amount of allowable depreciation and amortization.

The final regulations provide that adjustments to cost or other basis of property set forth in Section 113(b) of the Code are applicable to an institution notwithstanding the fact that such institution was exempt from tax for taxable years beginning prior to January 1, 1952; also, that proper adjustment must be made under said Section for the entire period since the acquisition of property. Thus, proper adjustments must be made for depreciation allowable for all prior years even though an institution was exempt from tax during such period. Likewise, in the case of tax exempt and partially taxable bonds purchased at a premium and subject to amortization under Section 125 of the Code, appropriate adjustment must be made for amortization with respect to such premium. Proper adjustment is required to be made for all prior years in respect of mortgages purchased at a premium, although the institution was exempt from tax during such years.

The Treasury Department position as set forth in the final regulations is that insofar as basis is concerned, all proper adjustments thereto must be made as if the institution had been subject to tax during its exempt period. However, there appears to be some statutory authority for the proposition that in the case of the newly taxed institutions no adjustments are required to be made to the basis of property for years beginning prior to January 1, 1952, except in respect of depreciation sustained prior to March 1, 1913.

Perhaps the largest asset appearing on an institution's financial statement is "Mortgage Loans." Mortgages may have been placed directly with mortgagors, or they may have been purchased at a premium or at a discount. Moreover, other acquisition costs may have been incurred in connection with such mortgages. Mortgages purchased at a discount may have been written up to par on the books; mortgages may have been written down on the books to reflect a decline in the value of the collateral; and premiums and other acquisition costs may have been charged off the books at the time of acquisition of the mortgages.

The book treatment accorded to mortgages owned by an institution may not necessarily reflect their tax basis. Generally, the tax basis of a mortgage is original cost less payments thereon, less adjustment for amortization of premium where appropriate. The final regulations require that in the case of mortgage purchased, acquired, or originated at a premium, adjustments to the basis of the premium must be made for all taxable years (whether or not the institution was exempt from tax during such years) in which payments are received. Such adjustment may be made on an individual mortgage basis or on a composite basis by reference to the average period of payments of the mortgage loans of the institution. Premium includes the excess of the acquisition value of the mortgage over its maturity value. The acquisition value of the mortgage is the cost, including buying commissions, attorneys' fees or brokerage fees, but such value does not include amounts paid for accrued interest.

Provision has been made in the final regulations for the use of an alternative composite method of amortizing mortgage acquisition costs. The Treasury Department has recognized the tremendous practical difficulty faced by some institutions with many thousands of mortgages in their portfolios, in permitting the use of a composite method as an alternative to amortization on the basis of individual mortgages.

Another asset appearing on an institution's financial statement which warrants consideration is "Bond Investments." Generally, the tax basis of a bond is cost including total premium paid less appropriate adjustment for amortization of premium. Section 125 of the Code provides special rules with respect to amortization of bond premium and the determination of the tax basis for exempt and partially taxable bonds and fully taxable bonds. The tax basis of a fully exempt or partially taxable bond purchased at a premium is original cost adjusted to reflect amortization of such premium from the date of acquisition or from the taxable year beginning after December 31, 1941, whichever is later. With respect to a fully taxable bond purchased at a premium, the tax basis is original cost until such time as an election is made by the institution to amortize the premium. The reason for the difference in treatment between these two types of bonds is found in Section 125 of the Code, which provides that amortization of premium on fully exempt and partially taxable bonds is mandatory and that with respect to fully taxable bonds amortization of premium is a matter of election.

The final regulations provide that appropriate adjustments to basis must be made for all prior taxable years even though an institution may have been exempt from tax during such period. Consequently, had an institution been subject to tax in the past, it would have been required to amortize premium on exempt and partially taxable bonds. Also, had an institution been subject to tax, amortization of premium on fully taxable bonds would have been required only if an election to amortize had been made. Never having filed a tax return, an institution cannot be said to have made an election. Therefore, until such an election is made, the tax basis of a fully taxable bond is its original cost, including total premium.

"Fixed Assets" (office building, furniture, fixtures, and equipment) is another item appearing on an institution's financial statement which merits consideration. The final regulations provide that an adjustment to the basis of such property must be made for depreciation allowable for all prior years even though an institution may have been exempt from tax during said period. For fixed assets acquired subsequent to February 28, 1913, this would mean that the tax basis of such property would be original cost plus additions and less deductions and depreciation allowable since the date of acquisition. Where fixed assets were acquired prior to March 1, 1913, the starting point in determining the tax basis is the depreciated cost or market value of such property at that date, whichever is higher.

From the foregoing it can be seen that the tax basis of property must be determined in the light of the principles of the federal income tax law. The fact that assets on hand have been written up or down for book purposes will not affect the determination of the tax basis.

Dividends. Institutions may deduct from gross income amounts which during the taxable year are paid to or credited to the accounts of depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw. Amounts credited as dividends in one taxable year which are not withdrawable until the following taxable year are deductible in the latter year. The fact that amounts credited as dividends are subject to the terms of a pledge agreement between an institution and a holder of account will not preclude deductibility if such amounts are otherwise deductible under the statute and regulations.

In the case of a building and loan association having non-withdrawable capital stock represented by shares, no deduction is allowable for amounts paid or credited as dividends on such shares. Serial associations which maintain bonus plans or which issue shares subject to fines, penalties, forfeitures, or other withdrawal fees, will be entitled to deduct the total amount credited as dividends upon such shares, credited to a bonus account for such shares, or allocated to a series of shares for the taxable year, even though (1) there are conditions with respect to the manner in which amounts must be withdrawn, or (2) such association has the right to retain or recover a portion of the total amount invested in or credited, as a fine, penalty, forfeiture or other withdrawal fee. To the extent that such amount so credited or allocated prior to the close of the taxable year is outstanding on the books of account of an association at the close of the taxable year, then that amount will be includible in total deposits or withdrawable accounts for the purpose of the 12-per-cent computation hereinbefore referred to.

If, in any taxable year, such right is exercised, the regulations provide that amounts retained or recovered by the association pursuant to the exercise of such right are to be included in gross income for such taxable year. In this connection the regulations make no reference to the tax benefit theory. If any of the amounts involved originally taken as a deduction did not serve to reduce federal income tax, it would appear that the retention or recovery of such amounts in a taxable year should be excluded from the gross income of such year in accordance with the tax benefit theory.

Repayment of Certain Loans. Section 313 of the Revenue Act of 1951 provides that an institution shall be entitled to deduct from gross income amounts paid by it in repayment of loans made to it prior to September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or by (2) any mutual fund established under the authority of any state law. The final regulations, by way of example, provide that amounts paid by an institution to the Reconstruction Finance Corporation in repayment of a loan made prior to September 1, 1951, are deductible in this connection. An institution would not be entitled to a deduction under this section for repayment of loans made by the Federal Home Loan Bank for the reason that such bank is not wholly owned by the United States.

Mortgage Foreclosures. Where an institution bids in property at a foreclosure sale in an amount less than the balance due on the mortgage, it will have a bad debt measured by the excess of the balance of the mortgage over the bid price, provided the unsatisfied portion of the debt is uncollectible. In addition, the institution realizes capital gain or capital loss to the extent of the difference between the amount of the debtor's obligations which are applied to the bid price of the property and the fair market value of the property. The fair market value of the property is presumed to be the amount for which it is bid in by the institution in the absence of clear and convincing proof to the contrary. The tax basis of the property so acquired is the fair market value at the time of acquisition.

If an institution accepts a voluntary conveyance of property (including property pledged as security for a debt) in partial or in full satisfaction of the unpaid portion of the indebtedness, the receipt of the property so conveyed, to the extent of its fair market value at that time, will be considered as the receipt of payment on the obligations satisfied; if the value of such property is less than the basis of such obligations, the difference has been held deductible as a bad debt. The basis of the property so acquired is the fair market value at the time of acquisition.

Capital Gains and Losses. No discussion of the new tax problems of institutions would be complete without consideration of Section 117 of the Code relating to capital assets and gains and losses in respect of sales or exchanges thereof. The federal income tax law accords special treatment to capital assets which, insofar as material hereto, are defined, in effect, as all property except (1) stock in trade, (2) inventoriable property, (3) property held primarily for sale to customers, (4) real property and depreciable property used in trade or business, and (5) certain short-term government obligations issued on a discount basis.

Gains and losses in respect of sales or exchanges of capital assets are divided into short-term and long-term. Short-term designates property held for not more than six months, and long-term designates property held for more than six months. Short-term gains and losses are grouped together to arrive at a net short-term gain or net short-term loss. Likewise, long-term gains and losses are grouped together to arrive at a net long-term gain or a net long-term loss.

An excess of net short-term gain over net long-term loss is taxable as ordinary income. An excess of net long-term gain over net short-term loss is taxable at a maximum alternative rate of 26 per cent. Capital losses are deductible only to the extent of capital gains. Consequently, where net short-term losses exceed net long-term gains, or where long-term losses exceed net short-term gains, or where there are net short-term losses and net long-term losses, such losses may not be deducted from ordinary income but are carried over for five years and until exhausted may be deducted from capital gains, to the extent sustained.

In the case of a bank — an institution is a bank for federal income tax purposes — if losses from sales or exchanges of bonds, debentures, notes or certificates of indebtedness, issued by any corporation (including one issued by a government or political subdivision thereof) with interest coupons or in registered form, exceed the gains from such sales or exchanges, no such sale or exchange will be considered a sale or exchange of a capital asset. Thus, a net "bond" loss is deductible in full from ordinary income. A net "bond" gain is treated as a capital gain subject to the rules set out above.

Amounts received upon retirement of obligations described immediately above are considered as amounts received in exchange therefor. Thus, the rules set out above regarding sales or exchanges of capital assets are applicable where such obligations are retired.

The definition of capital assets set out above excludes real estate and depreciable property used in trade or business. However, a gain from the sale or exchange or from the involuntary conversion of such property, if held for more than six months, may under Section 117(j) of the Code receive special beneficial treatment. It has been held that rental property acquired by a bank on foreclosure is property used in trade or business.

Conclusion. Congress has spoken through the relatively few provisions of Section 313 of the Revenue Act of 1951. However, the repeal of the institutions' exemptions from tax simultaneously brought into operation the vast body of federal income tax law, the principles of which are both numerous and in many respects exceedingly complex. Successful management of the affairs of institutions will be attributable in no small measure to a sound knowledge and judicious application of those principles.